

Section 1: 10-K/A (10-K/A)

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal year ended December 31, 2017

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 001-31567

Central Pacific Financial Corp.
(Exact name of registrant as specified in its charter)

Hawaii
(State or other jurisdiction of incorporation or organization)

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

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

96813
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

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 7(a)(2)(B) 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

As of June 30, 2017, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$926,672,000. As of February 13, 2018, the number of shares of common stock of the registrant outstanding was 29,872,222 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2018 annual meeting of shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent stated herein. The proxy

statement will be filed within 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) amends the Annual Report of Central Pacific Financial Corp. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on February 28, 2018 (the “Original Filing”).

This Amendment No. 1 is being filed solely to revise the Report of Independent Registered Public Accounting Firm related to KPMG LLP's opinion on our consolidated financial statements contained in Part II, Item 8 of the Original Filing. During the processing of the Original Filing, the following statement in KPMG LLP's opinion was inadvertently omitted, "we or our predecessor firms have served as the Company's auditor since 1975".

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), currently-dated certifications from the Company’s Chief Executive Officer and Chief Financial Officer are filed as Exhibits to Amendment No. 1, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except as described above, this Amendment No. 1 does not amend, update, or change any other information contained in the Original Filing.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Central Pacific Financial Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Central Pacific Financial Corp. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We or our predecessor firms have served as the Company's auditor since 1975.

Honolulu, Hawaii
February 28, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Central Pacific Financial Corp.:

Opinion on Internal Control Over Financial Reporting

We have audited Central Pacific Financial Corp. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Honolulu, Hawaii
February 28, 2018

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	(Dollars in thousands)	
Assets		
Cash and due from financial institutions	\$ 75,318	\$ 75,272
Interest-bearing deposits in other financial institutions	6,975	9,069
Investment securities:		
Available-for-sale, at fair value	1,304,891	1,243,847
Held to maturity, fair value of: \$189,201 at December 31, 2017 and \$214,366 at December 31, 2016	191,753	217,668
Total investment securities	<u>1,496,644</u>	<u>1,461,515</u>
Loans held for sale	16,336	31,881
Loans and leases	3,770,615	3,524,890
Allowance for loan and lease losses	(50,001)	(56,631)
Loans and leases, net of allowance for loan and lease losses	<u>3,720,614</u>	<u>3,468,259</u>
Premises and equipment, net	48,348	48,258
Accrued interest receivable	16,581	15,675
Investment in unconsolidated subsidiaries	7,088	6,889
Other real estate owned	851	791
Mortgage servicing rights	15,843	15,779
Core deposit premium	2,006	4,680
Bank-owned life insurance	156,293	155,593
Federal Home Loan Bank stock	7,761	11,572
Other assets	53,050	79,003
Total assets	<u>\$ 5,623,708</u>	<u>\$ 5,384,236</u>
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 1,395,556	\$ 1,265,246
Interest-bearing demand	933,054	862,991
Savings and money market	1,481,876	1,390,600
Time	1,145,868	1,089,364
Total deposits	<u>4,956,354</u>	<u>4,608,201</u>
Federal Home Loan Bank advances and other short-term borrowings	32,000	135,000
Long-term debt	92,785	92,785
Other liabilities	42,534	43,575
Total liabilities	<u>5,123,673</u>	<u>4,879,561</u>
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding none at: December 31, 2017, and December 31, 2016	—	—
Common stock, no par value, authorized 185,000,000 shares; issued and outstanding: 30,024,222 at December 31, 2017 and 30,796,243 at December 31, 2016	503,988	530,932
Surplus	86,098	84,180
Accumulated deficit	(89,036)	(108,941)
Accumulated other comprehensive income (loss)	(1,039)	(1,521)
Total shareholders' equity	<u>500,011</u>	<u>504,650</u>
Non-controlling interest	24	25
Total equity	<u>500,035</u>	<u>504,675</u>

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands, except per share data)		
Interest income:			
Interest and fees on loans and leases	\$ 144,224	\$ 132,028	\$ 118,887
Interest and dividends on investment securities:			
Taxable investment securities	33,933	30,848	32,969
Tax-exempt investment securities	3,874	3,975	4,022
Dividend income on investment securities	49	42	36
Interest on deposits in other financial institutions	356	67	35
Dividend income on Federal Home Loan Bank stock	126	179	86
Total interest income	182,562	167,139	156,035
Interest expense:			
Interest on deposits:			
Demand	641	489	399
Savings and money market	1,099	1,043	916
Time	9,457	4,074	2,312
Interest on short-term borrowings	183	578	254
Interest on long-term debt	3,479	3,005	2,626
Total interest expense	14,859	9,189	6,507
Net interest income	167,703	157,950	149,528
Provision (credit) for loan and lease losses	(2,674)	(5,517)	(15,671)
Net interest income after provision for loan and lease losses	170,377	163,467	165,199
Other operating income:			
Mortgage banking income	6,962	8,069	7,254
Service charges on deposit accounts	8,468	7,891	7,829
Other service charges and fees	11,518	11,449	11,461
Income from fiduciary activities	3,674	3,435	3,343
Income from bank-owned life insurance	3,388	2,685	2,034
Net gain on sales of foreclosed assets	205	607	568
Gain on sale of premises and equipment	—	3,537	—
Equity in earnings of unconsolidated subsidiaries	602	723	578
Fees on foreign exchange	529	519	450
Loan placement fees	536	494	720
Net losses on sales of investment securities	(1,410)	—	(1,866)
Other	2,024	2,907	2,428
Total other operating income	36,496	42,316	34,799
Other operating expense:			
Salaries and employee benefits	72,286	73,500	66,429
Net occupancy	13,571	14,065	14,432
Legal and professional services	7,724	6,856	7,340
Computer software expense	9,192	9,475	8,831
Amortization of core deposit premium	2,674	2,675	2,674
Communication expense	3,659	3,694	3,483
Equipment	3,785	3,399	3,475
Advertising expense	2,408	2,401	2,550
Foreclosed asset expense	151	152	486
Other	16,367	17,346	17,342
Total other operating expense	131,817	133,563	127,042
Income before income taxes	75,056	72,220	72,956
Income tax expense	33,852	25,228	27,088

Net income	\$	41,204	\$	46,992	\$	45,868
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Per common share data:

Basic earnings per share	\$	1.36	\$	1.52	\$	1.42
Diluted earnings per share		1.34		1.50		1.40
Cash dividends declared		0.70		0.60		0.82

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Net income	\$ 41,204	\$ 46,992	\$ 45,868
Other comprehensive income (loss), net of tax:			
Net change in unrealized gain (loss) on investment securities	344	(4,452)	(4,405)
Minimum pension liability adjustment	138	2,728	1,449
Total other comprehensive income (loss), net of tax	482	(1,724)	(2,956)
Comprehensive income	\$ 41,686	\$ 45,268	\$ 42,912

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
(Dollars in thousands, except per share data)								
Balance at December 31, 2014	35,233,674	\$ —	\$ 642,205	\$ 79,716	\$ (157,039)	\$ 3,159	\$ —	\$ 568,041
Net income	—	—	—	—	45,868	\$ —	—	45,868
Other comprehensive loss	—	—	—	—	—	(2,956)	—	(2,956)
Cash dividends declared (\$0.82 per share)	—	—	—	—	(26,143)	—	—	(26,143)
8,159 net shares of common stock sold by directors' deferred compensation plan	—	—	(154)	—	—	—	—	(154)
4,122,881 shares of common stock repurchased and other related costs	(4,122,881)	—	(93,533)	—	—	—	—	(93,533)
Share-based compensation expense	250,659	—	360	3,131	—	—	—	3,491
Non-controlling interest expense	—	—	—	—	—	—	25	25
Balance at December 31, 2015	31,361,452	\$ —	\$ 548,878	\$ 82,847	\$ (137,314)	\$ 203	\$ 25	\$ 494,639
Net income	—	—	—	—	46,992	—	—	46,992
Other comprehensive loss	—	—	—	—	—	(1,724)	—	(1,724)
Cash dividends declared (\$0.60 per share)	—	—	—	—	(18,619)	—	—	(18,619)
22,800 net shares of common stock sold by directors' deferred compensation plan	—	—	(681)	—	—	—	—	(681)
796,822 shares of common stock repurchased and other related costs	(796,822)	—	(18,206)	—	—	—	—	(18,206)
Share-based compensation expense	231,613	—	941	1,333	—	—	—	2,274
Balance at December 31, 2016	30,796,243	\$ —	\$ 530,932	\$ 84,180	\$ (108,941)	\$ (1,521)	\$ 25	\$ 504,675
Net income	—	—	—	—	41,204	—	—	41,204
Other comprehensive income	—	—	—	—	—	482	—	482
Cash dividends declared (\$0.70 per share)	—	—	—	—	(21,299)	—	—	(21,299)
12,020 net shares of common stock sold by directors' deferred compensation plan	—	—	(385)	—	—	—	—	(385)
864,483 shares of common stock repurchased and other related costs	(864,483)	—	(26,559)	—	—	—	—	(26,559)
Share-based compensation expense	92,462	—	—	1,918	—	—	—	1,918
Non-controlling interest expense	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2017	30,024,222	\$ —	\$ 503,988	\$ 86,098	\$ (89,036)	\$ (1,039)	\$ 24	\$ 500,035

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
(Dollars in thousands)			
Cash flows from operating activities:			
Net income	\$ 41,204	\$ 46,992	\$ 45,868
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan and lease losses	(2,674)	(5,517)	(15,671)
Depreciation and amortization of premises and equipment	6,441	6,049	5,870
Gain on sale of premises and equipment	—	(3,537)	—
Amortization of mortgage servicing rights and core deposit premium	4,962	7,741	6,859
Write down of other real estate, net of gain on sale	(192)	(251)	198
Net amortization of investment securities	11,674	12,945	10,246
Share-based compensation expense	1,918	1,333	3,131
Net losses on sales of investment securities	1,410	—	1,866
Net gain on sale of residential mortgage loans	(4,069)	(7,631)	(6,107)
Proceeds from sales of loans held for sale	319,556	432,331	379,318
Origination of loans held for sale	(299,942)	(442,472)	(377,638)
Equity in earnings of unconsolidated subsidiaries	(602)	(723)	(578)
Increase in cash surrender value of bank-owned life insurance	(3,940)	(3,132)	(2,407)
Deferred income taxes	32,206	24,427	26,079
Net tax benefits from share-based compensation	544	—	—
Net change in other assets and liabilities	(11,712)	7,930	(2,529)
Net cash provided by operating activities	<u>96,784</u>	<u>76,485</u>	<u>74,505</u>
Cash flows from investing activities:			
Proceeds from maturities of and calls on available-for-sale investment securities	169,472	204,426	165,492
Proceeds from sales of available-for-sale investment securities	114,536	—	117,496
Purchases of available-for-sale investment securities	(356,887)	(195,456)	(344,766)
Proceeds from maturities of and calls on held-to-maturity investment securities	25,237	30,989	26,524
Purchases of held-to-maturity investment securities	—	(1,644)	(37,043)
Loan (originations) and payments, net	(166,051)	(239,006)	(218,195)
Purchases of loan portfolios	(83,784)	(76,946)	(68,754)
Proceeds from sales of loans originated for investment	—	—	6,658
Proceeds from sales of other real estate	286	2,850	6,691
Proceeds from bank-owned life insurance	3,240	1,506	723
Proceeds from sale of premises and equipment	—	4,287	—
Purchases of premises and equipment	(6,531)	(5,896)	(5,817)
Distributions from unconsolidated subsidiaries	658	645	524
Contributions to unconsolidated subsidiaries	(114)	(5)	—
Proceeds from redemption (purchases) of FHLB stock	3,811	(2,966)	35,326
Net cash used in investing activities	<u>(296,127)</u>	<u>(277,216)</u>	<u>(315,141)</u>
Cash flows from financing activities:			
Net increase in deposits	348,153	174,762	323,139
Net (decrease) increase in FHLB advances and other short-term borrowings	(103,000)	66,000	31,000
Cash dividends paid on common stock	(21,299)	(18,619)	(26,143)
Repurchases of common stock	(26,559)	(18,206)	(93,533)
Net proceeds from issuance of common stock and stock option exercises	—	941	360
Net cash provided by financing activities	<u>197,295</u>	<u>204,878</u>	<u>234,823</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,048)</u>	<u>4,147</u>	<u>(5,813)</u>

Cash and cash equivalents at beginning of year	84,341	80,194	86,007
Cash and cash equivalents at end of year	<u>\$ 82,293</u>	<u>\$ 84,341</u>	<u>\$ 80,194</u>

Supplemental cash flow information:

Cash paid during the year for:

Interest	\$ 12,717	\$ 8,705	\$ 6,453
Income taxes	8,401	—	1,642

Cash received during the year for:

Income taxes	—	1,605	—
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Supplemental non-cash disclosures:

Net change in common stock held by directors' deferred compensation plan	\$ 385	\$ 681	\$ 154
Net reclassification of loans to other real estate	154	1,428	5,903
Net transfer of portfolio loans to loans held for sale	—	—	6,658

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2017, 2016, and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Central Pacific Financial Corp. is a bank holding company. Our principal operating subsidiary, Central Pacific Bank, is a full-service commercial bank with 35 branches and 79 ATMs located throughout the state of Hawaii. The bank engages in a broad range of lending activities including originating commercial loans, commercial and residential mortgage loans, home equity loans and consumer loans. The bank also offers a variety of deposit products and services. These include personal and business checking and savings accounts, money market accounts and time certificates of deposit. Other products and services include debit cards, internet banking, mobile banking, cash management services, traveler's checks, safe deposit boxes, international banking services, night depository facilities, foreign exchange and wire transfers. Wealth management products and services include non-deposit investment products, annuities, insurance, investment management, asset custody and general consultation and planning services.

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

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

We have the following three reportable segments: (1) Banking Operations, (2) Treasury and (3) All Others. The Banking Operations segment includes construction and commercial real estate lending, commercial lending, residential mortgage lending, consumer lending, trust services, retail brokerage services, and our retail branch offices, which provide a full range of deposit and loan products, as well as various other banking services. The Treasury segment is responsible for managing the Company's investment securities portfolio and wholesale funding activities. The All Others segment consists of all activities not captured by the Banking Operations and Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties. For further information, see Note 26 - Segment Information.

Principles of Consolidation

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

In December 2015, we acquired a 50% ownership interest in a mortgage loan origination and brokerage company, One Hawaii HomeLoans, LLC. The bank concluded that the investment met the consolidation requirements under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, "Consolidation". The bank also concluded that the entity met the definition of a variable interest entity and that we were the primary beneficiary of the variable interest entity. Accordingly, the investment has been consolidated into our financial statements as of December 31, 2017 and 2016. One Hawaii HomeLoans, LLC was terminated in 2017 with final payment of taxes and distributions to members pending.

We have 50% ownership interests in four other mortgage loan origination and brokerage companies which are accounted for using the equity method and are included in investment in unconsolidated subsidiaries: Pacific Access Mortgage, LLC, Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC. Pacific Access Mortgage, LLC was terminated in 2017 with final payment of taxes and distributions to members pending.

We also have equity investments in affiliates that are accounted for under the cost method and are included in investment in unconsolidated subsidiaries.

Our investments in unconsolidated subsidiaries accounted for under the equity and cost methods were \$0.6 million and \$6.5 million, respectively, at December 31, 2017 and \$0.7 million and \$6.2 million, respectively, at December 31, 2016. Our policy for determining impairment of these investments includes an evaluation of whether a loss in value of an investment is other than temporary. Evidence of a loss in value includes absence of an ability to recover the carrying amount of the investment or

the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. We perform impairment tests whenever indicators of impairment are present. If the value of an investment declines and it is considered other than temporary, the investment is written down to its respective fair value in the period in which this determination is made.

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investment Securities

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

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

Interest income on investment securities includes amortization of premiums and accretion of discounts. We amortize premiums and accrete discounts associated with investment securities using the interest method over the life of the respective security instrument.

We are a member of the Federal Home Loan Bank of Des Moines (the "FHLB"). The bank is required to obtain and hold a specific number of shares of capital stock of the FHLB equal to the sum of a membership investment requirement and an activity-based investment requirement. The securities are reported at cost and are presented separately in the consolidated balance sheets.

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential mortgage loans in both Hawaii and the U.S. Mainland that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis, while the non-residential Hawaii and U.S. Mainland loans are recorded at the lower of cost or fair value on an individual basis. Net fees and costs associated with originating and acquiring the Hawaii residential mortgage loans held for sale are deferred and included in the basis for determining the gain or loss on sales of loans held for sale. We report the fair values of the non-residential mortgage loans classified as held for sale net of applicable selling costs on our consolidated balance sheets.

Loans originated with the intent to be held in our portfolio are subsequently transferred to held for sale when our intent to hold for the foreseeable future has changed. At the time of a loan's transfer to the held for sale account, the loan is recorded at the lower of cost or fair value. Any reduction in the loan's value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the allowance for loan and lease losses.

In subsequent periods, if the fair value of a loan classified as held for sale is less than its cost basis, a valuation adjustment is recognized in our consolidated statement of income in other operating expense and the carrying value of the loan is adjusted accordingly. The valuation adjustment may be recovered in the event that the fair value increases, which is also recognized in our consolidated statement of income in other operating expense.

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. Collateral values are determined based on appraisals received from qualified valuation professionals and are obtained periodically or when indicators that property values may be impaired are present.

We sell residential mortgage loans under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. Our repurchase risk generally relates to early payment defaults and borrower fraud. We establish residential mortgage repurchase reserves to reflect this risk based on our estimate of losses after considering a combination of factors, including our estimate of future repurchase activity and our projection of incurred credit losses resulting from repurchased loans.

Loans

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

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

Allowance for Loan and Lease Losses

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

The Allowance is management's estimate of credit losses inherent in our loan and lease portfolio at the balance sheet date. We maintain our Allowance at an amount we expect to be sufficient to absorb probable losses inherent in our loan and lease portfolio based on a projection of probable net loan charge-offs.

During the fourth quarter of 2016, the Company implemented an enhanced Allowance methodology due to the growth in the portfolio and improved credit quality. Management believes the enhanced methodology provides for greater precision in calculating the Allowance. The following summarizes the key enhancements made to the Allowance methodology:

- Collapsed 128 segments into nine segments. The enhanced methodology uses FDIC Call Report codes to identify the nine segments.
- Expanded the look-back period to 28 quarters to capture a longer economic cycle.
- Utilized a migration analysis, versus average historical loss rate, to determine the historical loss rates for segments, with the exception of national syndicated loans due to limited loss history.
- Applied a segment specific loss emergence period.
- Determined qualitative reserves, calculated at the segment level, considering nine qualitative factors and based on a baseline risk weighting adjusted for current internal and external factors.
- Eliminated the Moody's proxy rate that was applied under the previous methodology.
- Eliminated the unallocated reserve.

These enhancements and continued improvement in portfolio credit quality resulted in a credit to the Provision of \$2.6 million during the fourth quarter of 2016. In 2017 the Company continued to implement the enhanced Allowance methodology from the fourth quarter of 2016, which resulted in a credit to the Provision of \$2.7 million in the year ended December 31, 2017.

The Company's approach to developing the Allowance has three basic elements. These elements include specific reserves for individually impaired loans, a general allowance for loans other than those analyzed as individually impaired, and qualitative adjustments based on environmental and other factors which may be internal or external to the Company. These three elements are explained below.

Specific Reserve

Individually impaired loans in all loan categories are evaluated using one of three valuation methods as prescribed under Accounting Standards Codification ("ASC") 310-10, *Fair Value of Collateral, Observable Market Price, or Cash Flow*. A loan is generally evaluated for impairment on an individual basis if it meets one or more of the following characteristics: risk-rated as substandard, doubtful or loss, loans on nonaccrual status, troubled debt restructures, or any loan deemed prudent by management to so analyze. If the valuation of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the Allowance or, alternatively, a specific reserve will be established and included in the overall Allowance balance.

General Allowance

In determining the general allowance component of the Allowance, the Company utilizes a comprehensive approach to segment the loan portfolio into homogeneous groups. The enhanced methodology segments the portfolio by FDIC Call Report codes. In the second quarter of 2017, an additional segment was added for auto dealer purchased loans. This results in ten segments, and is consistent with general industry practice. For the purpose of determining general allowance loss factors, loss experience is derived from a migration analysis, with the exception of national syndicated loans and auto dealer purchased loans where an average historical loss rate is applied due to limited historical loss experience. The key inputs to run a migration analysis are the length 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'. The Allowance methodology applies a look back period to January 1, 2010. The Company extends its look back period with each additional quarter passing.

Qualitative Adjustments

Our Allowance methodology uses qualitative adjustments to address changes in conditions, trends, and circumstances such as economic conditions and industry changes that could have a significant impact on the risk profile of the loan portfolio, and provide for losses in the loan portfolio that may not be reflected and/or captured in the historical loss data. In order to ensure that the qualitative adjustments are in compliance with current regulatory standards and U.S. GAAP, the Company is primarily basing adjustments on the nine standard factors outlined in the 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses. These factors include: lending policies, economic conditions, loan profile, lending staff, problem loan trends, loan review, collateral, credit concentrations and other internal and external factors.

In recognizing that current and relevant environmental (economic, market or other) conditions that can affect repayment may not yet be fully reflected in historical loss experience, qualitative adjustments are applied to factor in current loan portfolio and market intelligence. These adjustments, which are added to the historical loss rate, consider the nature of the Company's

primary markets and are reasonable, consistently determined and appropriately documented. Management reviews the results of the qualitative adjustment quarterly to ensure it is consistent with the trends in the overall economy, and from time to time may make adjustments, if necessary, to ensure directional consistency.

Reserve for Unfunded Commitments

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

Premises and Equipment

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

Core Deposit Premium and Mortgage Servicing Rights

Our core deposit premium is being amortized over 14 years which approximates the estimated life of the purchased deposits. The carrying value of our core deposit premium is periodically evaluated to estimate the remaining periods of benefit. If these periods of benefit are determined to be less than the remaining amortizable life, an adjustment to reflect such shorter life will be made.

Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one class. We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as a component of mortgage banking income in our consolidated statements of income. Ancillary income is recorded in other income.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third-party service provider based on market value assumptions at the time of origination and we assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Current market value assumptions based on loan product types (fixed-rate, adjustable-rate and balloon loans) include average discount rates, servicing cost and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations.

We perform an impairment assessment of our core deposit premium and mortgage servicing rights quarterly or whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgments and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

Other Real Estate

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

Non-Controlling Interest

Non-controlling interest at December 31, 2017 was comprised of capital and undistributed profits of the member of One Hawaii HomeLoans, LLC, other than the bank. Non-controlling interest on our consolidated balance sheet at December 31, 2017 and December 31, 2016 totaled \$24 thousand and \$25 thousand, respectively. One Hawaii HomeLoans, LLC was terminated in 2017 with final payment of taxes and distributions to members pending.

Share Based Compensation

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. We use the Black-Scholes option-pricing model to determine the fair-value of stock options and we recognize compensation expense for all share-based payment awards on a straight-line basis over their respective vesting period. See Note 16 - Share-Based Compensation for further discussion of our stock-based compensation.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our deferred tax assets may not be realized, which would result in a charge to earnings. We recognize interest and penalties related to income tax matters in other expense.

We establish income tax contingency reserves for potential tax liabilities related to uncertain tax positions. Tax benefits are recognized when we determine that it is more likely than not that such benefits will be realized. Where uncertainty exists due to the complexity of income tax statutes, and where the potential tax amounts are significant, we generally seek independent tax opinions to support our positions. If our evaluation of the likelihood of the realization of benefits is inaccurate, we could incur additional income tax and interest expense that would adversely impact earnings, or we could receive tax benefits greater than anticipated which would positively impact earnings.

Earnings per Share

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

Forward Foreign Exchange Contracts

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

Derivatives and Hedging Activities

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

Accounting Standards Adopted in 2017

In March 2016, the FASB issued ASU 2016-09, "*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*" ASU 2016-09 simplifies the accounting for share-based payments. Specifically, the amendments: 1) require entities to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement; 2) change the classification of excess tax benefits to an operating activity in the statement of cash flows; 3) allows entities to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur; and 4) allows entities to withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. We adopted ASU 2016-09 effective January 1, 2017 and elected to recognize forfeitures as they occur. The Company's adoption was prospective, therefore, prior periods have not been adjusted. The adoption of ASU 2016-09 could result in greater volatility to reported income tax expense related to excess tax benefits and tax deficiencies for employee share-based payments. The volatility results from changes in the share price and timing of exercise of share options and vesting of share awards. For the year ended December 31, 2017, the adoption of ASU 2016-09 resulted in a decrease to the provision for income taxes due to the tax benefit from the vesting of restricted stock units.

Accounting Standards Pending Adoption

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606).*" ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 was initially going to be effective for the Company's reporting period beginning on January 1, 2017. However, in August 2015, the FASB issued ASU 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*" which defers the effective date by one year. For financial reporting purposes, the standard allows for either a full retrospective or modified retrospective adoption. The FASB has also issued additional updates to provide further clarification to specific implementation issues associated with ASU 2014-09. These updates include ASU 2016-08, "*Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations,*" ASU 2016-10, "*Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,*" ASU 2016-12, "*Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,*" and ASU 2016-20 "*Technical Corrections and Improvements to Topic 606.*" Our revenue is comprised of net interest income on financial assets and financial liabilities, which is our main source of income, and other operating income. The scope of ASU 2014-09 explicitly excludes net interest income, as well as other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives. With respect to other operating income, the Company has conducted a comprehensive scoping exercise to determine the revenue streams that are in scope of the guidance. This includes reviewing the contracts potentially impacted by the standard in revenue streams such as deposit related fees, merchant fees, bank card fees, interchange fees, commissions income, trust and asset management fees, foreign exchange fees, and loan placement fees. The Company is substantially complete with its evaluation of the effect that the adoption will have on its financial statements. Based on our analysis, we expect that the standard will require us to change how we recognize certain recurring revenue streams on a gross versus net basis; however, the standard will not have an impact to our net income or any material impact to our consolidated financial statements. We continue to follow implementation issues relevant to the banking industry, and consider the disclosure requirements upon implementation and adoption of the standard beginning January 1, 2018 under the modified retrospective approach; however, we do not expect a cumulative-effect adjustment to opening retained earnings (accumulated deficit) will be recorded.

2. RESERVE REQUIREMENTS

The bank is required by the Federal Reserve Bank of San Francisco to maintain reserves based on the amount of deposits held. The amount held as a reserve by our bank at December 31, 2017 and 2016 was \$63.4 million and \$63.1 million, respectively.

3. INVESTMENT SECURITIES

A summary of our investment securities portfolio as of December 31, 2017 and 2016 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2017				
Held-to-Maturity:				
Mortgage-backed securities:				
Residential-U.S. Government sponsored entities	\$ 100,279	\$ 106	\$ (2,222)	\$ 98,163
Commercial-U.S. Government sponsored entities	91,474	—	(436)	91,038
Total held-to-maturity investment securities	<u>\$ 191,753</u>	<u>\$ 106</u>	<u>\$ (2,658)</u>	<u>\$ 189,201</u>
Available-for-Sale:				
Debt securities:				
States and political subdivisions	\$ 178,459	\$ 2,041	\$ (719)	\$ 179,781
Corporate securities	73,772	582	(76)	74,278
U.S. Treasury obligations and direct obligations of U.S Government agencies	25,519	60	(69)	25,510
Mortgage-backed securities:				
Residential-U.S. Government sponsored entities	808,242	2,230	(9,789)	800,683
Residential-Non-government sponsored entities	45,679	1,084	—	46,763
Commercial-U.S. Government agencies and sponsored entities	40,012	—	(287)	39,725
Commercial-Non-government sponsored entities	135,058	2,461	(193)	137,326
Other	686	139	—	825
Total available-for-sale investment securities	<u>\$ 1,307,427</u>	<u>\$ 8,597</u>	<u>\$ (11,133)</u>	<u>\$ 1,304,891</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2016				
Held-to-Maturity:				
Mortgage-backed securities:				
Residential-U.S. Government sponsored entities	\$ 124,082	\$ 92	\$ (2,474)	\$ 121,700
Commercial-U.S. Government sponsored entities	93,586	—	(920)	92,666
Total held-to-maturity investment securities	<u>\$ 217,668</u>	<u>\$ 92</u>	<u>\$ (3,394)</u>	<u>\$ 214,366</u>
Available-for-Sale:				
Debt securities:				
States and political subdivisions	\$ 184,836	\$ 2,002	\$ (1,797)	\$ 185,041
Corporate securities	98,596	974	(181)	99,389
Mortgage-backed securities:				
Residential-U.S. Government sponsored entities	775,803	3,698	(9,515)	769,986
Residential-Non-government sponsored entities	51,681	627	(761)	51,547
Commercial-Non-government sponsored entities	135,248	2,387	(411)	137,224
Other	564	96	—	660
Total available-for-sale investment securities	<u>\$ 1,246,728</u>	<u>\$ 9,784</u>	<u>\$ (12,665)</u>	<u>\$ 1,243,847</u>

The amortized cost and estimated fair value of our investment securities at December 31, 2017 by contractual maturity are shown below. Actual maturities may differ from contractual maturities as issuers 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.

	December 31, 2017	
	Amortized Cost	Fair Value
(Dollars in thousands)		
Held-to-Maturity:		
Mortgage-backed securities:		
Residential-U.S. Government-sponsored entities	\$ 100,279	\$ 98,163
Commercial-U.S. Government-sponsored entities	91,474	91,038
Total held-to-maturity investment securities	\$ 191,753	\$ 189,201
Available-for-Sale:		
Due in one year or less	\$ 8,796	\$ 8,799
Due after one year through five years	165,356	166,447
Due after five years through ten years	40,762	41,166
Due after ten years	62,836	63,157
Mortgage-backed securities		
Residential-U.S. Government-sponsored entities	808,242	800,683
Residential-Non-government agencies	45,679	46,763
Commercial-U.S. Government agencies and sponsored entities	40,012	39,725
Commercial-Non-government agencies	135,058	137,326
Other	686	825
Total available-for-sale investment securities	\$ 1,307,427	\$ 1,304,891

In the second quarter of 2017, we completed an investment portfolio repositioning strategy designed to enhance potential prospective earnings and improve net interest margin. In connection with the repositioning, we sold \$97.7 million in lower-yielding available-for-sale securities, and purchased \$97.4 million in higher-yielding, longer duration investment securities. The investment securities sold had a duration of 3.3 years and an average yield of 1.91%. Gross proceeds of the sale of \$96.0 million were immediately reinvested back into investment securities with a duration of 4.6 years and an average yield of 2.57%. The new securities were classified in the available-for-sale portfolio. There were no gross realized gains on the sale of the investment securities. Gross realized losses on the sale of the investment securities were \$1.6 million. The specific identification method was used as the basis for determining the cost of all securities sold.

There were no investment security sales in 2016.

In the second quarter of 2015, we completed an investment portfolio repositioning strategy designed to reduce net interest income volatility and enhance the potential prospective earnings and an improved net interest margin. In connection with the repositioning, we sold \$119.4 million in lower-yielding available-for-sale non-agency collateralized mortgage obligation securities, and purchased \$120.6 million in higher yielding, longer duration mortgage-backed securities. The securities sold had an average net yield of 1.35% and a weighted average life of 4.4 years. Gross proceeds of the sale of \$117.5 million were reinvested into agency mortgage-backed securities with an average net yield of 2.71% and weighted average life of 7.6 years. The new securities were classified in the available-for-sale portfolio. There were no gross realized gains on the sale of the available-for-sale investment securities. Gross realized losses on the sale of the available-for-sale investment securities were \$1.9 million. The specific identification method was used as the basis for determining the cost of all securities sold.

Investment securities of \$1.08 billion and \$1.05 billion at December 31, 2017 and 2016, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

At December 31, 2017 and 2016, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

There were a total of 223 and 242 securities in an unrealized or unrecognized loss position at December 31, 2017 and 2016, respectively. The following table summarizes securities which were in an unrealized or unrecognized loss position at December 31, 2017 and 2016, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

Description of Securities	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2017						
Debt securities:						
States and political subdivisions	\$ 53,811	\$ (305)	\$ 15,403	\$ (414)	\$ 69,214	\$ (719)
Corporate securities	—	—	5,307	(76)	5,307	(76)
U.S. Treasury obligations and direct obligations of U.S Government agencies	10,740	(69)	—	—	10,740	(69)
Mortgage-backed securities:						
Residential-U.S. Government sponsored entities	335,883	(3,372)	340,219	(8,639)	676,102	(12,011)
Commercial-U.S. Government sponsored entities	130,763	(723)	—	—	130,763	(723)
Commercial-Non-government sponsored entities	28,490	(193)	—	—	28,490	(193)
Total temporarily impaired securities	<u>\$ 559,687</u>	<u>\$ (4,662)</u>	<u>\$ 360,929</u>	<u>\$ (9,129)</u>	<u>\$ 920,616</u>	<u>\$ (13,791)</u>

Description of Securities	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2016						
Debt securities:						
States and political subdivisions	\$ 85,288	\$ (1,797)	\$ —	\$ —	\$ 85,288	\$ (1,797)
Corporate securities	20,357	(181)	—	—	20,357	(181)
Mortgage-backed securities:						
Residential-U.S. Government sponsored entities	648,923	(11,766)	3,978	(223)	652,901	(11,989)
Residential-Non-government sponsored entities	30,596	(761)	—	—	30,596	(761)
Commercial-U.S. Government sponsored entities	92,666	(920)	—	—	92,666	(920)
Commercial-Non-government sponsored entities	52,880	(411)	—	—	52,880	(411)
Total temporarily impaired securities	<u>\$ 930,710</u>	<u>\$ (15,836)</u>	<u>\$ 3,978</u>	<u>\$ (223)</u>	<u>\$ 934,688</u>	<u>\$ (16,059)</u>

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

Other-than-temporary impairment ("OTTI")

Unrealized losses for all investment securities are reviewed to determine whether the losses are "other-than-temporary." Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market

conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, we evaluate a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

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

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

4. LOANS AND LEASES

Loans and leases, excluding loans held for sale, consisted of the following as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Commercial, financial & agricultural	\$ 503,738	\$ 509,987
Real estate:		
Construction	64,525	101,729
Residential mortgage	1,337,193	1,213,983
Home equity	412,230	361,210
Commercial mortgage	979,239	886,615
Consumer	470,819	448,610
Leases	362	677
Subtotal	3,768,106	3,522,811
Net deferred costs	2,509	2,079
Total loans and leases	\$ 3,770,615	\$ 3,524,890

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

During the year ended December 31, 2017, we transferred the collateral in one portfolio loan with a carrying value of \$0.1 million to other real estate. We did not transfer any loans to the held-for-sale category during the year ended December 31, 2017. In addition, we did not sell any portfolio loans during the year ended December 31, 2017.

In 2017, we purchased three auto loan portfolios totaling \$83.8 million, which included a \$2.3 million premium over the \$81.4 million outstanding balance. At the time of purchase, the auto loan portfolios had a weighted average remaining term of 70 months.

During the year ended December 31, 2016, we transferred the collateral in two portfolio loans with a carrying value of \$1.3 million to other real estate. We did not transfer any loans to the held-for-sale category during the year ended December 31, 2016. In addition, we did not sell any portfolio loans during the year ended December 31, 2016.

In 2016, we purchased two auto loan portfolios totaling \$41.2 million, which included a \$0.9 million premium over the \$40.3 million outstanding balance. At the time of purchase, the auto loan portfolios had a weighted average remaining term of 64 months. In 2016, we also purchased two unsecured consumer loan portfolios totaling \$35.7 million, which represented the outstanding balance at the time of purchases. At the time of purchases, the unsecured consumer loans had a weighted average remaining term of 38 months.

In the normal course of business, our bank makes loans to certain directors, executive officers and their affiliates. These loans are made in the ordinary course of business at normal credit terms. As of December 31, 2017 and December 31, 2016, related party loan balances were \$32.2 million and \$17.1 million, respectively.

Impaired Loans

The following tables present by class, the balance in the Allowance and the recorded investment in loans and leases based on the Company's impairment method as of December 31, 2017 and 2016:

	Comml., Fin. & Ag.	Real Estate				Consumer	Leases	Total
		Constr.	Resi. Mortgage	Home Equity	Comml. Mortgage			
(Dollars in thousands)								
December 31, 2017								
Allowance:								
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	7,594	1,835	14,328	3,317	16,801	6,126	—	50,001
Total ending balance	<u>\$ 7,594</u>	<u>\$ 1,835</u>	<u>\$ 14,328</u>	<u>\$ 3,317</u>	<u>\$ 16,801</u>	<u>\$ 6,126</u>	<u>\$ —</u>	<u>\$ 50,001</u>
Loans and leases:								
Individually evaluated for impairment	\$ 491	\$ 2,597	\$ 13,862	\$ 416	\$ 3,914	\$ —	\$ —	\$ 21,280
Collectively evaluated for impairment	503,247	61,928	1,323,331	411,814	975,325	470,819	362	3,746,826
Subtotal	503,738	64,525	1,337,193	412,230	979,239	470,819	362	3,768,106
Net deferred costs (income)	281	(285)	4,028	—	(1,442)	(73)	—	2,509
Total ending balance	<u>\$ 504,019</u>	<u>\$ 64,240</u>	<u>\$ 1,341,221</u>	<u>\$ 412,230</u>	<u>\$ 977,797</u>	<u>\$ 470,746</u>	<u>\$ 362</u>	<u>\$ 3,770,615</u>

	Comml., Fin. & Ag.	Real Estate				Consumer	Leases	Unallocated	Total
		Constr.	Resi. Mortgage	Home Equity	Comml. Mortgage				
(Dollars in thousands)									
December 31, 2016									
Allowance:									
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Collectively evaluated for impairment	8,637	4,224	15,055	3,502	19,104	6,109	—	56,631	
Total ending balance	<u>\$ 8,637</u>	<u>\$ 4,224</u>	<u>\$ 15,055</u>	<u>\$ 3,502</u>	<u>\$ 19,104</u>	<u>\$ 6,109</u>	<u>\$ —</u>	<u>\$ 56,631</u>	
Loans and leases:									
Individually evaluated for impairment	\$ 1,877	\$ 2,936	\$ 19,940	\$ 333	\$ 5,637	\$ —	\$ —	\$ 30,723	
Collectively evaluated for impairment	508,110	98,793	1,194,043	360,877	880,978	448,610	677	3,492,088	
Subtotal	509,987	101,729	1,213,983	361,210	886,615	448,610	677	3,522,811	
Net deferred costs (income)	453	(191)	3,251	(1)	(1,176)	(257)	—	2,079	
Total ending balance	<u>\$ 510,440</u>	<u>\$ 101,538</u>	<u>\$ 1,217,234</u>	<u>\$ 361,209</u>	<u>\$ 885,439</u>	<u>\$ 448,353</u>	<u>\$ 677</u>	<u>\$ 3,524,890</u>	

The following table presents by class, impaired loans as of December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
(Dollars in thousands)						
Impaired loans with no related Allowance recorded:						
Commercial, financial & agricultural	\$ 602	\$ 491	\$ —	\$ 1,988	\$ 1,877	\$ —
Real estate:						
Construction	7,947	2,597	—	9,056	2,936	—
Residential mortgage	14,920	13,862	—	21,568	19,940	—
Home equity	416	416	—	333	333	—
Commercial mortgage	3,914	3,914	—	5,637	5,637	—
Total impaired loans with no related Allowance recorded	27,799	21,280	—	38,582	30,723	—
Total impaired loans	\$ 27,799	\$ 21,280	\$ —	\$ 38,582	\$ 30,723	\$ —

The following table presents by class, the average recorded investment and interest income recognized on impaired loans during the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31, 2017		Year Ended December 31, 2016		Year Ended December 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)						
Commercial, financial & agricultural	\$ 1,272	\$ 24	\$ 1,891	\$ 10	\$ 6,273	\$ 17
Real estate:						
Construction	2,760	99	3,509	123	4,428	190
Residential mortgage	17,122	1,843	21,809	236	25,556	60
Home equity	1,213	69	472	17	545	18
Commercial mortgage	4,893	313	8,537	321	14,240	373
Total	\$ 27,260	\$ 2,348	\$ 36,218	\$ 707	\$ 51,042	\$ 658

For the years ended December 31, 2017, 2016 and 2015, the amount of interest income recognized on impaired loans within the period that the loans were impaired were primarily related to loans modified in a troubled debt restructuring ("TDR") that were on accrual status. For the years ended December 31, 2017, 2016 and 2015, the amount of interest income recognized using a cash-based method of accounting during the period that the loans were impaired was not material.

Foreclosure Proceedings

The Company had \$40 thousand and \$0.3 million of residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at December 31, 2017 and 2016, respectively.

Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following tables present by class, the aging of the recorded investment in past due loans and leases as of December 31, 2017 and 2016:

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
(Dollars in thousands)							
December 31, 2017							
Commercial, financial & agricultural	\$ 410	\$ 355	\$ —	\$ —	\$ 765	\$ 503,254	\$ 504,019
Real estate:							
Construction	—	—	—	—	—	64,240	64,240
Residential mortgage	4,037	2,127	49	2,280	8,493	1,332,728	1,341,221
Home equity	105	264	—	416	785	411,445	412,230
Commercial mortgage	—	—	—	79	79	977,718	977,797
Consumer	2,126	1,056	515	—	3,697	467,049	470,746
Leases	—	—	—	—	—	362	362
Total	<u>\$ 6,678</u>	<u>\$ 3,802</u>	<u>\$ 564</u>	<u>\$ 2,775</u>	<u>\$ 13,819</u>	<u>\$ 3,756,796</u>	<u>\$ 3,770,615</u>

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
(Dollars in thousands)							
December 31, 2016							
Commercial, financial & agricultural	\$ 761	\$ 80	\$ —	\$ 1,877	\$ 2,718	\$ 507,722	\$ 510,440
Real estate:							
Construction	—	—	—	—	—	101,538	101,538
Residential mortgage	5,014	478	—	5,322	10,814	1,206,420	1,217,234
Home equity	43	280	1,120	333	1,776	359,433	361,209
Commercial mortgage	127	—	—	864	991	884,448	885,439
Consumer	1,382	625	271	—	2,278	446,075	448,353
Leases	—	—	—	—	—	677	677
Total	<u>\$ 7,327</u>	<u>\$ 1,463</u>	<u>\$ 1,391</u>	<u>\$ 8,396</u>	<u>\$ 18,577</u>	<u>\$ 3,506,313</u>	<u>\$ 3,524,890</u>

Interest income totaling \$2.6 million, \$0.6 million, and \$0.5 million was recognized on nonaccrual loans, including loans held for sale, in 2017, 2016 and 2015, respectively. Additional interest income of \$0.4 million, \$1.2 million, and \$1.5 million would have been recognized in 2017, 2016 and 2015, respectively, had these loans been accruing interest throughout those periods. Additionally, interest income of \$0.8 million, \$1.3 million, and \$0.8 million was collected and recognized on charged-off loans in 2017, 2016 and 2015, respectively.

Modifications

TDRs included in nonperforming assets at December 31, 2017 consisted of six Hawaii residential mortgage loans with a combined principal balance of \$0.6 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to

lend additional funds to any of these borrowers. At December 31, 2016, TDRs included in nonperforming assets consisted of 24 loans with a combined principal balance of \$3.6 million.

There were \$12.6 million of TDRs still accruing interest at December 31, 2017, none of which were more than 90 days delinquent. At December 31, 2016, there were \$16.2 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Some loans modified in a TDR may already be on nonaccrual status and partial charge-offs may have already been taken against the outstanding loan balance. Thus, these loans have already been identified as impaired and have already been evaluated under the Company's Allowance methodology. As a result, some loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan. The loans modified in a TDR did not have a material effect on our Provision and Allowance during the years ended December 31, 2017 and 2016.

The following table presents by class, information related to loans modified in a TDR during the years ended December 31, 2017 and 2016:

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Number of Contracts	Recorded Investment (as of period end)	Increase in the Allowance	Number of Contracts	Recorded Investment (as of period end)	Increase in the Allowance
	(Dollars in thousands)					
Commercial, financial & agricultural	—	\$ —	\$ —	—	\$ —	\$ —
Real estate: Residential mortgage	3	104	—	3	282	—
Total	3	104	—	3	282	—

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the years ended December 31, 2017 and 2016.

Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes non-homogeneous loans and leases, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans and leases classified as special mention, while still adequately protected by the borrower's capital adequacy and payment capability, exhibit distinct weakening trends and/or elevated levels of exposure to external conditions. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment. These exposures require management's close attention so as to avoid becoming undue or unwarranted credit exposures.

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

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

Loss. Loans and leases classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but

rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

Loans and leases not meeting the criteria above are considered to be pass rated loans and leases. The following tables present by class and credit indicator, the recorded investment in the Company's loans and leases as of December 31, 2017 and 2016:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Loss</u>	<u>Subtotal</u>	<u>Net Deferred Costs (Income)</u>	<u>Total</u>
(Dollars in thousands)							
December 31, 2017							
Commercial, financial & agricultural	\$ 474,995	\$ 7,543	\$ 21,200	\$ —	\$ 503,738	\$ 281	\$ 504,019
Real estate:							
Construction	55,646	8,879	—	—	64,525	(285)	64,240
Residential mortgage	1,334,760	—	2,433	—	1,337,193	4,028	1,341,221
Home equity	411,814	—	416	—	412,230	—	412,230
Commercial mortgage	955,865	12,735	10,639	—	979,239	(1,442)	977,797
Consumer	470,243	—	305	271	470,819	(73)	470,746
Leases	362	—	—	—	362	—	362
Total	<u>\$ 3,703,685</u>	<u>\$ 29,157</u>	<u>\$ 34,993</u>	<u>\$ 271</u>	<u>\$ 3,768,106</u>	<u>\$ 2,509</u>	<u>\$ 3,770,615</u>

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Loss</u>	<u>Subtotal</u>	<u>Net Deferred Costs (Income)</u>	<u>Total</u>
(Dollars in thousands)							
December 31, 2016							
Commercial, financial & agricultural	\$ 502,305	\$ 2,632	\$ 5,050	\$ —	\$ 509,987	\$ 453	\$ 510,440
Real estate:							
Construction	91,812	9,896	21	—	101,729	(191)	101,538
Residential mortgage	1,208,552	109	5,322	—	1,213,983	3,251	1,217,234
Home equity	359,757	—	1,453	—	361,210	(1)	361,209
Commercial mortgage	852,872	18,845	14,898	—	886,615	(1,176)	885,439
Consumer	448,262	—	190	158	448,610	(257)	448,353
Leases	677	—	—	—	677	—	677
Total	<u>\$ 3,464,237</u>	<u>\$ 31,482</u>	<u>\$ 26,934</u>	<u>\$ 158</u>	<u>\$ 3,522,811</u>	<u>\$ 2,079</u>	<u>\$ 3,524,890</u>

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At December 31, 2017 and 2016, we did not have any loans that we considered to be subprime.

5. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following tables present by class, the activity in the Allowance for the periods indicated:

	Commercial, Financial & Agricultural	Real Estate				Consumer	Leases	Unallocated	Total
		Construction	Residential Mortgage	Home Equity	Commercial Mortgage				
(Dollars in thousands)									
Year ended December 31, 2017									
Beginning balance	\$ 8,637	\$ 4,224	\$ 15,055	\$ 3,502	\$ 19,104	\$ 6,109	\$ —	\$ —	\$ 56,631
Provision (credit) for loan and lease losses	(705)	(2,558)	(1,533)	(229)	(2,460)	4,811	—	—	(2,674)
	7,932	1,666	13,522	3,273	16,644	10,920	—	—	53,957
Charge-offs	1,704	—	73	—	—	6,294	—	—	8,071
Recoveries	1,366	169	879	44	157	1,500	—	—	4,115
Net charge-offs (recoveries)	338	(169)	(806)	(44)	(157)	4,794	—	—	3,956
Ending balance	\$ 7,594	\$ 1,835	\$ 14,328	\$ 3,317	\$ 16,801	\$ 6,126	\$ —	\$ —	\$ 50,001

	Commercial, Financial & Agricultural	Real Estate				Consumer	Leases	Unallocated	Total
		Construction	Residential Mortgage	Home Equity	Commercial Mortgage				
(Dollars in thousands)									
Year ended December 31, 2016									
Beginning balance	\$ 6,905	\$ 8,454	\$ 14,642	\$ 3,096	\$ 21,847	\$ 6,230	\$ —	\$ 2,140	\$ 63,314
Provision (credit) for loan and lease losses	1,217	(4,363)	(282)	391	(3,558)	3,218	—	(2,140)	(5,517)
	8,122	4,091	14,360	3,487	18,289	9,448	—	—	57,797
Charge-offs	1,599	—	—	—	209	5,054	—	—	6,862
Recoveries	2,114	133	695	15	1,024	1,715	—	—	5,696
Net charge-offs (recoveries)	(515)	(133)	(695)	(15)	(815)	3,339	—	—	1,166
Ending balance	\$ 8,637	\$ 4,224	\$ 15,055	\$ 3,502	\$ 19,104	\$ 6,109	\$ —	\$ —	\$ 56,631

	Commercial, Financial & Agricultural	Real Estate				Consumer	Leases	Unallocated	Total
		Construction	Residential Mortgage	Home Equity	Commercial Mortgage				
(Dollars in thousands)									
Year ended December 31, 2015									
Beginning balance	\$ 8,954	\$ 14,969	\$ 15,031	\$ 2,896	\$ 20,869	\$ 7,314	\$ 7	\$ 4,000	\$ 74,040
Provision (credit) for loan and lease losses	(1,179)	(7,395)	(1,510)	(746)	(4,903)	1,956	(34)	(1,860)	(15,671)
	7,775	7,574	13,521	2,150	15,966	9,270	(27)	2,140	58,369
Charge-offs	5,658	—	—	110	838	4,650	—	—	11,256
Recoveries	4,788	880	1,121	1,056	6,719	1,610	27	—	16,201
Net charge-offs	870	(880)	(1,121)	(946)	(5,881)	3,040	(27)	—	(4,945)
Ending balance	\$ 6,905	\$ 8,454	\$ 14,642	\$ 3,096	\$ 21,847	\$ 6,230	\$ —	\$ 2,140	\$ 63,314

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

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

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Balance, beginning of year	\$ —	\$ 51	\$ 1,533
Provision for loan and lease losses	—	—	51
Other changes	—	(51)	(1,533)
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51</u>

The amounts included in other changes above represent net charge-offs and net transfers of allocated allowances for loans and leases that were not classified as impaired for the entire year. At December 31, 2017 and 2016, all impaired loans were measured based on the fair value of the underlying collateral for collateral-dependent loans, at the loan's observable market price, or the net present value of future cash flows, as appropriate.

In determining the amount of our Allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as regulatory requirements and input. If our assumptions prove to be incorrect, our current Allowance may not be sufficient to cover future loan losses and we may experience significant increases to our Provision.

6. SECURITIZATIONS

In prior years, we securitized certain residential mortgage loans with a U.S. Government sponsored entity and continue to service the residential mortgage loans. The servicing assets were recorded at their respective fair values which equaled par value at the time of securitization.

All unsold mortgage-backed securities from prior securitizations were categorized as available for sale securities and were therefore recorded at their fair value of \$1.5 million and \$2.0 million at December 31, 2017 and 2016, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of \$0.1 million and \$0.1 million on unsold mortgage-backed securities were recorded in AOCI at December 31, 2017 and 2016, respectively.

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Land	\$ 8,309	\$ 8,309
Office buildings and improvements	100,314	96,898
Furniture, fixtures and equipment	37,132	34,191
Gross premises and equipment	145,755	139,398
Accumulated depreciation and amortization	(97,407)	(91,140)
Net premises and equipment	<u>\$ 48,348</u>	<u>\$ 48,258</u>

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

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Net occupancy	\$ 3,880	\$ 4,097	\$ 3,997
Equipment	2,561	1,952	1,873
Total	<u>\$ 6,441</u>	<u>\$ 6,049</u>	<u>\$ 5,870</u>

8. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

Investments in unconsolidated subsidiaries as of December 31, 2017 and 2016 consisted of the following components:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Investments in low income housing tax credit partnerships	\$ 3,608	\$ 3,353
Trust preferred investments	2,792	2,792
Investments in affiliates	634	690
Other	54	54
Total	<u>\$ 7,088</u>	<u>\$ 6,889</u>

The Company had \$2.6 million and \$1.7 million in unfunded low income housing commitments as of December 31, 2017 and 2016, respectively. The expected payments for the unfunded low income housing commitments as of December 31, 2017 are as follows (in thousands):

Year Ending December 31:

2018	\$ 1,881
2019	700
2020	—
2021	—
2022	—
Thereafter	—
Total commitments	<u>\$ 2,581</u>

Investments in low income housing tax credit ("LIHTC") partnerships are accounted for using the cost method. The following table presents amortization expense and tax credits recognized associated with our investments in LIHTC partnerships for the periods presented:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Cost method:			
Amortization expense recognized in other operating expense	\$ 744	\$ 1,045	\$ 1,078
Federal and state tax credits recognized in income tax expense	919	1,174	1,225

9. CORE DEPOSIT PREMIUM AND MORTGAGE SERVICING RIGHTS

The following table presents changes in our core deposit premium and mortgage servicing rights for the periods presented:

	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
Balance as of December 31, 2015	\$ 7,355	\$ 17,797	\$ 25,152
Additions	—	3,048	3,048
Amortization	(2,675)	(5,066)	(7,741)
Balance as of December 31, 2016	\$ 4,680	\$ 15,779	\$ 20,459
Additions	—	2,352	2,352
Amortization	(2,674)	(2,288)	(4,962)
Balance as of December 31, 2017	\$ 2,006	\$ 15,843	\$ 17,849

The gross carrying value, accumulated amortization and net carrying value related to our core deposit premium and mortgage servicing rights are presented below:

	December 31, 2017			December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in thousands)					
Core deposit premium	\$ 44,642	\$ (42,636)	\$ 2,006	\$ 44,642	\$ (39,962)	\$ 4,680
Mortgage servicing rights	64,401	(48,558)	15,843	62,049	(46,270)	15,779
Total	\$ 109,043	\$ (91,194)	\$ 17,849	\$ 106,691	\$ (86,232)	\$ 20,459

Based on our core deposit premium and mortgage servicing rights held as of December 31, 2017, estimated amortization expense for the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
2018	\$ 2,006	\$ 2,171	\$ 4,177
2019	—	1,705	1,705
2020	—	1,407	1,407
2021	—	1,183	1,183
2022	—	990	990
Thereafter	—	8,387	8,387
Total	\$ 2,006	\$ 15,843	\$ 17,849

At December 31, 2017, there were no events or changes in circumstances that would indicate that the assets assigned to our Banking Operations segment, which includes the entire core deposit premium, were not recoverable.

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as a component of mortgage banking income and totaled \$2.4 million, \$3.0 million, and \$2.3 million in 2017, 2016 and 2015, respectively. Amortization of the servicing rights is reported as a component of mortgage banking income in our consolidated statements of income. Ancillary income is recorded in other income. Mortgage servicing

rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one class.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third-party service provider based on market value assumptions at the time of origination and we assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Current market value assumptions based on loan product types (fixed-rate, adjustable-rate and balloon loans) include average discount rates, servicing costs and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgages under more favorable interest rate terms. As prepayment speeds increase, anticipated cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the capitalized mortgage servicing rights. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds and therefore an increase in fair value of mortgage servicing rights.

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

	Year Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Fair market value, beginning of period	\$ 18,087	\$ 18,345
Fair market value, end of period	17,161	18,087
Weighted average discount rate	9.5%	9.5%
Weighted average prepayment speed assumption	16.0%	14.3%

Loans serviced for others as of December 31, 2017 and 2016 totaled \$2.08 billion and \$2.12 billion, respectively. Loans serviced for others are not reported as assets on the Company's consolidated balance sheets.

10. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. At each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings. We had no derivative instruments designated as hedging instruments as of December 31, 2017.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At December 31, 2017, we were a party to interest rate lock and forward sale

commitments on \$2.5 million and \$18.7 million of mortgage loans, respectively. At December 31, 2016, we were a party to interest rate lock and forward sale commitments on \$0.9 million and \$32.5 million of mortgage loans, respectively.

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

Derivatives not designated as hedging instruments	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at	Fair Value at	Fair Value at	Fair Value at
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
(Dollars in thousands)					
Interest rate lock and forward sale commitments	Other assets / other liabilities	\$ 35	\$ 260	\$ 49	\$ 118

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

Derivatives not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives
(Dollars in thousands)		
Year ended December 31, 2017		
Interest rate lock and forward sale commitments	Mortgage banking income	\$ (156)
Year ended December 31, 2016		
Interest rate lock and forward sale commitments	Mortgage banking income	83

11. DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 totaled \$871.3 million and \$798.9 million at December 31, 2017 and 2016, respectively.

Contractual maturities of time deposits of \$250,000 or more as of December 31, 2017 were as follows (in thousands):

Period Ending:	
Three months or less	\$ 527,762
Over three months through six months	202,367
Over six months through twelve months	49,764
2019	50,159
2020	34,602
2021	3,585
2022	3,070
Thereafter	—
Total	\$ 871,309

At December 31, 2017 and 2016, overdrawn deposit accounts totaling \$0.7 million and \$0.7 million have been reclassified as loans on the consolidated balance sheets.

12. SHORT-TERM BORROWINGS

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the "FHLB") and maintained a \$1.50 billion line of credit, of which \$1.47 billion remained available as of December 31, 2017. At December 31, 2017, short-term borrowings under this arrangement totaled \$32.0 million. At December 31, 2016, short-term borrowings under this arrangement totaled \$135.0 million.

At December 31, 2017 and 2016, our bank had additional unused borrowings available at the Federal Reserve discount window of \$73.0 million and \$63.7 million, respectively. As of December 31, 2017 and 2016, certain commercial real estate and commercial loans with a carrying value totaling \$129.2 million and \$129.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

Interest expense on short-term borrowings were \$0.2 million, \$0.6 million and \$0.3 million in 2017, 2016 and 2015, respectively.

A summary of our short-term borrowings as of December 31, 2017, 2016 and 2015 is as follows:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Amount outstanding at December 31	\$ 32,000	\$ 135,000	\$ 69,000
Average amount outstanding during year	15,531	110,928	92,045
Highest month-end balance during year	69,000	226,000	157,000
Weighted average interest rate on balances outstanding at December 31	1.63%	0.74%	0.35%
Weighted average interest rate during year	1.18%	0.52%	0.28%

13. LONG-TERM DEBT

Long-term debt, which is based on original maturity, consisted of the following at December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Subordinated debentures	\$ 92,785	\$ 92,785

FHLB Advances

There were no FHLB long-term advances outstanding as of December 31, 2017 and 2016. At December 31, 2017, our bank had FHLB advances available of approximately \$1.47 billion, which was secured by certain real estate loans with a carrying value of \$2.02 billion in accordance with the collateral provisions of the Advances, Pledge and Security Agreement with the FHLB. There was no interest expense on long-term FHLB advances in 2017, 2016 and 2015.

Subordinated Debentures

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

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

with an identical interest rate and maturity as the Trust III trust preferred securities. Trust III issued \$0.6 million of common securities to the Company.

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

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

The trust preferred securities, the subordinated debentures that are the assets of Trusts II, III, IV and V and the common securities issued by Trusts II, III, IV and V are redeemable in whole or in part on any interest payment date on or after October 7, 2008 for Trusts II and III, and on or after December 15, 2009 for Trust IV and V, or at any time in whole but not in part within 90 days following the occurrence of certain events. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer interest payments on the subordinated debentures, which would result in a deferral of distribution payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

At December 31, 2017, future principal payments on long-term debt based on final maturity are as follows (in thousands):

Year Ending December 31:

2018	\$	—
2019		—
2020		—
2021		—
2022		—
Thereafter		92,785
Total	\$	92,785

14. EQUITY

As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of December 31, 2017, the bank had Statutory Retained Earnings of \$85.6 million.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

We repurchase shares of our common stock when we believe such repurchases are in the best interests of the Company. On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to \$30.0 million of the Company's outstanding common stock (the "2014 Repurchase Plan"). In January 2015, our Board of Directors increased the authorization under the 2014 Repurchase Plan by \$25.0 million. In March 2015, our Board of Directors increased the authorization under the 2014 Repurchase Plan by an additional \$75.0 million. In the year ended December 31, 2015, we repurchased 4,122,881 shares of common stock, at a cost of \$93.5 million, excluding fees and expenses, under the 2014 Repurchase Plan.

In January 2016, the Board of Directors authorized the repurchase of up to \$30.0 million of the Company's common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2016 Repurchase Plan"). The 2016 Repurchase Plan replaces and supersedes in its entirety the 2014 Repurchase Plan previously approved by the Company's Board of Directors. In the year ended December 31, 2016, 796,822 shares of common stock, at a cost of \$18.2 million, excluding fees and expenses, were repurchased under the 2016 Repurchase Plan.

In January 2017, the Board of Directors authorized the repurchase of up to \$30.0 million of the Company's common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2017 Repurchase Plan"). The 2017 Repurchase Plan replaces and supersedes in its entirety the 2016 Repurchase Plan previously approved by the Company's Board of Directors. In January 2017, prior to the 2017 Repurchase Plan being approved, 1,750 shares of common stock, at a cost of \$0.1 million, were repurchased under the 2016 Repurchase Plan.

In November 2017, the Board of Directors authorized an increase in the share repurchase program authority by an additional \$50.0 million (known henceforth as the "Repurchase Plan"). This amount is in addition to the \$30.0 million in planned repurchases (the "2017 Repurchase Plan") authorized earlier this year. There is no expiration date on the Repurchase Plan.

In the year ended December 31, 2017, 864,483 shares of common stock, at a cost of \$26.6 million, excluding fees and expenses, were repurchased under the 2016 Repurchase Plan and the Repurchase Plan combined.

A total of \$53.5 million remained available for repurchase under the Repurchase Plan at December 31, 2017.

15. MORTGAGE BANKING INCOME

Noninterest income from the Company's mortgage banking activities include the following components for the periods presented:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Mortgage banking income:			
Loan servicing fees	\$ 5,337	\$ 5,421	\$ 5,656
Amortization of mortgage servicing rights	(2,288)	(5,066)	(4,185)
Net gain on sale of residential mortgage loans	4,069	7,631	6,107
Unrealized gain (loss) on interest rate locks	(156)	83	(324)
Total mortgage banking income	\$ 6,962	\$ 8,069	\$ 7,254

16. SHARE-BASED COMPENSATION

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

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Salaries and employee benefits	\$ 3,266	\$ 3,094	\$ 4,181
Directors stock awards	150	97	78
Income tax benefit	(1,903)	(1,269)	(1,694)
Net share-based compensation effect	\$ 1,513	\$ 1,922	\$ 2,565

Upon exercise or vesting of a share-based award, if the tax deduction exceeds the compensation cost that was previously recorded for financial statement purposes, this will result in an excess tax benefit. Effective January 1, 2017, ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" requires the Company to recognize all excess tax benefits or tax deficiencies through the income statement as income tax expense/benefit. Under previous GAAP, any excess tax benefits were recognized in additional-paid-in-capital to offset current-period and subsequent-period tax deficiencies. During 2017, the Company recorded an income tax benefit of \$0.5 million as a result of restricted stock units vesting during the year.

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

Equity Incentive Plans

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

In September 2004, we adopted and our shareholders approved the 2004 Stock Compensation Plan ("2004 Plan") making available 1,500,000 shares for grants to employees and directors. Upon adoption of the 2004 Plan, all unissued shares from the previous 1997 Plan were frozen and no new options were granted under the 1997 Plan. In May 2007, the 2004 Plan was amended to increase the number of shares available for grant by an additional 1,000,000 shares. In April 2011, the 2004 Plan was amended to increase the number of shares authorized from 1,402,589 to 4,944,831.

In April 2013, we adopted and our shareholders approved the 2013 Stock Compensation Plan ("2013 Plan") making available 2,200,000 shares for grants to employees and directors. Upon adoption of the 2013 Plan, all unissued shares from the 2004 Plan were frozen and no new grants will be granted under the 2004 Plan. Shares may continue to be settled under the 2004 Plan pursuant to previously outstanding awards. New shares are issued from the 2013 Plan.

As of December 31, 2017, 2016 and 2015, a total of 1,567,912, 1,671,752 and 1,922,130 shares, respectively, were available for future grants under our 2013 Plan.

Stock Options

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

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

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

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

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

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

The following is a summary of option activity for our stock option plans for the year ended December 31, 2017:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Stock options outstanding as of January 1, 2017	162,063	\$ 24.95		
Changes during the year:				
Granted	—	—		
Exercised	—	—		
Expired	(1,175)	706.54		
Forfeited	(629)	210.50		
Stock options outstanding as of December 31, 2017	<u>160,259</u>	\$ 19.22	4.2	\$ 2,410
Vested and exercisable as of December 31, 2017	<u>160,259</u>	\$ 19.22	4.2	\$ 2,410

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying option awards and the quoted price of the Company's common stock for the options that were in-the-money as of December 31, 2017.

There were no options exercised during the year ended December 31, 2017. During the years ended December 31, 2016 and 2015, the aggregate intrinsic value of options exercised under our stock option plan determined as of the date of exercise was \$0.8 million and \$0.2 million, respectively.

As of December 31, 2017, all compensation costs related to stock options granted to employees under our stock option plans have been recognized.

As of December 31, 2017, all shares have been vested. The total fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was \$0.5 million, \$0.4 million, and \$0.4 million, respectively.

No stock options were granted during the years ended December 31, 2017, 2016 and 2015.

Restricted Stock Awards and Units

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

As of December 31, 2017, there was \$7.0 million of total unrecognized compensation cost related to restricted stock awards and units that is expected to be recognized over a weighted-average period of 2.7 years.

The table below presents the activity of restricted stock awards and units for each of the periods presented:

	Number of Units	Weighted Average Grant Date Fair Value	Fair Value of Restricted Stock Awards and Units That Vested During The Year (in thousands)
Unvested as of December 31, 2014	715,460	\$ 15.77	
Changes during the year:			
Granted	173,897	19.50	
Forfeited	(82,373)	16.73	
Vested	(343,067)	15.21	\$ 7,888
Unvested as of December 31, 2015	<u>463,917</u>	17.41	
Changes during the year:			
Granted	296,078	23.65	
Forfeited	(66,972)	20.97	
Vested	(255,326)	15.83	5,806
Unvested as of December 31, 2016	<u>437,697</u>	22.01	
Changes during the year:			
Granted	126,204	31.35	
Forfeited	(31,570)	24.89	
Vested	(134,780)	19.81	4,224
Unvested as of December 31, 2017	<u>397,551</u>	25.49	

17. PENSION PLANS

Defined Benefit Retirement Plan

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

In December 2016, the Company purchased non-participating annuity contracts totaling \$9.4 million to settle the pension obligation for a portion of the Company's plan participants. The purchase of the annuity contracts were settled by using plan assets. As a result of the settlement, we recognized a pro-rata net actuarial loss of \$3.8 million in pension expense and other comprehensive income.

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

	Year Ended December 31,	
	2017	2016
(Dollars in thousands)		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 23,677	\$ 33,067
Interest cost	926	1,374
Actuarial (gains) losses	752	1,039
Benefits paid	(1,884)	(2,413)
Annuity purchase	—	(9,390)
Benefit obligation at end of the year	<u>23,471</u>	<u>23,677</u>
Change in plan assets, at fair value:		
Fair value of plan assets at beginning of year	18,539	26,321
Actual return on plan assets	2,177	1,021
Employer contributions	4,000	3,000
Benefits paid	(1,884)	(2,413)
Annuity purchase	—	(9,390)
Fair value of plan assets at end of year	<u>22,832</u>	<u>18,539</u>
Funded status at end of year	<u>\$ (639)</u>	<u>\$ (5,138)</u>
Amounts recognized in AOCI:		
Net actuarial losses	<u>\$ (8,472)</u>	<u>\$ (10,052)</u>
Benefit obligation actuarial assumptions:		
Weighted average discount rate	3.6%	4.1%

	Year Ended December 31,		
	2017	2016	2015
(Dollars in thousands)			
Components of net periodic benefit cost:			
Interest cost	\$ 926	\$ 1,374	\$ 1,383
Expected return on plan assets	(1,036)	(1,542)	(1,893)
Amortization of net actuarial losses	1,191	1,548	1,577
Settlement	—	3,847	—
Net periodic benefit cost	<u>\$ 1,081</u>	<u>\$ 5,227</u>	<u>\$ 1,067</u>
Net periodic cost actuarial assumptions:			
Weighted average discount rate	4.1%	4.3%	4.0%
Expected long-term rate of return on plan assets	5.5%	6.0%	7.0%

The unrecognized net actuarial losses included in AOCI expected to be recognized in net periodic benefit cost during 2018 is approximately \$1.0 million.

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

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

	December 31,	
	2017	2016
Equity securities	53.9%	50.6%
Debt securities	42.3	34.0
Other	3.8	15.4
Total	100.0%	100.0%

Equity securities included the Company's common stock in the amount of \$0.1 million at December 31, 2017 and 2016.

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

The fair values of the defined benefit retirement plan as of December 31, 2017 and 2016 by asset category were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
December 31, 2017				
Money market accounts	\$ 858	\$ —	\$ —	\$ 858
Mutual funds	12,258	—	—	12,258
Government obligations	—	1,942	—	1,942
Common stocks	5,509	—	—	5,509
Preferred stocks	176	—	—	176
Corporate bonds and debentures	—	2,089	—	2,089
Total	\$ 18,801	\$ 4,031	\$ —	\$ 22,832

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
December 31, 2016				
Money market accounts	\$ 2,852	\$ —	\$ —	\$ 2,852
Mutual funds	7,250	—	—	7,250
Government obligations	—	2,134	—	2,134
Common stocks	4,474	—	—	4,474
Preferred stocks	130	—	—	130
Corporate bonds and debentures	—	1,699	—	1,699
Total	\$ 14,706	\$ 3,833	\$ —	\$ 18,539

We are not required by funding regulations or laws to make any contributions to our defined benefit retirement plan in 2018.

Estimated future benefit payments in each of the next five years and in the aggregate for the five years thereafter are as follows (in thousands):

Year Ending December 31:

2018	\$	1,852
2019		1,819
2020		1,777
2021		1,737
2022		1,672
2023-2027		7,460
Total	\$	<u>16,317</u>

Supplemental Executive Retirement Plans

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

In the second quarter of 2017, the Company settled a portion of the SERP obligation of a former executive. As a result of the settlement, the Company remeasured the related SERP obligation and net periodic benefit cost and recognized a pro-rata net actuarial loss of \$0.1 million in SERP expense and other comprehensive income.

The following tables set forth information pertaining to the SERP:

	Year Ended December 31,	
	2017	2016
(Dollars in thousands)		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 10,292	\$ 10,651
Interest cost	429	465
Actuarial (gains) losses	1,708	(598)
Benefits paid	(1,210)	(226)
Benefit obligation at end of year	<u>11,219</u>	<u>10,292</u>
Change in plan assets		
Fair value of plan assets at beginning of year	—	—
Employer contributions	1,209	226
Benefits paid	(1,209)	(226)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (11,219)</u>	<u>\$ (10,292)</u>
Amounts recognized in AOCI		
Net transition obligation	\$ (100)	\$ (112)
Prior service cost	(49)	(66)
Net actuarial losses	(2,163)	(701)
Total amounts recognized in AOCI	<u>\$ (2,312)</u>	<u>\$ (879)</u>
Benefit obligation actuarial assumptions		
Weighted average discount rate	3.5%	4.1%

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Components of net periodic benefit cost			
Interest cost	\$ 429	\$ 465	\$ 440
Amortization of net actuarial (gains) losses	102	51	111
Amortization of net transition obligation	18	17	16
Amortization of prior service cost	18	18	18
Settlement	138	—	—
Net periodic benefit cost	<u>\$ 705</u>	<u>\$ 551</u>	<u>\$ 585</u>

Net periodic cost actuarial assumptions			
Weighted average discount rate	4.1%	4.4%	4.1%

The estimated amortization of components included in AOCI that will be recognized into net periodic benefit cost for 2018 is as follows (in thousands):

Amortization of net actuarial losses	\$ 102
Amortization of net transition obligation	18
Amortization of prior service cost	18

The SERP holds no plan assets other than employer contributions that are paid as benefits during the year. We expect to contribute \$0.4 million to the SERP in 2018.

Estimated future benefit payments reflecting expected future service for the SERP in each of the next five years and in the aggregate for the five years thereafter are as follows (in thousands):

Year Ending December 31:	
2018	\$ 351
2019	347
2020	340
2021	325
2022	316
2023-2027	3,212
Total	<u>\$ 4,891</u>

18. 401(K) RETIREMENT SAVINGS PLAN

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

We match 100% of an employee's elective deferrals, up to 4% of the employee's pay each pay period. Our employer matching contributions to the Retirement Savings Plan totaled \$2.1 million, \$2.0 million and \$1.6 million in 2017, 2016 and 2015, respectively.

We also have the option of making discretionary profit sharing contributions into the Retirement Savings Plan. Our Board of Directors has sole discretion in determining the annual profit sharing contribution, subject to limitations of the Internal Revenue Code. We did not make any profit sharing contributions in 2017, 2016 and 2015.

19. OPERATING LEASES

We lease certain property and equipment with lease terms expiring through 2045. In most instances, the property leases provide for the renegotiation of rental terms at fixed intervals, and generally contain renewal options for periods ranging from five to 15 years.

Net rent expense for all operating leases for the years ended December 31, 2017, 2016 and 2015 is summarized as follows:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Rent expense charged to net occupancy	\$ 8,318	\$ 8,700	\$ 9,287
Less: sublease income	(43)	(43)	(25)
Net rent expense charged to net occupancy	8,275	8,657	9,262
Add: rent expense charged to equipment expense	15	19	30
Total net rent expense	<u>\$ 8,290</u>	<u>\$ 8,676</u>	<u>\$ 9,292</u>

The following is a schedule of future minimum rental commitments for all non-cancellable operating leases that had initial lease terms in excess of one year at December 31, 2017 (in thousands):

Year Ending December 31:

2018	\$ 6,334
2019	5,827
2020	5,296
2021	4,755
2022	4,079
Thereafter	18,585
Total	<u>\$ 44,876</u>

In addition, the Company, as lessor, leases certain properties that it owns. The following is a schedule of future minimum rental income for those non-cancellable operating leases that had initial lease terms in excess of one year at December 31, 2017 (in thousands):

Year Ending December 31:

2018	\$ 1,750
2019	1,061
2020	833
2021	980
2022	429
Thereafter	184
Total	<u>\$ 5,237</u>

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

20. INCOME AND FRANCHISE TAXES

Components of income tax expense (benefit) for the years ended December 31, 2017, 2016 and 2015 were as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(Dollars in thousands)		
Year ended December 31, 2017			
Federal	\$ 1,727	\$ 27,263	\$ 28,990
State	(81)	4,943	4,862
Total	<u>\$ 1,646</u>	<u>\$ 32,206</u>	<u>\$ 33,852</u>

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(Dollars in thousands)		
Year ended December 31, 2016			
Federal	\$ 805	\$ 19,842	\$ 20,647
State	(4)	4,585	4,581
Total	<u>\$ 801</u>	<u>\$ 24,427</u>	<u>\$ 25,228</u>

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	(Dollars in thousands)		
Year ended December 31, 2015			
Federal	\$ 1,128	\$ 20,061	\$ 21,189
State	(119)	6,018	5,899
Total	<u>\$ 1,009</u>	<u>\$ 26,079</u>	<u>\$ 27,088</u>

On December 22, 2017, H.R.1, commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform") was signed into law making significant changes to the U.S. federal tax code. The most impactful, as related to the Company, included a decrease in the current U.S. federal corporate tax rate from 35% to 21% for the year beginning January 1, 2018. The estimated impact of Tax Reform on the Company's net deferred tax assets ("DTA") result in additional income tax expense of \$7.4 million. The Company notes that it anticipates additional adjustments to the net DTA and income tax expense will be made in 2018 as deferred tax estimates are finalized for inclusion in the 2017 Federal and state income tax returns to be filed.

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

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Computed "expected" tax expense (benefit)	\$ 26,270	\$ 25,260	\$ 25,535
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(1,387)	(1,410)	(1,420)
Other tax-exempt income	(1,186)	(940)	(712)
Low-income housing and energy tax credits	(1,135)	(899)	(946)
State income taxes, net of Federal income tax effect, excluding impact of deferred tax valuation allowance	3,145	2,981	3,834
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense	570	(52)	(44)
Estimated impact of Tax Reform on net deferred tax assets	7,440	—	—
Other, net	135	288	841
Total	\$ 33,852	\$ 25,228	\$ 27,088

As required under the provisions of ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" during 2017, the Company recorded an income tax benefit of \$0.5 million as a result of excess tax benefits from restricted stock units vesting during the year.

At December 31, 2017, there was \$6.7 million of current federal income tax receivable, compared to a \$28 thousand payable at December 31, 2016. Current state income taxes receivable were \$6 thousand and \$4 thousand at December 31, 2017 and 2016, respectively.

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

	December 31,	
	2017	2016
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan and lease losses	\$ 10,622	\$ 19,926
Accrued expenses	294	644
Employee retirement benefits	2,784	6,138
Federal and state tax credit carryforwards	12,473	33,803
Federal and state net operating loss carryforwards	3,306	2,732
Restricted stock and non-qualified stock options	661	412
Premises and equipment	3,633	4,106
Other	3,169	5,060
Total deferred tax assets	36,942	72,821
Deferred tax liabilities		
Intangible assets	4,785	8,138
Other	2,343	3,006
Total deferred tax liabilities	7,128	11,144
Less: Deferred tax valuation allowance	3,321	2,751
Net deferred tax assets	\$ 26,493	\$ 58,926

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

As of December 31, 2017, the valuation allowance on our net DTA totaled \$3.3 million, which related entirely to our DTA from net apportioned net operating loss ("NOL") carryforwards for California state income tax purposes as we do not expect to generate sufficient income in California to utilize the DTA. The net change in the valuation allowance was an increase of \$0.6 million in 2017, compared to a decrease of \$0.1 million in 2016.

Net of this valuation allowance, the Company's net DTA totaled \$26.5 million as of December 31, 2017, compared to a net DTA of \$58.9 million as of December 31, 2016.

At December 31, 2017, the Company had net apportioned NOL carryforwards for California state income tax purposes of \$3.3 million, which are available to offset future state taxable income, if any, through 2031. The Company did not have any NOL carryforwards for U.S. federal or Hawaii state income tax purposes. In addition, we have state tax credit carryforwards of \$11.3 million that do not expire. In 2017, we utilized the remainder of our federal tax credit carryforwards. Additionally, there are \$1.2 million in net Hawaii state tax credit benefits related to the carryback of net operating loss filed in the amended 2008 Hawaii tax return.

At December 31, 2017, we have no unrecognized tax benefits that, if recognized would favorably affect the effective income tax rate in future periods. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Taxable years through 2013 are closed.

21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015, by component:

	<u>Before Tax</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
	(Dollars in thousands)		
Year ended December 31, 2017			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$ (838)	\$ (333)	\$ (505)
Less: Reclassification adjustment for losses realized in net income	1,410	561	849
Net unrealized gains on investment securities	<u>572</u>	<u>228</u>	<u>344</u>
Defined benefit plans:			
Net actuarial losses arising during the period	(1,318)	(518)	(800)
Amortization of net actuarial losses	1,293	460	833
Amortization of net transition obligation	18	7	11
Amortization of prior service cost	18	7	11
Settlement	138	55	83
Defined benefit plans, net	<u>149</u>	<u>11</u>	<u>138</u>
Other comprehensive income	<u>\$ 721</u>	<u>\$ 239</u>	<u>\$ 482</u>

	<u>Before Tax</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
	(Dollars in thousands)		
Year ended December 31, 2016			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$ (7,397)	\$ (2,945)	\$ (4,452)
Less: Reclassification adjustment for losses realized in net income	—	—	—
Net unrealized losses on investment securities	<u>(7,397)</u>	<u>(2,945)</u>	<u>(4,452)</u>
Defined benefit plans:			
Net actuarial losses arising during the period	(963)	(385)	(578)
Amortization of net actuarial losses	1,599	634	965
Amortization of net transition obligation	17	6	11
Amortization of prior service cost	18	7	11
Settlement	3,847	1,528	2,319
Defined benefit plans, net	<u>4,518</u>	<u>1,790</u>	<u>2,728</u>
Other comprehensive loss	<u>\$ (2,879)</u>	<u>\$ (1,155)</u>	<u>\$ (1,724)</u>

	<u>Before Tax</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
	(Dollars in thousands)		
Year ended December 31, 2015			
Net unrealized gains on investment securities:			
Net unrealized losses arising during the period	\$ (9,184)	\$ (3,655)	\$ (5,529)
Less: Reclassification adjustment for gains realized in net income	1,866	742	1,124
Net unrealized losses on investment securities	<u>(7,318)</u>	<u>(2,913)</u>	<u>(4,405)</u>
Defined benefit plans:			
Net actuarial gains arising during the period	687	274	413
Amortization of net actuarial losses	1,688	672	1,016
Amortization of net transition obligation	16	7	9
Amortization of prior service cost	18	7	11
Defined benefit plans, net	<u>2,409</u>	<u>960</u>	<u>1,449</u>
Other comprehensive loss	<u>\$ (4,909)</u>	<u>\$ (1,953)</u>	<u>\$ (2,956)</u>

The following table presents the changes in each component of AOCI, net of tax, for the years ended December 31, 2017, 2016 and 2015:

	<u>Investment Securities</u>	<u>Defined Benefit Plans</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
	(Dollars in thousands)		
Year ended December 31, 2017			
Balance at beginning of period	\$ 4,729	\$ (6,250)	\$ (1,521)
Other comprehensive income (loss) before reclassifications	(505)	(800)	(1,305)
Amounts reclassified from AOCI	849	938	1,787
Total other comprehensive income	344	138	482
Balance at end of period	<u>\$ 5,073</u>	<u>\$ (6,112)</u>	<u>\$ (1,039)</u>

	Investment Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)		
Year ended December 31, 2016			
Balance at beginning of period	\$ 9,181	\$ (8,978)	\$ 203
Other comprehensive income (loss) before reclassifications	(4,452)	(578)	(5,030)
Amounts reclassified from AOCI	—	3,306	3,306
Total other comprehensive income (loss)	(4,452)	2,728	(1,724)
Balance at end of period	<u>\$ 4,729</u>	<u>\$ (6,250)</u>	<u>\$ (1,521)</u>

	Investment Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)		
Year ended December 31, 2015			
Balance at beginning of period	\$ 13,586	\$ (10,427)	\$ 3,159
Other comprehensive income (loss) before reclassifications	(5,529)	413	(5,116)
Amounts reclassified from AOCI	1,124	1,036	2,160
Total other comprehensive income (loss)	(4,405)	1,449	(2,956)
Balance at end of period	<u>\$ 9,181</u>	<u>\$ (8,978)</u>	<u>\$ 203</u>

The following table presents the amounts reclassified out of each component of AOCI for the years ended December 31, 2017, 2016 and 2015:

Details about AOCI Components (Dollars in Thousands)	Amount Reclassified from AOCI			Affected Line Item in the Statement Where Net Income is Presented
	Year ended December 31,			
	2017	2016	2015	
Sale of investment securities available for sale	\$ (1,410)	\$ —	\$ (1,866)	Investment securities gains (losses)
	561	—	742	Tax benefit
	<u>\$ (849)</u>	<u>\$ —</u>	<u>\$ (1,124)</u>	Net of tax
Defined benefit plan items:				
Amortization of net actuarial losses	\$ (1,293)	\$ (1,599)	\$ (1,688)	(1)
Amortization of net transition obligation	(18)	(17)	(16)	(1)
Amortization of prior service cost	(18)	(18)	(18)	(1)
Settlement	(138)	(3,847)	—	(1)
	(1,467)	(5,481)	(1,722)	Total before tax
	529	2,175	686	Tax benefit
	<u>\$ (938)</u>	<u>\$ (3,306)</u>	<u>\$ (1,036)</u>	Net of tax
Total reclassifications for the period	<u>\$ (1,787)</u>	<u>\$ (3,306)</u>	<u>\$ (2,160)</u>	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 17 - Pension Plans for additional details).

22. EARNINGS PER SHARE

The table below presents the information used to compute basic and diluted earnings per share for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands, except per share data)		
Net income	<u>\$ 41,204</u>	<u>\$ 46,992</u>	<u>\$ 45,868</u>
Weighted average shares outstanding - basic	30,401	31,009	32,238
Dilutive effect of employee stock options and awards	238	216	413
Weighted average shares outstanding - diluted	<u>30,638</u>	<u>31,225</u>	<u>32,651</u>
Basic earnings per share	<u>\$ 1.36</u>	<u>\$ 1.52</u>	<u>\$ 1.42</u>
Diluted earnings per share	<u>\$ 1.34</u>	<u>\$ 1.50</u>	<u>\$ 1.40</u>

There were no potentially dilutive securities that have been excluded from the dilutive share calculation for the year ended December 31, 2017, compared to 1,892 and 8,217 potentially dilutive securities that have been excluded from the dilutive share calculation for the years ended December 31, 2016 and 2015, respectively, as their effect was anti-dilutive.

23. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

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

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

24. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

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

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

Forward interest rate contracts represent commitments to purchase or sell loans at a future date at a specified price. We enter into forward interest rate contracts on our residential mortgage held for sale loans. These derivatives are carried at fair value with changes in fair value recorded as a component of other operating income in the consolidated statements of income. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movements in market rates. Management reviews and approves the creditworthiness of the counterparties to its forward interest rate contracts.

Forward foreign exchange contracts represent commitments to purchase or sell foreign currencies at a future date at a specified price. These derivatives are carried at fair value with changes in fair value recorded as a component of other operating income in the consolidated statements of income. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in foreign currency exchange rates. Management reviews and approves the creditworthiness of its forward foreign exchange counterparties. At December 31, 2017 and 2016, we did not have any forward foreign exchange contracts.

At December 31, 2017 and 2016, financial instruments with off-balance sheet risk were as follows:

	December 31,	
	2017	2016
(Dollars in thousands)		
Notional of:		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 917,405	\$ 825,304
Standby letters of credit and financial guarantees written	13,551	16,073
Notional of:		
Financial instruments whose contract amounts exceed the amount of credit risk:		
Interest rate options	2,494	879
Forward interest rate contracts	18,748	32,497

25. FAIR VALUE OF ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

The carrying values of short-term financial instruments are deemed to approximate fair values. Such instruments are considered readily convertible to cash and include cash and due from financial institutions, interest-bearing deposits in other financial institutions, accrued interest receivable, the majority of Federal Home Loan Bank 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 securities dealers. Where quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company's various loan types and are derived from available market information, as well as specific borrower information. The fair value of loans are not based on the notion of exit price.

Loans Held for Sale

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

Mortgage Servicing Rights

Fair value of mortgage servicing rights is calculated by a discounted cash flow model prepared by a third-party service provider based on market value assumptions at the time of origination. We assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service, and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends

have developed. Current market value assumptions based on loan product types (fixed-rate, adjustable-rate and balloon loans) include average discount rates and prepayment speeds. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

Other Interest-Earning Assets

The equity investment in common stock of the FHLB, which is redeemable for cash at par value, is reported at its par value.

Deposit Liabilities

The fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits and interest-bearing demand and savings accounts, are equal to the amount payable on demand. The fair value of time deposits is estimated using discounted cash flow analyses. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Long-Term Debt

The fair value of our long-term debt is estimated by discounting scheduled cash flows over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

Off-Balance Sheet Financial Instruments

The fair values of off-balance sheet financial instruments are estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties, current settlement values or quoted market prices of comparable instruments.

For derivative financial instruments, the fair values are based upon current settlement values, if available. If there are no relevant comparables, fair values are based on pricing models using current assumptions for interest rate swaps and options.

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument. Because no market exists for a significant portion of our financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, premises and equipment and core deposit premium.

	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)
(Dollars in thousands)					
December 31, 2017					
Financial assets:					
Cash and due from financial institutions	\$ 75,318	\$ 75,318	\$ 75,318	\$ —	\$ —
Interest-bearing deposits in other financial institutions	6,975	6,975	6,975	—	—
Investment securities	1,496,644	1,494,092	825	1,481,473	11,794
Loans held for sale	16,336	16,336	—	16,336	—
Loans and leases, net of allowance for loan and lease losses	3,720,614	3,684,834	—	21,280	3,663,554
Mortgage servicing rights	15,843	17,161	—	—	17,161
Federal Home Loan Bank stock	7,761	7,761	7,761	—	—
Accrued interest receivable	16,581	16,581	16,581	—	—
Financial liabilities:					
Deposits:					
Noninterest-bearing deposits	1,395,556	1,395,556	1,395,556	—	—
Interest-bearing demand and savings deposits	2,414,930	2,414,930	2,414,930	—	—
Time deposits	1,145,868	1,140,064	—	—	1,140,064
Federal Home Loan Bank advances and other short-term borrowings	32,000	32,000	—	32,000	—
Long-term debt	92,785	70,139	—	70,139	—
Accrued interest payable (included in other liabilities)	3,698	3,698	3,698	—	—
Off-balance sheet financial instruments:					
Commitments to extend credit	917,405	1,140	—	1,140	—
Standby letters of credit and financial guarantees written	13,551	203	—	203	—
Derivatives:					
Interest rate lock commitments	2,494	12	—	12	—
Forward sale commitments	18,748	(26)	—	(26)	—

	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)
(Dollars in thousands)					
December 31, 2016					
Financial assets:					
Cash and due from financial institutions	\$ 75,272	\$ 75,272	\$ 75,272	\$ —	\$ —
Interest-bearing deposits in other financial institutions	9,069	9,069	9,069	—	—
Investment securities	1,461,515	1,458,213	660	1,445,357	12,196
Loans held for sale	31,881	31,881	—	31,881	—
Loans and leases, net of allowance for loan and lease losses	3,468,259	3,426,976	—	30,723	3,396,253
Mortgage servicing rights	15,779	18,087	—	—	18,087
Federal Home Loan Bank stock	11,572	11,572	11,572	—	—
Accrued interest receivable	15,675	15,675	15,675	—	—
Financial liabilities:					
Deposits:					
Noninterest-bearing deposits	1,265,246	1,265,246	1,265,246	—	—
Interest-bearing demand and savings deposits	2,253,591	2,253,591	2,253,591	—	—
Time deposits	1,089,364	1,088,436	—	—	1,088,436
Federal Home Loan Bank advances and other short-term borrowings	135,000	135,000	—	135,000	—
Long-term debt	92,785	68,186	—	68,186	—
Accrued interest payable (included in other liabilities)	1,556	1,556	1,556	—	—
Off-balance sheet financial instruments:					
Commitments to extend credit	825,304	1,046	—	1,046	—
Standby letters of credit and financial guarantees written	16,073	241	—	241	—
Derivatives:					
Interest rate lock commitments	879	6	—	6	—
Forward sale commitments	32,497	136	—	136	—

Fair Value Measurements

We group our financial assets and liabilities at fair value into three levels based on the markets in which the financial assets and liabilities are traded and the reliability of the assumptions used to determine fair value as follows:

- Level 1 — Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use

in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that requires the use of significant judgment or estimation.

We base our fair values on the price that we would expect to receive if an asset were sold or pay to transfer a liability in an orderly transaction between market participants at the measurement date. We also maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We use fair value measurements to record adjustments to certain financial assets and liabilities and to determine fair value disclosures. Available for sale securities and derivatives are recorded at fair value on a recurring basis. From time to time, we may be required to record other financial assets at fair value on a nonrecurring basis such as loans held for sale, impaired loans and mortgage servicing rights. These nonrecurring fair value adjustments typically involve application of the lower of cost or fair value accounting or write-downs of individual assets.

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2017.

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

	Fair Value at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2017				
Available for sale securities:				
Debt securities:				
States and political subdivisions	\$ 179,781	\$ —	\$ 167,987	\$ 11,794
Corporate securities	74,278	—	74,278	—
U.S. Treasury obligations and direct obligations of U.S Government agencies	25,510	—	25,510	—
Mortgage-backed securities:				
Residential-U.S. Government sponsored entities	800,683	—	800,683	—
Residential-Non-government agencies	46,763	—	46,763	—
Commercial-U.S. Government agencies and sponsored entities	39,725	—	39,725	—
Commercial-Non-government agencies	137,326	—	137,326	—
Other	825	825	—	—
Derivatives: Interest rate lock and forward sale commitments	(14)	—	(14)	—
Total	\$ 1,304,877	\$ 825	\$ 1,292,258	\$ 11,794

	Fair Value at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2016				
Available for sale securities:				
Debt securities:				
States and political subdivisions	\$ 185,041	\$ —	\$ 172,845	\$ 12,196
Corporate securities	99,389	—	99,389	—
U.S. Treasury obligations and direct obligations of U.S Government agencies	—	—	—	—
Mortgage-backed securities:				
U.S. Government sponsored entities	769,986	—	769,986	—
Non-government sponsored entities	188,771	—	188,771	—
Other	660	660	—	—
Derivatives: Interest rate lock and forward sale commitments	142	—	142	—
Total	\$ 1,243,989	\$ 660	\$ 1,231,133	\$ 12,196

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

	Available for Sale Debt Securities - States and Political Subdivisions
(Dollars in thousands)	
Balance as of December 31, 2015	\$ 12,479
Principal payments received	(338)
Purchases	—
Unrealized net loss included in other comprehensive gain	55
Balance as of December 31, 2016	\$ 12,196
Principal payments received	(358)
Purchases	—
Unrealized net loss included in other comprehensive loss	(44)
Balance as of December 31, 2017	\$ 11,794

Within the state and political subdivisions debt securities category, the Company holds four mortgage revenue bonds issued by the City & County of Honolulu with an aggregate fair value of \$11.8 million and \$12.2 million at December 31, 2017 and 2016, respectively. The Company estimates the fair value of its mortgage revenue bonds by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments.

The significant unobservable input used in the fair value measurement of the Company's mortgage revenue bonds is the weighted average discount rate. As of December 31, 2017, the weighted average discount rate utilized was 4.81%, 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 following table presents the fair value of assets measured on a nonrecurring basis and the level of valuation assumptions used to determine the respective fair values:

	Fair Value Measurements Using				Total Losses
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)					
December 31, 2017					
Impaired loans (1)	\$ 21,280	\$ —	\$ 21,280	\$ —	\$ —
Mortgage servicing rights	17,161	—	—	17,161	—
Other real estate (2)	851	—	851	—	—
Total					\$ —
December 31, 2016					
Impaired loans (1)	\$ 30,723	\$ —	\$ 30,723	\$ —	\$ —
Mortgage servicing rights	18,087	—	—	18,087	—
Other real estate (2)	791	—	791	—	—
Total					\$ —

(1) Represents carrying value and related write-downs of loans for which adjustments are based on agreed upon purchase prices for the loans or the appraised value of the collateral.

(2) Represents other real estate that is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral.

26. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. The segments are consistent with our internal functional reporting lines and are managed separately because each unit has different target markets, technological requirements, marketing strategies and specialized skills.

The Banking Operations segment includes construction and real estate development lending, commercial lending, residential mortgage lending, consumer lending, trust services, retail brokerage services and our retail branch offices, which provide a full range of deposit and loan products, as well as various other banking services. The Treasury segment is responsible for managing the Company's investment securities portfolio and wholesale funding activities. The All Others segment includes activities not captured by the Banking Operations or Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties.

The accounting policies of the segments are consistent with those described in Note 1 - Summary of Significant Accounting Policies. The majority of the Company's net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

Intersegment net interest income (expense) was allocated to each segment based upon a funds transfer pricing process that assigns costs of funds to assets and earnings credits to liabilities based on market interest rates that reflect interest rate sensitivity and maturity characteristics. All administrative and overhead expenses are allocated to the segments at cost. Cash, investment securities, loans and leases and their related balances are allocated to the segment responsible for acquisition and maintenance of those assets. Segment assets also include all premises and equipment used directly in segment operations.

Segment net income (loss) and assets are provided in the following table for the periods indicated:

	Banking Operations	Treasury	All Others	Total
(Dollars in thousands)				
Year ended December 31, 2017				
Net interest income	\$ 140,077	\$ 27,626	\$ —	\$ 167,703
Intersegment net interest income (expense)	32,977	(25,000)	(7,977)	—
Credit (provision) for loan and lease losses	2,674	—	—	2,674
Other operating income	22,511	2,448	11,537	36,496
Other operating expense	(60,939)	(1,433)	(69,445)	(131,817)
Administrative and overhead expense allocation	(61,082)	(972)	62,054	—
Income taxes	(34,376)	(1,204)	1,728	(33,852)
Net income (loss)	<u>\$ 41,842</u>	<u>\$ 1,465</u>	<u>\$ (2,103)</u>	<u>\$ 41,204</u>

Balance as of December 31, 2017				
Investment securities	\$ —	\$ 1,496,644	\$ —	\$ 1,496,644
Loans and leases (including loans held for sale)	3,786,951	—	—	3,786,951
Other	42,243	228,608	69,262	340,113
Total assets	<u>\$ 3,829,194</u>	<u>\$ 1,725,252</u>	<u>\$ 69,262</u>	<u>\$ 5,623,708</u>

	Banking Operations	Treasury	All Others	Total
(Dollars in thousands)				
Year ended December 31, 2016				
Net interest income	\$ 128,673	\$ 29,277	\$ —	\$ 157,950
Intersegment net interest income (expense)	36,655	(26,618)	(10,037)	—
Credit (provision) for loan and lease losses	5,517	—	—	5,517
Other operating income	25,994	3,148	13,174	42,316
Other operating expense	(58,856)	(1,616)	(73,091)	(133,563)
Administrative and overhead expense allocation	(64,139)	(918)	65,057	—
Income taxes	(25,796)	(1,143)	1,711	(25,228)
Net income	<u>\$ 48,048</u>	<u>\$ 2,130</u>	<u>\$ (3,186)</u>	<u>\$ 46,992</u>

Balance as of December 31, 2016				
Investment securities	\$ —	\$ 1,461,515	\$ —	\$ 1,461,515
Loans and leases (including loans held for sale)	3,556,771	—	—	3,556,771
Other	56,482	241,387	68,081	365,950
Total assets	<u>\$ 3,613,253</u>	<u>\$ 1,702,902</u>	<u>\$ 68,081</u>	<u>\$ 5,384,236</u>

	Banking Operations	Treasury	All Others	Total
(Dollars in thousands)				
Year ended December 31, 2015				
Net interest income	\$ 115,936	\$ 33,592	\$ —	\$ 149,528
Intersegment net interest income (expense)	43,686	(31,576)	(12,110)	—
Credit (provision) for loan and lease losses	15,671	—	—	15,671
Other operating income	23,447	967	10,385	34,799
Other operating expense	(59,273)	(1,859)	(65,910)	(127,042)
Administrative and overhead expense allocation	(59,266)	(1,042)	60,308	—
Income taxes	(28,070)	(29)	1,011	(27,088)
Net income (loss)	<u>\$ 52,131</u>	<u>\$ 53</u>	<u>\$ (6,316)</u>	<u>\$ 45,868</u>

27. PARENT COMPANY AND REGULATORY RESTRICTIONS

At December 31, 2017, the accumulated deficit of the parent company, Central Pacific Financial Corp., included \$396.0 million of equity in undistributed losses of Central Pacific Bank.

Central Pacific Bank, as a Hawaii state-chartered bank, may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of December 31, 2017, the bank had Statutory Retained Earnings of \$85.6 million. For further information, see Note 14 - Equity.

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

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

The following table sets forth actual and required capital and capital ratios for the Company and the bank, as well as the minimum capital adequacy requirements applicable generally to all financial institutions as of the dates indicated. The Company's and the bank's leverage capital, Tier 1, total risk-based capital ratios, and common equity Tier 1 (CET1) risk based capital as of December 31, 2017 were above the levels required for a "well-capitalized" regulatory designation.

	Actual		Minimum required for capital adequacy purposes		Minimum required to be well-capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Company						
As of December 31, 2017						
Leverage capital	\$ 578,607	10.4%	\$ 223,646	4.0%	\$ 279,557	5.0%
Tier 1 risk-based capital	578,607	14.7	236,721	6.0	315,628	8.0
Total risk-based capital	628,068	15.9	315,628	8.0	394,535	10.0
CET1 risk-based capital	490,861	12.4	177,541	4.5	256,448	6.5
As of December 31, 2016						
Leverage capital	562,460	10.6	211,383	4.0	264,229	5.0
Tier 1 risk-based capital	562,460	14.2	237,157	6.0	316,209	8.0
Total risk-based capital	612,202	15.5	316,209	8.0	395,261	10.0
CET1 risk-based capital	485,268	12.3	177,868	4.5	256,920	6.5
Central Pacific Bank						
As of December 31, 2017						
Leverage capital	565,412	10.1	223,431	4.0	279,289	5.0
Tier 1 risk-based capital	565,412	14.4	236,401	6.0	315,201	8.0
Total risk-based capital	614,732	15.6	315,201	8.0	394,002	10.0
CET1 risk-based capital	565,412	14.4	177,301	4.5	256,101	6.5
As of December 31, 2016						
Leverage capital	541,577	10.3	211,135	4.0	263,918	5.0
Tier 1 risk-based capital	541,577	13.7	236,806	6.0	315,741	8.0
Total risk-based capital	591,185	15.0	315,741	8.0	394,677	10.0
CET1 risk-based capital	541,577	13.7	177,604	4.5	256,540	6.5

Condensed financial statements of the parent company are as follows:

**CENTRAL PACIFIC FINANCIAL CORP.
CONDENSED BALANCE SHEETS**

	December 31,	
	2017	2016
(Dollars in thousands)		
Assets		
Cash and cash equivalents	\$ 13,931	\$ 19,500
Investment securities available for sale	825	660
Investment in subsidiary bank, at equity in underlying net assets	572,101	569,898
Accrued interest receivable and other assets	9,577	10,682
Total assets	\$ 596,434	\$ 600,740
Liabilities and Equity		
Long-term debt	\$ 92,785	\$ 92,785
Other liabilities	3,614	3,280
Total liabilities	96,399	96,065
Shareholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding none at December 31, 2017 and 2016	—	—
Common stock, no par value, authorized 185,000,000 shares; issued and outstanding 30,024,222 and 30,796,243 shares at December 31, 2017 and 2016, respectively	503,988	530,932
Surplus	86,098	84,180
Accumulated deficit	(89,036)	(108,941)
Accumulated other comprehensive income (loss)	(1,039)	(1,521)
Total shareholders' equity	500,011	504,650
Non-controlling interest	\$ 24	\$ 25
Total equity	\$ 500,035	\$ 504,675
Total liabilities and equity	\$ 596,434	\$ 600,740

**CENTRAL PACIFIC FINANCIAL CORP.
CONDENSED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Income:			
Dividends from subsidiary bank	\$ 43,000	\$ 29,965	\$ 111,765
Interest income:			
Interest from subsidiary bank	6	6	9
Other income	150	100	91
Total income	43,156	30,071	111,865
Expense:			
Interest on long-term debt	3,479	3,005	2,626
Other expenses	2,002	2,739	2,551
Total expenses	5,481	5,744	5,177
Gain (loss) before income taxes and equity in undistributed income of subsidiaries	37,675	24,327	106,688
Income tax expense (benefit)	(1,781)	(2,467)	670
Income before equity in undistributed income of subsidiaries	39,456	26,794	106,018
Equity in undistributed income (loss) of subsidiary bank	1,748	20,198	(60,150)
Net income	\$ 41,204	\$ 46,992	\$ 45,868

**CENTRAL PACIFIC FINANCIAL CORP.
CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 41,204	\$ 46,992	\$ 45,868
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense (benefit)	(442)	15,683	670
Equity in undistributed income (loss) of subsidiary bank	(1,748)	(20,198)	60,150
Share-based compensation	1,918	1,045	1,429
Other, net	1,357	(697)	983
Net cash provided by operating activities	42,289	42,825	109,100
Cash flows from financing activities:			
Net proceeds from issuance of common stock and stock option exercises	—	941	360
Repurchases of common stock	(26,559)	(18,206)	(93,533)
Dividends paid	(21,299)	(18,619)	(26,143)
Net cash used in financing activities	(47,858)	(35,884)	(119,316)
Net increase (decrease) in cash and cash equivalents	(5,569)	6,941	(10,216)
Cash and cash equivalents at beginning of year	19,500	12,559	22,775
Cash and cash equivalents at end of year	\$ 13,931	\$ 19,500	\$ 12,559

28. UNAUDITED QUARTERLY FINANCIAL INFORMATION

As discussed in Note 1 - Summary of Significant Accounting Policies, on December 31, 2016, the Company elected to reclassify loan servicing fees, amortization of mortgage servicing rights, net gain on sale of residential mortgage loans, and unrealized gain (loss) on interest rate locks into a single line item called "mortgage banking income" in the Company's consolidated statements of income. Loan servicing fees and net gain on sale of residential mortgage loans were previously recorded in its own line in the other operating income section of the consolidated statements of income, while unrealized gain (loss) on interest rate locks was included as a component of other operating income - other. The amortization of mortgage servicing rights was previously recorded as a component of amortization and impairment of other intangible assets in the other operating expense section of the Company's consolidated statements of income. The components of mortgage banking income are disclosed in Note 15 - Mortgage Banking Income to the consolidated financial statements. The Company believes the reclassification provides a better presentation of revenues and costs of our mortgage banking activities. The following unaudited quarterly financial information has been adjusted retrospectively for the reclassification.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
(Dollars in thousands, except per share data)					
2017					
Total interest income	\$ 44,213	\$ 45,080	\$ 45,993	\$ 47,276	\$ 182,562
Total interest expense	2,958	3,451	3,998	4,452	14,859
Net interest income	41,255	41,629	41,995	42,824	167,703
Provision (credit) for loan and lease losses	(80)	(2,282)	(126)	(186)	(2,674)
Net interest income after provision (credit) for loan and lease losses	41,335	43,911	42,121	43,010	170,377
Income before income taxes	19,889	19,446	18,179	17,542	75,056
Net income	13,079	12,025	11,812	4,288	41,204
Basic earnings per share	\$ 0.43	\$ 0.39	\$ 0.39	\$ 0.14	\$ 1.36
Diluted earnings per share	0.42	0.39	0.39	0.14	1.34

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
(Dollars in thousands, except per share data)					
2016					
Total interest income	\$ 41,249	\$ 41,870	\$ 41,765	\$ 42,255	\$ 167,139
Total interest expense	2,038	2,261	2,339	2,551	9,189
Net interest income	39,211	39,609	39,426	39,704	157,950
Provision (credit) for loan and lease losses	(747)	(1,382)	(743)	(2,645)	(5,517)
Net interest income after provision (credit) for loan and lease losses	39,958	40,991	40,169	42,349	163,467
Investment securities gains (losses)	—	—	—	—	—
Income before income taxes	17,248	18,468	17,858	18,646	72,220
Net income	11,181	12,137	11,466	12,208	46,992
Basic earnings per share	\$ 0.36	\$ 0.39	\$ 0.37	\$ 0.40	\$ 1.52
Diluted earnings per share	0.35	0.39	0.37	0.39	1.50

29. SUBSEQUENT EVENTS

There were no material subsequent events that have occurred which would require recognition or disclosure in these consolidated financial statements.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

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

Central Pacific Financial Corp. and Subsidiaries:

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated Balance Sheets at December 31, 2017 and 2016](#)

[Consolidated Statements of Income for the Years ended December 31, 2017, 2016 and 2015](#)

[Consolidated Statements of Comprehensive Income for the Years ended December 31, 2017, 2016 and 2015](#)

[Consolidated Statements of Changes in Equity for the Years ended December 31, 2017, 2016 and 2015](#)

[Consolidated Statements of Cash Flows for the Years ended December 31, 2017, 2016 and 2015](#)

[Notes to Consolidated Financial Statements](#)

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

(a) 3. Exhibits

ITEM 16. FORM 10-K SUMMARY

Not applicable.

Exhibit No.	Document
3.1	Restated Articles of Incorporation of the Registrant (1)
3.2	Bylaws of the Registrant, as amended (2)
10.1	Split Dollar Life Insurance Plan (3) (4)
10.2	Central Pacific Bank Supplemental Executive Retirement Plan (4) (5)
10.3	The Registrant's Directors' Deferred Compensation Plan (4) (6)
10.4	The Registrant's 2004 Stock Compensation Plan, as amended (4) (7)
10.5	Form of Restricted Stock Award Agreement to Non-Employee Director under 2004 Stock Compensation Plan (4) (7)
10.6	Supplemental Executive Retirement Agreement for Blenn A. Fujimoto, effective July 1, 2005 (4) (10)
10.7	Amendment No. 1 to the Supplemental Executive Retirement Plan between the Registrant and Blenn A. Fujimoto, effective December 31, 2008 (4) (9)
10.8	The Registrant's Long-Term Executive Incentive Plan, effective January 1, 2005 (4) (11)
10.9	Amendment No. 2008-1 to the Registrant's Long-Term Executive Incentive Plan (4) (9)
10.10	The Registrant's 2004 Annual Executive Incentive Plan (4) (7)
10.11	Amendment No. 2008-1 to the Registrant's 2004 Annual Executive Incentive Plan dated December 31, 2008 (4) (9)
10.12	Amendment No. 2011-1 to the Registrant's 2004 Stock Compensation Plan (4) (12)
10.13	Amendment No. 2012-01 to the Registrant's 2004 Stock Compensation Plan (13)
10.14	Form of Stock Option Grant Agreement for the Registrant's 2004 Stock Compensation Plan (13)
10.15	Form of Restricted Stock Unit Grant Agreement for the Registrant's 2004 Stock Compensation Plan (13)
10.16	The Registrant's 2013 Stock Compensation Plan (14)
10.17	Form of Stock Option Grant Agreement for the Registrant's 2013 Stock Compensation Plan (14)
10.18	Form of Restricted Stock Grant Agreement for the Registrant's 2013 Stock Compensation Plan (14)
10.19	Form of Restricted Stock Unit Agreement for the Registrant's 2013 Stock Compensation Plan (14)
10.20	Form of Stock Appreciation Rights Grant Agreement for the Registrant's 2013 Stock Compensation Plan (14)

Exhibit No.	Document
10.21	Form of Key Employee Restricted Stock Unit Grant Agreement for the Registrant's 2013 Stock Compensation Plan (14)
12.1	Statements re. Computation of Ratios (Previously Filed as Exhibit 12.1 to the Original Filing)
14.1	The Registrant's Code of Conduct and Ethics (11)
14.2	The Registrant's Code of Conduct and Ethics for Senior Financial Officers (11)
21	Subsidiaries of the Registrant (Previously Filed as Exhibit 21 to the Original Filing)
23	Consent of Independent Registered Public Accounting Firm *
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Filed herewith.

** Furnished herewith.

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

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

- (1) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015.
- (2) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 27, 2012.
- (3) Incorporated herein by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, filed with the Securities and Exchange Commission on March 27, 1992.
- (4) Denotes management contract or compensation plan or arrangement.
- (5) Incorporated herein by reference to Exhibits 10.8 and 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed with the Securities and Exchange Commission on March 28, 1997.
- (6) Incorporated herein by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission on March 30, 2001.
- (7) Incorporated herein by reference to Exhibits 10.8, 10.9 and 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.
- (8) Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, filed with the Securities and Exchange Commission on November 9, 2004.
- (9) Incorporated herein by reference to Exhibits 10.1, 10.15, 10.17, 10.19 and 10.21 to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009.
- (10) Incorporated herein by reference to Exhibits 99.1 and 99.2 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 31, 2006.
- (11) Incorporated herein by reference to Exhibits 10.19, 14.1 and 14.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 15, 2006.
- (12) Incorporated herein by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF 14A filed with the Securities and Exchange Commission on March 4, 2011.
- (13) Incorporated herein by reference to Exhibits 10.1, 10.2 and 10.3 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 30, 2012.
- (14) Incorporated herein by reference to Exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.6 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 1, 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this Amendment No. 1 to Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 5, 2018

CENTRAL PACIFIC FINANCIAL CORP.

(Registrant)

/s/ A. Catherine Ngo

A. Catherine Ngo

President and Chief Executive Officer

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Section 2: EX-23 (EXHIBIT 23)

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Central Pacific Financial Corp:

We consent to the incorporation by reference in the registration statement (No. 333-141232, No. 333-188445, No. 333-119538, No. 333-196873, and No. 333-211155) on Form S-8 of Central Pacific Financial Corp. of our reports dated February 28, 2018, with respect to the consolidated balance sheets of Central Pacific Financial Corp. as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of Central Pacific Financial Corp.

/s/ KPMG LLP

Honolulu, Hawaii

March 5, 2018

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)

I, A. Catherine Ngo, Chief Executive Officer of Central Pacific Financial Corp. (the "Company"), certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A of the Company;
2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant'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(f)) for the registrant and 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 registrant'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 report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 5, 2018

By: /s/ A. Catherine Ngo

A. Catherine Ngo

President and Chief Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)

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

1. I have reviewed this Amendment No. 1 on Form 10-K/A of the Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant'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(f)) for the registrant and 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 registrant'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 report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 5, 2018

By: /s/ David S. Morimoto

David S. Morimoto

Executive Vice President and Chief Financial Officer

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Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, A. Catherine Ngo, Chief Executive Officer of Central Pacific Financial Corp. (the "Company"), do hereby 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 Amendment No. 1 on Form 10-K/A of the Company for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (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 respects, the financial condition and results of operations of the Company.

Date: March 5, 2018

By: /s/ A. Catherine Ngo

A. Catherine Ngo

President and Chief 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.

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Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, David S. Morimoto, Executive Vice President and Chief Financial Officer of Central Pacific Financial Corp. (the "Company"), do hereby 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 Amendment No. 1 on Form 10-K/A of the Company for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (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 respects, the financial condition and results of operations of the Company.

Date: March 5, 2018

By: /s/ David S. Morimoto

David S. Morimoto

Executive Vice President and Chief Financial 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.

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