

CENTRAL PACIFIC FINANCIAL CORP  
Form 10-Q  
August 03, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The number of shares outstanding of registrant’s common stock, no par value, on July 13, 2016 was 30,988,895 shares.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

### Forward-Looking Statements

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

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

| (dollars in thousands)                                                                                                                                                   | June 30,<br>2016 | December<br>31,<br>2015 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|
| <b>Assets</b>                                                                                                                                                            |                  |                         |
| Cash and due from banks                                                                                                                                                  | \$76,482         | \$71,797                |
| Interest-bearing deposits in other banks                                                                                                                                 | 14,184           | 8,397                   |
| Investment securities:                                                                                                                                                   |                  |                         |
| Available-for-sale, at fair value                                                                                                                                        | 1,260,593        | 1,272,255               |
| Held-to-maturity, at amortized cost (fair value of \$238,066 at June 30, 2016 and \$244,136 at December 31, 2015)                                                        | 234,230          | 247,917                 |
| Total investment securities                                                                                                                                              | 1,494,823        | 1,520,172               |
| Loans held for sale                                                                                                                                                      | 9,921            | 14,109                  |
| Loans and leases                                                                                                                                                         | 3,403,947        | 3,211,532               |
| Allowance for loan and lease losses                                                                                                                                      | (60,764)         | (63,314)                |
| Net loans and leases                                                                                                                                                     | 3,343,183        | 3,148,218               |
| Premises and equipment, net                                                                                                                                              | 48,370           | 49,161                  |
| Accrued interest receivable                                                                                                                                              | 15,339           | 14,898                  |
| Investment in unconsolidated subsidiaries                                                                                                                                | 7,204            | 6,157                   |
| Other real estate owned                                                                                                                                                  | 1,032            | 1,962                   |
| Mortgage servicing rights                                                                                                                                                | 15,778           | 17,797                  |
| Core deposit premium                                                                                                                                                     | 6,018            | 7,355                   |
| Bank-owned life insurance                                                                                                                                                | 154,678          | 153,967                 |
| Federal Home Loan Bank stock                                                                                                                                             | 15,218           | 8,606                   |
| Other assets                                                                                                                                                             | 80,737           | 108,692                 |
| Total Assets                                                                                                                                                             | \$5,282,967      | \$5,131,288             |
| <b>Liabilities</b>                                                                                                                                                       |                  |                         |
| Deposits:                                                                                                                                                                |                  |                         |
| Noninterest-bearing demand                                                                                                                                               | \$1,152,666      | \$1,145,244             |
| Interest-bearing demand                                                                                                                                                  | 846,589          | 824,895                 |
| Savings and money market                                                                                                                                                 | 1,371,163        | 1,399,093               |
| Time                                                                                                                                                                     | 1,034,724        | 1,064,207               |
| Total deposits                                                                                                                                                           | 4,405,142        | 4,433,439               |
| Short-term borrowings                                                                                                                                                    | 226,000          | 69,000                  |
| Long-term debt                                                                                                                                                           | 92,785           | 92,785                  |
| Other liabilities                                                                                                                                                        | 41,424           | 41,425                  |
| Total Liabilities                                                                                                                                                        | 4,765,351        | 4,636,649               |
| <b>Equity</b>                                                                                                                                                            |                  |                         |
| Preferred stock (no par value, authorized 1,100,000 shares, issued and outstanding none at June 30, 2016 and December 31, 2015, respectively)                            | —                | —                       |
| Common stock (no par value, authorized 185,000,000 shares, issued and outstanding 31,036,895 and 31,361,452 shares at June 30, 2016 and December 31, 2015, respectively) | 538,434          | 548,878                 |

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|                                                              |             |             |
|--------------------------------------------------------------|-------------|-------------|
| Surplus                                                      | 83,482      | 82,847      |
| Accumulated deficit                                          | (122,730 )  | (137,314 )  |
| Accumulated other comprehensive income                       | 18,421      | 203         |
| Total Shareholders' Equity                                   | 517,607     | 494,614     |
| Non-controlling interest                                     | 9           | 25          |
| Total Equity                                                 | 517,616     | 494,639     |
| Total Liabilities and Equity                                 | \$5,282,967 | \$5,131,288 |
| See accompanying notes to consolidated financial statements. |             |             |

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

|                                                            | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|------------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| (dollars in thousands, except per share data)              | 2016                           | 2015      | 2016                         | 2015      |
| Interest income:                                           |                                |           |                              |           |
| Interest and fees on loans and leases                      | \$32,878                       | \$ 29,572 | \$64,671                     | \$ 58,174 |
| Interest and dividends on investment securities:           |                                |           |                              |           |
| Taxable interest                                           | 7,953                          | 8,277     | 16,349                       | 16,427    |
| Tax-exempt interest                                        | 995                            | 1,010     | 1,991                        | 2,008     |
| Dividends                                                  | 10                             | 8         | 20                           | 17        |
| Interest on deposits in other banks                        | 11                             | 11        | 28                           | 22        |
| Dividends on Federal Home Loan Bank stock                  | 23                             | 18        | 60                           | 29        |
| Total interest income                                      | 41,870                         | 38,896    | 83,119                       | 76,677    |
| Interest expense:                                          |                                |           |                              |           |
| Interest on deposits:                                      |                                |           |                              |           |
| Demand                                                     | 123                            | 99        | 234                          | 194       |
| Savings and money market                                   | 269                            | 225       | 532                          | 448       |
| Time                                                       | 957                            | 549       | 1,855                        | 1,097     |
| Interest on short-term borrowings                          | 177                            | 79        | 227                          | 122       |
| Interest on long-term debt                                 | 735                            | 650       | 1,451                        | 1,287     |
| Total interest expense                                     | 2,261                          | 1,602     | 4,299                        | 3,148     |
| Net interest income                                        | 39,609                         | 37,294    | 78,820                       | 73,529    |
| Provision (credit) for loan and lease losses               | (1,382 )                       | (7,319 )  | (2,129 )                     | (10,066 ) |
| Net interest income after credit for loan and lease losses | 40,991                         | 44,613    | 80,949                       | 83,595    |
| Other operating income:                                    |                                |           |                              |           |
| Service charges on deposit accounts                        | 1,908                          | 1,915     | 3,872                        | 3,883     |
| Loan servicing fees                                        | 1,362                          | 1,427     | 2,724                        | 2,850     |
| Other service charges and fees                             | 3,028                          | 2,781     | 5,795                        | 5,886     |
| Income from fiduciary activities                           | 857                            | 830       | 1,697                        | 1,664     |
| Equity in earnings of unconsolidated subsidiaries          | 184                            | 229       | 274                          | 325       |
| Fees on foreign exchange                                   | 126                            | 98        | 274                          | 226       |
| Investment securities gains (losses)                       | —                              | (1,866 )  | —                            | (1,866 )  |
| Income from bank-owned life insurance                      | 1,232                          | 461       | 1,857                        | 1,135     |
| Loan placement fees                                        | 133                            | 225       | 179                          | 372       |
| Net gain on sales of residential loans                     | 1,845                          | 1,630     | 3,311                        | 3,224     |
| Net gain on sales of foreclosed assets                     | 241                            | 94        | 549                          | 127       |
| Other                                                      | 776                            | 300       | 1,325                        | 1,488     |
| Total other operating income                               | 11,692                         | 8,124     | 21,857                       | 19,314    |
| Other operating expense:                                   |                                |           |                              |           |
| Salaries and employee benefits                             | 17,850                         | 15,176    | 34,787                       | 32,341    |
| Net occupancy                                              | 3,557                          | 3,403     | 6,871                        | 6,904     |
| Equipment                                                  | 769                            | 933       | 1,580                        | 1,842     |
| Amortization of other intangible assets                    | 2,423                          | 1,559     | 4,601                        | 3,664     |
| Communication expense                                      | 919                            | 942       | 1,878                        | 1,766     |
| Legal and professional services                            | 1,723                          | 1,642     | 3,336                        | 3,861     |
| Computer software expense                                  | 2,222                          | 2,382     | 4,926                        | 4,478     |
| Advertising expense                                        | 433                            | 449       | 1,067                        | 1,084     |
| Foreclosed asset expense                                   | 49                             | 257       | 64                           | 329       |

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|                                   |            |            |            |            |
|-----------------------------------|------------|------------|------------|------------|
| Other                             | 4,270      | 5,715      | 7,980      | 10,207     |
| Total other operating expense     | 34,215     | 32,458     | 67,090     | 66,476     |
| Income before income taxes        | 18,468     | 20,279     | 35,716     | 36,433     |
| Income tax expense                | 6,331      | 7,944      | 12,398     | 13,703     |
| Net income                        | \$ 12,137  | \$ 12,335  | \$ 23,318  | \$ 22,730  |
| Per common share data:            |            |            |            |            |
| Basic earnings per common share   | \$0.39     | \$ 0.39    | \$0.75     | \$ 0.69    |
| Diluted earnings per common share | 0.39       | 0.39       | 0.74       | 0.68       |
| Cash dividends declared           | 0.14       | 0.12       | 0.28       | 0.24       |
| Shares used in computation:       |            |            |            |            |
| Basic shares                      | 31,060,593 | 31,525,075 | 31,162,013 | 33,166,987 |
| Diluted shares                    | 31,262,523 | 31,953,022 | 31,359,568 | 33,588,233 |

See accompanying notes to consolidated financial statements.

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

|                                                               | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------------------------------------------------------|-----------------------------------|-----------|------------------------------|-----------|
| (dollars in thousands)                                        | 2016                              | 2015      | 2016                         | 2015      |
| Net income                                                    | \$ 12,137                         | \$ 12,335 | \$ 23,318                    | \$ 22,730 |
| Other comprehensive income (loss), net of tax:                |                                   |           |                              |           |
| Net change in unrealized gain (loss) on investment securities | 5,866                             | (11,370 ) | 17,719                       | (4,461 )  |
| Minimum pension liability adjustment                          | 249                               | 256       | 499                          | 516       |
| Total other comprehensive income (loss), net of tax           | 6,115                             | (11,114 ) | 18,218                       | (3,945 )  |
| Comprehensive income                                          | \$ 18,252                         | \$ 1,221  | \$ 41,536                    | \$ 18,785 |

See accompanying notes to consolidated financial statements.

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

|                                                                                | Common<br>Shares<br>Outstanding | Preferred<br>Stock | Common<br>Stock | Surplus  | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>Controlling<br>Interest | Total     |
|--------------------------------------------------------------------------------|---------------------------------|--------------------|-----------------|----------|------------------------|--------------------------------------------------------|---------------------------------|-----------|
| (Dollars in thousands, except per share data)                                  |                                 |                    |                 |          |                        |                                                        |                                 |           |
| Balance at December 31, 2015                                                   | 31,361,452                      | \$ —               | —\$548,878      | \$82,847 | \$(137,314 )           | \$ 203                                                 | \$ 25                           | \$494,639 |
| Net income                                                                     | —                               | —                  | —               | —        | 23,318                 | —                                                      | —                               | 23,318    |
| Other comprehensive income                                                     | —                               | —                  | —               | —        | —                      | 18,218                                                 | —                               | 18,218    |
| Cash dividends (\$0.28 per share)                                              | —                               | —                  | —               | —        | (8,734 )               | —                                                      | —                               | (8,734 )  |
| 5,000 net shares of common stock sold by directors' deferred compensation plan | —                               | —                  | (99 )           | —        | —                      | —                                                      | —                               | (99 )     |
| 492,922 shares of common stock repurchased and other related costs             | (492,922 )                      | —                  | (10,544 )       | —        | —                      | —                                                      | —                               | (10,544 ) |
| Share-based compensation                                                       | 168,365                         | —                  | 199             | 635      | —                      | —                                                      | —                               | 834       |
| Non-controlling interest                                                       | —                               | —                  | —               | —        | —                      | —                                                      | (16 )                           | (16 )     |
| Balance at June 30, 2016                                                       | 31,036,895                      | \$ —               | —\$538,434      | \$83,482 | \$(122,730 )           | \$ 18,421                                              | \$ 9                            | \$517,616 |
| Balance at December 31, 2014                                                   | 35,233,674                      | \$ —               | —\$642,205      | \$79,716 | \$(157,039 )           | \$ 3,159                                               | \$ —                            | \$568,041 |
| Net income                                                                     | —                               | —                  | —               | —        | 22,730                 | —                                                      | —                               | 22,730    |
| Other comprehensive income                                                     | —                               | —                  | —               | —        | —                      | (3,945 )                                               | —                               | (3,945 )  |
| Cash dividends (\$0.24 per share)                                              | —                               | —                  | —               | —        | (7,958 )               | —                                                      | —                               | (7,958 )  |
| 8,159 net shares of common stock sold by directors' deferred compensation plan | —                               | —                  | (154 )          | —        | —                      | —                                                      | —                               | (154 )    |
| 3,950,781 shares of common stock repurchased and other related costs           | (3,950,781 )                    | —                  | (89,524 )       | —        | —                      | —                                                      | —                               | (89,524 ) |
| Share-based compensation                                                       | 218,740                         | —                  | —               | (343 )   | —                      | —                                                      | —                               | (343 )    |
| Non-controlling interest                                                       | —                               | —                  | —               | —        | —                      | —                                                      | —                               | —         |
| Balance at June 30, 2015                                                       | 31,501,633                      | \$ —               | —\$552,527      | \$79,373 | \$(142,267 )           | \$ (786 )                                              | \$ —                            | \$488,847 |

See accompanying notes to consolidated financial statements.

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

|                                                                                   | Six Months Ended<br>June 30, |            |
|-----------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                   | 2016                         | 2015       |
|                                                                                   | (Dollars in thousands)       |            |
| Cash flows from operating activities:                                             |                              |            |
| Net income                                                                        | \$ 23,318                    | \$ 22,730  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |            |
| Provision (credit) for loan and lease losses                                      | (2,129 )                     | (10,066 )  |
| Depreciation and amortization                                                     | 2,974                        | 2,954      |
| Write down of other real estate, net of gain on sale                              | (222 )                       | 140        |
| Amortization of other intangible assets                                           | 4,601                        | 3,664      |
| Net amortization of investment securities                                         | 5,801                        | 4,584      |
| Share-based compensation                                                          | 635                          | (343 )     |
| Net loss on investment securities                                                 | —                            | 1,866      |
| Net gain on sales of residential loans                                            | (3,311 )                     | (3,224 )   |
| Proceeds from sales of loans held for sale                                        | 193,848                      | 201,059    |
| Originations of loans held for sale                                               | (186,349 )                   | (211,071 ) |
| Equity in earnings of unconsolidated subsidiaries                                 | (274 )                       | (325 )     |
| Increase in cash surrender value of bank-owned life insurance                     | (1,994 )                     | (1,455 )   |
| Deferred income taxes                                                             | 12,398                       | 12,853     |
| Net change in other assets and liabilities                                        | 1,373                        | 4,206      |
| Net cash provided by operating activities                                         | 50,669                       | 27,572     |
| Cash flows from investing activities:                                             |                              |            |
| Proceeds from maturities of and calls on investment securities available for sale | 81,894                       | 81,536     |
| Proceeds from sales of investment securities available for sale                   | —                            | 117,496    |
| Purchases of investment securities available for sale                             | (46,215 )                    | (257,793 ) |
| Proceeds from maturities of and calls on investment securities held to maturity   | 13,289                       | 12,159     |
| Purchases of investment securities held to maturity                               | —                            | (37,043 )  |
| Net loan originations                                                             | (115,771 )                   | (54,491 )  |
| Purchases of loan portfolios                                                      | (77,702 )                    | (28,109 )  |
| Proceeds from sales of loans originated for investment                            | —                            | 6,658      |
| Proceeds from sale of other real estate                                           | 1,789                        | 2,567      |
| Proceeds from bank-owned life insurance                                           | 1,283                        | 723        |
| Purchases of premises and equipment                                               | (2,183 )                     | (1,421 )   |
| Net return of capital from unconsolidated subsidiaries                            | 412                          | 286        |
| Contributions to unconsolidated subsidiaries                                      | (5 )                         | —          |
| Net (purchases) proceeds from redemption of FHLB stock                            | (6,612 )                     | 31,803     |
| Net cash used in investing activities                                             | (149,821 )                   | (125,629 ) |
| Cash flows from financing activities:                                             |                              |            |
| Net (decrease) increase in deposits                                               | (28,297 )                    | 72,022     |
| Net increase in short-term borrowings                                             | 157,000                      | 119,000    |
| Cash dividends paid on common stock                                               | (8,734 )                     | (7,958 )   |
| Repurchases of common stock and other related costs                               | (10,544 )                    | (89,524 )  |
| Net proceeds from issuance of common stock and stock option exercises             | 199                          | —          |
| Net cash provided by financing activities                                         | 109,624                      | 93,540     |
| Net increase (decrease) in cash and cash equivalents                              | 10,472                       | (4,517 )   |
| Cash and cash equivalents at beginning of period                                  | 80,194                       | 86,007     |

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|                                                                          |           |           |
|--------------------------------------------------------------------------|-----------|-----------|
| Cash and cash equivalents at end of period                               | \$ 90,666 | \$ 81,490 |
| Supplemental disclosure of cash flow information:                        |           |           |
| Cash paid during the period for:                                         |           |           |
| Interest                                                                 | \$ 3,986  | \$ 3,239  |
| Income taxes                                                             | —         | 880       |
| Cash received during the period for:                                     |           |           |
| Income taxes                                                             | 1,605     | —         |
| Supplemental disclosure of non-cash investing and financing activities:  |           |           |
| Net change in common stock held by directors' deferred compensation plan | 99        | 154       |
| Net reclassification of loans to other real estate                       | 637       | 5,037     |
| Net transfer of loans to loans held for sale                             | —         | 6,648     |
| See accompanying notes to consolidated financial statements.             |           |           |

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

These interim condensed consolidated financial statements and notes should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2015. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

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 meets the consolidation requirements under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, “Consolidation.” The bank concluded that the entity meets the definition of a variable interest entity and that we are the primary beneficiary of the variable interest entity. Accordingly, the investment has been consolidated into our financial statements as of June 30, 2016.

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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the FASB issued ASU 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As of June 30, 2016, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, the adoption of ASU 2014-12 on January 1, 2016 did not have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis.” ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments: 1) modify the evaluation of whether limited partnerships and similar legal

entities are variable interest entities (“VIEs”) or voting interest entities; 2) eliminate the presumption that a general partner should consolidate a limited partnership; 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; 4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. All legal entities are subject to reevaluation under the revised consolidation model. The adoption of ASU 2015-02 on January 1, 2016 did not have a material impact on our consolidated financial statements.

## 3. INVESTMENT SECURITIES

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

| (dollars in thousands)                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|--------------------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| June 30, 2016                                    |                   |                              |                               |                            |
| Held-to-Maturity:                                |                   |                              |                               |                            |
| Mortgage-backed securities:                      |                   |                              |                               |                            |
| Residential - U.S. Government-sponsored entities | \$ 139,626        | \$ 835                       | \$ —                          | \$ 140,461                 |
| Commercial - U.S. Government-sponsored entities  | 94,604            | 3,001                        | —                             | 97,605                     |
| Total                                            | \$ 234,230        | \$ 3,836                     | \$ —                          | \$ 238,066                 |
| Available-for-Sale:                              |                   |                              |                               |                            |
| Debt securities:                                 |                   |                              |                               |                            |
| States and political subdivisions                | \$ 186,202        | \$ 7,680                     | \$ (19 )                      | \$ 193,863                 |
| Corporate securities                             | 106,907           | 3,017                        | —                             | 109,924                    |
| Mortgage-backed securities:                      |                   |                              |                               |                            |
| Residential - U.S. Government-sponsored entities | 738,692           | 12,222                       | (251 )                        | 750,663                    |
| Residential - Non-government agencies            | 58,734            | 2,736                        | —                             | 61,470                     |
| Commercial - Non-government agencies             | 135,344           | 8,589                        | —                             | 143,933                    |
| Other                                            | 660               | 80                           | —                             | 740                        |
| Total                                            | \$ 1,226,539      | \$ 34,324                    | \$ (270 )                     | \$ 1,260,593               |
| (dollars in thousands)                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| December 31, 2015                                |                   |                              |                               |                            |
| Held-to-Maturity:                                |                   |                              |                               |                            |
| Mortgage-backed securities:                      |                   |                              |                               |                            |
| Residential - U.S. Government-sponsored entities | \$ 152,315        | \$ 123                       | \$ (2,915 )                   | \$ 149,523                 |
| Commercial - U.S. Government-sponsored entities  | 95,602            | —                            | (989 )                        | 94,613                     |
| Total                                            | \$ 247,917        | \$ 123                       | \$ (3,904 )                   | \$ 244,136                 |
| Available-for-Sale:                              |                   |                              |                               |                            |
| Debt securities:                                 |                   |                              |                               |                            |
| States and political subdivisions                | \$ 187,552        | \$ 3,819                     | \$ (898 )                     | \$ 190,473                 |
| Corporate securities                             | 107,721           | 1,077                        | (227 )                        | 108,571                    |
| Mortgage-backed securities:                      |                   |                              |                               |                            |
| Residential - U.S. Government-sponsored entities | 771,657           | 5,885                        | (5,633 )                      | 771,909                    |
| Residential - Non-government agencies            | 64,286            | 733                          | (987 )                        | 64,032                     |
| Commercial - Non-government agencies             | 135,439           | 2,033                        | (1,118 )                      | 136,354                    |
| Other                                            | 848               | 68                           | —                             | 916                        |
| Total                                            | \$ 1,267,503      | \$ 13,615                    | \$ (8,863 )                   | \$ 1,272,255               |

The amortized cost and estimated fair value of investment securities at June 30, 2016 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (dollars in thousands)                           | June 30, 2016  |                      |
|--------------------------------------------------|----------------|----------------------|
|                                                  | Amortized Cost | Estimated Fair Value |
| Held-to-Maturity:                                |                |                      |
| Mortgage-backed securities:                      |                |                      |
| Residential - U.S. Government-sponsored entities | \$ 139,626     | \$ 140,461           |
| Commercial - U.S. Government-sponsored entities  | 94,604         | 97,605               |
| Total                                            | \$ 234,230     | \$ 238,066           |
| Available-for-Sale:                              |                |                      |
| Due in one year or less                          | \$ 18,708      | \$ 18,803            |
| Due after one year through five years            | 107,229        | 110,523              |
| Due after five years through ten years           | 79,695         | 83,380               |
| Due after ten years                              | 87,477         | 91,081               |
| Mortgage-backed securities:                      |                |                      |
| Residential - U.S. Government-sponsored entities | 738,692        | 750,663              |
| Residential - Non-government agencies            | 58,734         | 61,470               |
| Commercial - Non-government agencies             | 135,344        | 143,933              |
| Other                                            | 660            | 740                  |
| Total                                            | \$ 1,226,539   | \$ 1,260,593         |

We did not sell any available-for-sale securities during the first and second quarters of 2016.

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

Investment securities of \$1.04 billion and \$1.00 billion at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public funds on deposit and other long-term debt and short-term borrowings.

Provided below is a summary of the 13 and 155 investment securities which were in an unrealized loss position at June 30, 2016 and December 31, 2015, respectively, segregated by continuous length of impairment.

| (dollars in thousands)                           | Less Than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|--------------------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                                  | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| June 30, 2016                                    |                     |                   |                     |                   |            |                   |
| Debt securities:                                 |                     |                   |                     |                   |            |                   |
| States and political subdivisions                | \$ 3,263            | \$ (19 )          | \$ —                | \$ —              | \$ 3,263   | \$ (19 )          |
| Corporate securities                             | 5,000               | —                 | —                   | —                 | 5,000      | —                 |
| Mortgage-backed securities:                      |                     |                   |                     |                   |            |                   |
| Residential - U.S. Government-sponsored entities | 21,250              | (83 )             | 69,502              | (168 )            | 90,752     | (251 )            |

|                                       |           |           |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total temporarily impaired securities | \$ 29,513 | \$ (102 ) | \$ 69,502 | \$ (168 ) | \$ 99,015 | \$ (270 ) |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|

| (dollars in thousands)                           | Less Than 12 Months<br>Fair<br>Value | Unrealized<br>Losses | 12 Months or Longer<br>Fair<br>Value | Unrealized<br>Losses | Total<br>Fair<br>Value | Unrealized<br>Losses |
|--------------------------------------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|------------------------|----------------------|
| December 31, 2015                                |                                      |                      |                                      |                      |                        |                      |
| Debt securities:                                 |                                      |                      |                                      |                      |                        |                      |
| States and political subdivisions                | \$ 30,481                            | \$ (532 )            | \$ 12,576                            | \$ (366 )            | \$ 43,057              | \$ (898 )            |
| Corporate securities                             | 32,977                               | (227 )               | —                                    | —                    | 32,977                 | (227 )               |
| Mortgage-backed securities:                      |                                      |                      |                                      |                      |                        |                      |
| Residential - U.S. Government-sponsored entities | 507,525                              | (6,241 )             | 88,271                               | (2,307 )             | 595,796                | (8,548 )             |
| Residential - Non-government agencies            | 37,975                               | (987 )               | —                                    | —                    | 37,975                 | (987 )               |
| Commercial - U.S. Government-sponsored entities  | 94,613                               | (989 )               | —                                    | —                    | 94,613                 | (989 )               |
| Commercial - Non-government agencies             | 62,555                               | (961 )               | 4,644                                | (157 )               | 67,199                 | (1,118 )             |
| Total temporarily impaired securities            | \$ 766,126                           | \$ (9,937 )          | \$ 105,491                           | \$ (2,830 )          | \$ 871,617             | \$ (12,767 )         |

#### Other-Than-Temporary Impairment (“OTTI”)

Unrealized losses for all investment securities are reviewed to determine whether the losses are deemed “other-than-temporary.” Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, we evaluate a number of factors including, but not limited to:

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

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

Because we have no intent to sell securities in an unrealized loss position and it is not more likely than not that we will be required to sell such securities before recovery of its amortized cost basis, we do not consider our investments to be other-than-temporarily impaired.

## 4. LOANS AND LEASES

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

| (dollars in thousands)                        | June 30,<br>2016 | December<br>31,<br>2015 |
|-----------------------------------------------|------------------|-------------------------|
| Commercial, financial and agricultural        | \$503,580        | \$520,457               |
| Real estate:                                  |                  |                         |
| Construction                                  | 98,687           | 85,196                  |
| Mortgage - residential                        | 1,499,156        | 1,433,862               |
| Mortgage - commercial                         | 843,601          | 761,566                 |
| Consumer                                      | 456,669          | 408,024                 |
| Leases                                        | 843              | 1,028                   |
| Gross loans and leases                        | 3,402,536        | 3,210,133               |
| Net deferred costs                            | 1,411            | 1,399                   |
| Total loans and leases, net of deferred costs | \$3,403,947      | \$3,211,532             |

During the six months ended June 30, 2016, we transferred the collateral in one portfolio loan with a carrying value of \$0.6 million to other real estate owned. We did not transfer any loans to the held-for-sale category. In addition, we did not sell any portfolio loans.

In March 2016, we purchased a direct auto loan portfolio totaling \$23.2 million which included a \$0.3 million premium over the \$22.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 56 months and a weighted average yield of 3.38%. During the first quarter of 2016, we also purchased unsecured consumer loans totaling \$29.2 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 and a weighted average interest rate of 7.55%.

In May 2016, we purchased a direct auto loan portfolio totaling \$18.0 million which included a \$0.5 million premium over the \$17.5 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 75 months and a weighted average yield of 3.75%. During the second quarter of 2016, we also purchased unsecured consumer loans totaling \$7.3 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 37 months and a weighted average interest rate of 7.57%.

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

## Impaired Loans

The following tables present by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company's impairment measurement method as of June 30, 2016 and December 31, 2015:

|                                                        | Real Estate                                             |                        |                       |            |            |             |          |              |
|--------------------------------------------------------|---------------------------------------------------------|------------------------|-----------------------|------------|------------|-------------|----------|--------------|
| (dollars in thousands)                                 | Commercial,<br>Financial & Construction<br>Agricultural | Mortgage - Residential | Mortgage - Commercial | Consumer   | Leases     | Unallocated | Total    |              |
| June 30, 2016                                          |                                                         |                        |                       |            |            |             |          |              |
| Allowance for loan and lease losses:                   |                                                         |                        |                       |            |            |             |          |              |
| Ending balance attributable to loans:                  |                                                         |                        |                       |            |            |             |          |              |
| Individually evaluated for impairment                  | \$ —                                                    | \$ —                   | \$ —                  | \$ 39      | \$ —       | \$ —        | \$ —     | \$ 39        |
| Collectively evaluated for impairment                  | 4,442                                                   | 3,823                  | 17,638                | 27,409     | 5,413      | —           | —        | 58,725       |
| Subtotal                                               | 4,442                                                   | 3,823                  | 17,638                | 27,448     | 5,413      | —           | —        | 58,764       |
| Unallocated                                            | —                                                       | —                      | —                     | —          | —          | 2,000       | 2,000    |              |
| Total ending balance                                   | \$ 4,442                                                | \$ 3,823               | \$ 17,638             | \$ 27,448  | \$ 5,413   | \$ —        | \$ 2,000 | \$ 60,764    |
| Loans and leases:                                      |                                                         |                        |                       |            |            |             |          |              |
| Individually evaluated for impairment                  | \$ 2,132                                                | \$ 3,876               | \$ 24,745             | \$ 8,172   | \$ —       | \$ —        | \$ —     | \$ 38,925    |
| Collectively evaluated for impairment                  | 501,448                                                 | 94,811                 | 1,474,411             | 835,429    | 456,669    | 843         | —        | 3,363,611    |
| Subtotal                                               | 503,580                                                 | 98,687                 | 1,499,156             | 843,601    | 456,669    | 843         | —        | 3,402,536    |
| Net deferred costs (income)                            | 487                                                     | (259)                  | 2,619                 | (1,017)    | (419)      | —           | —        | 1,411        |
| Total loans and leases, net of deferred costs (income) | \$ 504,067                                              | \$ 98,428              | \$ 1,501,775          | \$ 842,584 | \$ 456,250 | \$ 843      | \$ —     | \$ 3,403,947 |

|                                       | Real Estate                                             |                        |                       |          |        |             |       |  |
|---------------------------------------|---------------------------------------------------------|------------------------|-----------------------|----------|--------|-------------|-------|--|
| (dollars in thousands)                | Commercial,<br>Financial & Construction<br>Agricultural | Mortgage - Residential | Mortgage - Commercial | Consumer | Leases | Unallocated | Total |  |
| December 31, 2015                     |                                                         |                        |                       |          |        |             |       |  |
| Allowance for loan and lease losses:  |                                                         |                        |                       |          |        |             |       |  |
| Ending balance attributable to loans: |                                                         |                        |                       |          |        |             |       |  |

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|                                                        |            |           |              |            |            |          |          |             |
|--------------------------------------------------------|------------|-----------|--------------|------------|------------|----------|----------|-------------|
| Individually evaluated for impairment                  | \$—        | \$—       | \$ —         | \$ 51      | \$—        | \$—      | \$ —     | \$51        |
| Collectively evaluated for impairment                  | 6,905      | 8,454     | 17,738       | 21,796     | 6,230      | —        | —        | 61,123      |
| Subtotal                                               | 6,905      | 8,454     | 17,738       | 21,847     | 6,230      | —        | —        | 61,174      |
| Unallocated                                            | —          | —         | —            | —          | —          | —        | 2,140    | 2,140       |
| Total ending balance                                   | \$ 6,905   | \$ 8,454  | \$ 17,738    | \$ 21,847  | \$ 6,230   | \$—      | \$ 2,140 | \$63,314    |
| Loans and leases:                                      |            |           |              |            |            |          |          |             |
| Individually evaluated for impairment                  | \$ 1,044   | \$ 4,126  | \$ 22,716    | \$ 10,318  | \$—        | \$—      | \$ —     | \$38,204    |
| Collectively evaluated for impairment                  | 519,413    | 81,070    | 1,411,146    | 751,248    | 408,024    | 1,028    | —        | 3,171,929   |
| Subtotal                                               | 520,457    | 85,196    | 1,433,862    | 761,566    | 408,024    | 1,028    | —        | 3,210,133   |
| Net deferred costs (income)                            | 629        | (311 )    | 2,443        | (817 )     | (545 )     | —        | —        | 1,399       |
| Total loans and leases, net of deferred costs (income) | \$ 521,086 | \$ 84,885 | \$ 1,436,305 | \$ 760,749 | \$ 407,479 | \$ 1,028 | \$ —     | \$3,211,532 |

The following tables present by class, information related to impaired loans as of June 30, 2016 and December 31, 2015:

| (dollars in thousands)                                  | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>Allocated |
|---------------------------------------------------------|--------------------------------|------------------------|------------------------|
| June 30, 2016                                           |                                |                        |                        |
| Impaired loans with no related allowance recorded:      |                                |                        |                        |
| Commercial, financial & agricultural                    | \$ 2,242                       | \$ 2,132               | \$ —                   |
| Real estate:                                            |                                |                        |                        |
| Construction                                            | 10,222                         | 3,876                  | —                      |
| Mortgage - residential                                  | 26,624                         | 24,745                 | —                      |
| Mortgage - commercial                                   | 7,985                          | 7,127                  | —                      |
| Total impaired loans with no related allowance recorded | 47,073                         | 37,880                 | —                      |
| Impaired loans with an allowance recorded:              |                                |                        |                        |
| Real estate:                                            |                                |                        |                        |
| Mortgage - commercial                                   | 1,045                          | 1,045                  | 39                     |
| Total impaired loans with an allowance recorded         | 1,045                          | 1,045                  | 39                     |
| Total                                                   | \$ 48,118                      | \$ 38,925              | \$ 39                  |

| (dollars in thousands)                                  | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>Allocated |
|---------------------------------------------------------|--------------------------------|------------------------|------------------------|
| December 31, 2015                                       |                                |                        |                        |
| Impaired loans with no related allowance recorded:      |                                |                        |                        |
| Commercial, financial & agricultural                    | \$ 1,155                       | \$ 1,044               | \$ —                   |
| Real estate:                                            |                                |                        |                        |
| Construction                                            | 10,472                         | 4,126                  | —                      |
| Mortgage - residential                                  | 24,792                         | 22,716                 | —                      |
| Mortgage - commercial                                   | 10,010                         | 9,152                  | —                      |
| Total impaired loans with no related allowance recorded | 46,429                         | 37,038                 | —                      |
| Impaired loans with an allowance recorded:              |                                |                        |                        |
| Real estate:                                            |                                |                        |                        |
| Mortgage - commercial                                   | 1,166                          | 1,166                  | 51                     |
| Total impaired loans with an allowance recorded         | 1,166                          | 1,166                  | 51                     |
| Total                                                   | \$47,595                       | \$ 38,204              | \$ 51                  |

The following table presents by class, the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2016 and 2015:

| (dollars in thousands)               | Three Months Ended |            |               |            | Six Months Ended |            |               |            |
|--------------------------------------|--------------------|------------|---------------|------------|------------------|------------|---------------|------------|
|                                      | June 30, 2016      |            | June 30, 2015 |            | June 30, 2016    |            | June 30, 2015 |            |
|                                      | Average            | Interest   | Average       | Interest   | Average          | Interest   | Average       | Interest   |
|                                      | Recorded           | Income     | Recorded      | Income     | Recorded         | Income     | Recorded      | Income     |
|                                      | Investment         | Recognized | Investment    | Recognized | Investment       | Recognized | Investment    | Recognized |
| Commercial, financial & agricultural | \$2,176            | \$ 10      | \$6,911       | \$ 5       | \$1,799          | \$ 10      | \$10,278      | \$ 10      |
| Real estate:                         |                    |            |               |            |                  |            |               |            |
| Construction                         | 3,917              | 34         | 4,518         | 26         | 3,982            | 70         | 4,608         | 112        |
| Mortgage - residential               | 23,441             | 9          | 27,312        | (7 )       | 22,874           | 7          | 28,134        | (6 )       |
| Mortgage - commercial                | 8,786              | 37         | 16,438        | 175        | 9,463            | 71         | 19,595        | 339        |
| Total                                | \$38,320           | \$ 90      | \$55,179      | \$ 199     | \$38,118         | \$ 158     | \$62,615      | \$ 455     |

#### Foreclosure Proceedings

The Company had \$1.5 million of residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at June 30, 2016.

## 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 June 30, 2016 and December 31, 2015:

| (dollars in thousands)               | Accruing<br>Loans<br>30 - 59<br>Days<br>Past Due | Accruing<br>Loans<br>60 - 89<br>Days<br>Past Due | Accruing<br>Loans<br>Greater Than<br>90 Days<br>Past Due | Nonaccrual<br>Loans | Total<br>Past Due<br>and<br>Nonaccrual | Loans and<br>Leases<br>Not<br>Past Due | Total        |
|--------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------------------------------------------|---------------------|----------------------------------------|----------------------------------------|--------------|
| June 30, 2016                        |                                                  |                                                  |                                                          |                     |                                        |                                        |              |
| Commercial, financial & agricultural | \$ 678                                           | \$ 162                                           | \$ —                                                     | \$ 2,132            | \$ 2,972                               | \$ 501,095                             | \$ 504,067   |
| Real estate:                         |                                                  |                                                  |                                                          |                     |                                        |                                        |              |
| Construction                         | —                                                | —                                                | —                                                        | —                   | —                                      | 98,428                                 | 98,428       |
| Mortgage - residential               | 448                                              | 570                                              | 135                                                      | 8,670               | 9,823                                  | 1,491,952                              | 1,501,775    |
| Mortgage - commercial                | —                                                | —                                                | —                                                        | 3,073               | 3,073                                  | 839,511                                | 842,584      |
| Consumer                             | 1,344                                            | 593                                              | 134                                                      | —                   | 2,071                                  | 454,179                                | 456,250      |
| Leases                               | —                                                | —                                                | —                                                        | —                   | —                                      | 843                                    | 843          |
| Total                                | \$ 2,470                                         | \$ 1,325                                         | \$ 269                                                   | \$ 13,875           | \$ 17,939                              | \$ 3,386,008                           | \$ 3,403,947 |

| (dollars in thousands)               | Accruing<br>Loans<br>30 - 59<br>Days<br>Past Due | Accruing<br>Loans<br>60 - 89<br>Days<br>Past Due | Accruing<br>Loans<br>Greater Than<br>90 Days<br>Past Due | Nonaccrual<br>Loans | Total<br>Past Due<br>and<br>Nonaccrual | Loans and<br>Leases<br>Not<br>Past Due | Total        |
|--------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------------------------------------------|---------------------|----------------------------------------|----------------------------------------|--------------|
| December 31, 2015                    |                                                  |                                                  |                                                          |                     |                                        |                                        |              |
| Commercial, financial & agricultural | \$ 276                                           | \$ 140                                           | \$ —                                                     | \$ 1,044            | \$ 1,460                               | \$ 519,626                             | \$ 521,086   |
| Real estate:                         |                                                  |                                                  |                                                          |                     |                                        |                                        |              |
| Construction                         | —                                                | —                                                | —                                                        | —                   | —                                      | 84,885                                 | 84,885       |
| Mortgage - residential               | 3,834                                            | 545                                              | —                                                        | 6,130               | 10,509                                 | 1,425,796                              | 1,436,305    |
| Mortgage - commercial                | 54                                               | —                                                | —                                                        | 7,094               | 7,148                                  | 753,601                                | 760,749      |
| Consumer                             | 1,443                                            | 521                                              | 273                                                      | —                   | 2,237                                  | 405,242                                | 407,479      |
| Leases                               | —                                                | —                                                | —                                                        | —                   | —                                      | 1,028                                  | 1,028        |
| Total                                | \$ 5,607                                         | \$ 1,206                                         | \$ 273                                                   | \$ 14,268           | \$ 21,354                              | \$ 3,190,178                           | \$ 3,211,532 |

## Modifications

Troubled debt restructurings (“TDRs”) included in nonperforming assets at June 30, 2016 totaled \$4.3 million and consisted of 21 Hawaii residential mortgage loans with a combined principal balance of \$3.4 million and three Hawaii commercial, financial and agricultural loans with a combined principal balance of \$0.9 million.

Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were \$19.5 million of TDRs still accruing interest at June 30, 2016, none of which were more than 90 days delinquent. At December 31, 2015, there were \$20.3 million of TDRs still accruing interest, none

of which were more than 90 days delinquent.

Some loans modified in a TDR may already be on nonaccrual status and partial charge-offs may have already been taken against the outstanding loan balance. Thus, these loans have already been identified as impaired and have already been evaluated under the Company's allowance for loan and lease losses (the "Allowance") methodology. Loans that were not on nonaccrual status when modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan. The loans modified in a TDR did not have a material effect on our provision for loan and lease losses (the "Provision") and the Allowance during the three and six months ended June 30, 2016.

The following table presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2015. No loans were modified in a TDR during the three and six months ended June 30, 2016.

| (dollars in thousands)               | Number<br>of<br>Contracts | Recorded<br>Investment<br>(as of Period End) | Increase<br>in the<br>Allowance |
|--------------------------------------|---------------------------|----------------------------------------------|---------------------------------|
| Three Months Ended June 30, 2015     |                           |                                              |                                 |
| Commercial, financial & agricultural | 1                         | \$ 535                                       | \$ —                            |
| Six Months Ended June 30, 2015       |                           |                                              |                                 |
| Commercial, financial & agricultural | 1                         | \$ 535                                       | \$ —                            |
| Real estate: Mortgage - commercial   | 1                         | 964                                          | —                               |
| Total                                | 2                         | \$ 1,499                                     | \$ —                            |

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2016 and 2015.

#### 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 estimated 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. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of June 30, 2016 and December 31, 2015:

| (dollars in thousands)               | Pass        | Special<br>Mention | Substandard | Loss  | Subtotal    | Net<br>Deferred<br>Costs<br>(Income) | Total       |
|--------------------------------------|-------------|--------------------|-------------|-------|-------------|--------------------------------------|-------------|
| June 30, 2016                        |             |                    |             |       |             |                                      |             |
| Commercial, financial & agricultural | \$498,041   | \$3,121            | \$ 2,418    | \$ —  | \$503,580   | \$ 487                               | \$504,067   |
| Real estate:                         |             |                    |             |       |             |                                      |             |
| Construction                         | 89,676      | 8,218              | 793         | —     | 98,687      | (259 )                               | 98,428      |
| Mortgage - residential               | 1,490,237   | 114                | 8,805       | —     | 1,499,156   | 2,619                                | 1,501,775   |
| Mortgage - commercial                | 785,582     | 42,500             | 15,519      | —     | 843,601     | (1,017 )                             | 842,584     |
| Consumer                             | 456,498     | —                  | 95          | 76    | 456,669     | (419 )                               | 456,250     |
| Leases                               | 843         | —                  | —           | —     | 843         | —                                    | 843         |
| Total                                | \$3,320,877 | \$53,953           | \$ 27,630   | \$ 76 | \$3,402,536 | \$ 1,411                             | \$3,403,947 |
| December 31, 2015                    |             |                    |             |       |             |                                      |             |
| Commercial, financial & agricultural | \$514,971   | \$2,168            | \$ 3,318    | \$ —  | \$520,457   | \$ 629                               | \$521,086   |
| Real estate:                         |             |                    |             |       |             |                                      |             |
| Construction                         | 83,601      | 808                | 787         | —     | 85,196      | (311 )                               | 84,885      |
| Mortgage - residential               | 1,427,732   | —                  | 6,130       | —     | 1,433,862   | 2,443                                | 1,436,305   |
| Mortgage - commercial                | 705,520     | 41,335             | 14,711      | —     | 761,566     | (817 )                               | 760,749     |
| Consumer                             | 407,778     | 95                 | 151         | —     | 408,024     | (545 )                               | 407,479     |
| Leases                               | 1,028       | —                  | —           | —     | 1,028       | —                                    | 1,028       |
| Total                                | \$3,140,630 | \$44,406           | \$ 25,097   | \$ —  | \$3,210,133 | \$ 1,399                             | \$3,211,532 |

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At June 30, 2016 and December 31, 2015, we did not have any loans that we considered to be subprime.

## 5. ALLOWANCE FOR LOAN AND LEASE LOSSES

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

|                                              | Real Estate                              |              |                           |                          |          |        |             |           |
|----------------------------------------------|------------------------------------------|--------------|---------------------------|--------------------------|----------|--------|-------------|-----------|
|                                              | Commercial,<br>Financial<br>Agricultural | Construction | Mortgage -<br>Residential | Mortgage -<br>Commercial | Consumer | Leases | Unallocated | Total     |
|                                              | (Dollars in thousands)                   |              |                           |                          |          |        |             |           |
| Three Months Ended June 30, 2016             |                                          |              |                           |                          |          |        |             |           |
| Beginning balance                            | \$7,000                                  | \$4,128      | \$18,005                  | \$25,173                 | \$5,843  | \$—    | \$2,000     | \$62,149  |
| Provision (credit) for loan and lease losses | (3,006 )                                 | (314 )       | (544 )                    | 2,261                    | 221      | —      | —           | (1,382 )  |
|                                              | 3,994                                    | 3,814        | 17,461                    | 27,434                   | 6,064    | —      | 2,000       | 60,767    |
| Charge-offs                                  | 272                                      | —            | —                         | —                        | 1,135    | —      | —           | 1,407     |
| Recoveries                                   | 720                                      | 9            | 177                       | 14                       | 484      | —      | —           | 1,404     |
| Net charge-offs (recoveries)                 | (448 )                                   | (9 )         | (177 )                    | (14 )                    | 651      | —      | —           | 3         |
| Ending balance                               | \$4,442                                  | \$3,823      | \$17,638                  | \$27,448                 | \$5,413  | \$—    | \$2,000     | \$60,764  |
| Three Months Ended June 30, 2015             |                                          |              |                           |                          |          |        |             |           |
| Beginning balance                            | \$8,791                                  | \$14,305     | \$17,057                  | \$20,161                 | \$7,119  | \$—    | \$4,000     | \$71,433  |
| Provision (credit) for loan and lease losses | (498 )                                   | (4,099 )     | 442                       | (3,715 )                 | 1,050    | 1      | (500 )      | (7,319 )  |
|                                              | 8,293                                    | 10,206       | 17,499                    | 16,446                   | 8,169    | 1      | 3,500       | 64,114    |
| Charge-offs                                  | 4,003                                    | —            | 50                        | —                        | 1,214    | —      | —           | 5,267     |
| Recoveries                                   | 3,279                                    | 464          | 397                       | 3,562                    | 375      | —      | —           | 8,077     |
| Net charge-offs (recoveries)                 | 724                                      | (464 )       | (347 )                    | (3,562 )                 | 839      | —      | —           | (2,810 )  |
| Ending balance                               | \$7,569                                  | \$10,670     | \$17,846                  | \$20,008                 | \$7,330  | \$1    | \$3,500     | \$66,924  |
| Real Estate                                  |                                          |              |                           |                          |          |        |             |           |
|                                              | Commercial,<br>Financial<br>Agricultural | Construction | Mortgage -<br>Residential | Mortgage -<br>Commercial | Consumer | Leases | Unallocated | Total     |
|                                              | (Dollars in thousands)                   |              |                           |                          |          |        |             |           |
| Six Months Ended June 30, 2016               |                                          |              |                           |                          |          |        |             |           |
| Beginning balance                            | \$6,905                                  | \$8,454      | \$17,738                  | \$21,847                 | \$6,230  | \$—    | \$2,140     | \$63,314  |
| Provision (credit) for loan and lease losses | (2,908 )                                 | (4,649 )     | (314 )                    | 5,574                    | 308      | —      | (140 )      | (2,129 )  |
|                                              | 3,997                                    | 3,805        | 17,424                    | 27,421                   | 6,538    | —      | 2,000       | 61,185    |
| Charge-offs                                  | 624                                      | —            | —                         | —                        | 2,247    | —      | —           | 2,871     |
| Recoveries                                   | 1,069                                    | 18           | 214                       | 27                       | 1,122    | —      | —           | 2,450     |
| Net charge-offs (recoveries)                 | (445 )                                   | (18 )        | (214 )                    | (27 )                    | 1,125    | —      | —           | 421       |
| Ending balance                               | \$4,442                                  | \$3,823      | \$17,638                  | \$27,448                 | \$5,413  | \$—    | \$2,000     | \$60,764  |
| Six Months Ended June 30, 2015               |                                          |              |                           |                          |          |        |             |           |
| Beginning balance                            | \$8,954                                  | \$14,969     | \$17,927                  | \$20,869                 | \$7,314  | \$7    | \$4,000     | \$74,040  |
| Provision (credit) for loan and lease losses | (324 )                                   | (4,886 )     | (1,902 )                  | (4,436 )                 | 1,988    | (6 )   | (500 )      | (10,066 ) |
|                                              | 8,630                                    | 10,083       | 16,025                    | 16,433                   | 9,302    | 1      | 3,500       | 63,974    |

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|                              |         |          |          |          |         |     |         |          |
|------------------------------|---------|----------|----------|----------|---------|-----|---------|----------|
| Charge-offs                  | 4,934   | —        | 64       | —        | 3,055   | —   | —       | 8,053    |
| Recoveries                   | 3,873   | 587      | 1,885    | 3,575    | 1,083   | —   | —       | 11,003   |
| Net charge-offs (recoveries) | 1,061   | (587 )   | (1,821 ) | (3,575 ) | 1,972   | —   | —       | (2,950 ) |
| Ending balance               | \$7,569 | \$10,670 | \$17,846 | \$20,008 | \$7,330 | \$1 | \$3,500 | \$66,924 |

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

Our Provision was a credit of \$1.4 million and \$2.1 million in the three and six months ended June 30, 2016, respectively, compared to a credit of \$7.3 million and \$10.1 million in the three and six months ended June 30, 2015, respectively.

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

## 6. SECURITIZATIONS

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

All unsold mortgage-backed securities from prior securitizations were categorized as available for sale securities and were therefore recorded at their fair values of \$2.6 million and \$2.7 million at June 30, 2016 and December 31, 2015, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of \$0.2 million and \$0.2 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income ("AOCI") at June 30, 2016 and December 31, 2015, respectively.

## 7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

|                                                           | June<br>30,<br>2016 | December<br>31,<br>2015 |
|-----------------------------------------------------------|---------------------|-------------------------|
| (dollars in thousands)                                    |                     |                         |
| Investments in low income housing tax credit partnerships | \$3,883             | \$ 2,699                |
| Trust preferred investments                               | 2,792               | 2,792                   |
| Investments in affiliates                                 | 475                 | 612                     |
| Other                                                     | 54                  | 54                      |
| Total                                                     | \$7,204             | \$ 6,157                |

The Company had \$1.7 million in unfunded low income housing commitments as of June 30, 2016. The entire amount is expected to be paid in 2018. The Company did not have any unfunded low income housing commitments as of December 31, 2015.

Investments in low income housing tax credit ("LIHTC") partnerships are accounted for using the cost method. The following table presents amortization and tax credits recognized associated with our investments in LIHTC partnerships for the three and six months ended June 30, 2016 and June 30, 2015:

|                                                  | Three<br>Months<br>Ended<br>June 30,<br>2016 | Three<br>Months<br>Ended<br>June 30,<br>2015 | Six<br>Months<br>Ended<br>June 30,<br>2016 | Six<br>Months<br>Ended<br>June 30,<br>2015 |
|--------------------------------------------------|----------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|
| (dollars in thousands)                           |                                              |                                              |                                            |                                            |
| Cost method:                                     |                                              |                                              |                                            |                                            |
| Amortization expense in other operating expenses | \$ 258                                       | \$ 274                                       | \$ 515                                     | \$ 562                                     |
| Tax credits recognized in income tax expense     | 337                                          | 312                                          | 674                                        | 640                                        |

## 8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the six months ended June 30, 2016:

| (dollars in thousands)       | Core<br>Deposit<br>Premium | Mortgage<br>Servicing<br>Rights | Total     |
|------------------------------|----------------------------|---------------------------------|-----------|
| Balance, beginning of period | \$ 7,355                   | \$ 17,797                       | \$ 25,152 |
| Additions                    | —                          | 1,245                           | 1,245     |
| Amortization                 | (1,337 )                   | (3,264 )                        | (4,601 )  |
| Balance, end of period       | \$ 6,018                   | \$ 15,778                       | \$ 21,796 |

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled \$0.7 million and \$1.2 million for the three and six months ended June 30, 2016, respectively, compared to \$0.6 million and \$1.2 million for the three and six months ended June 30, 2015. Amortization of mortgage servicing rights was \$1.8 million and \$3.3 million for the three and six months ended June 30, 2016, compared to \$0.9 million and \$2.3 million for the three and six months ended June 30, 2015.

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

|                                                | Six Months Ended<br>June 30, |   |          |   |
|------------------------------------------------|------------------------------|---|----------|---|
| (dollars in thousands)                         | 2016                         |   | 2015     |   |
| Fair market value, beginning of period         | \$18,345                     |   | \$19,975 |   |
| Fair market value, end of period               | 16,123                       |   | 19,202   |   |
| Weighted average discount rate                 | 9.5                          | % | 9.5      | % |
| Forecasted constant prepayment rate assumption | 16.5                         |   | 13.8     |   |

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

|                           | June 30, 2016              |                             |                          | December 31, 2015          |                             |                          |
|---------------------------|----------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
| (dollars in thousands)    | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net<br>Carrying<br>Value |
| Core deposit premium      | \$44,642                   | \$ (38,624 )                | \$ 6,018                 | \$44,642                   | \$ (37,287 )                | \$ 7,355                 |
| Mortgage servicing rights | 60,246                     | (44,468 )                   | 15,778                   | 59,001                     | (41,204 )                   | 17,797                   |
| Total                     | \$104,888                  | \$ (83,092 )                | \$ 21,796                | \$103,643                  | \$ (78,491 )                | \$ 25,152                |

Based on the core deposit premium and mortgage servicing rights held as of June 30, 2016, estimated amortization expense for the remainder of fiscal year 2016, the next five succeeding fiscal years and all years thereafter are as follows:

|                        | Estimated Amortization Expense |                                 |           |
|------------------------|--------------------------------|---------------------------------|-----------|
| (dollars in thousands) | Core<br>Deposit<br>Premium     | Mortgage<br>Servicing<br>Rights | Total     |
| 2016 (remainder)       | \$ 1,338                       | \$ 2,272                        | \$ 3,610  |
| 2017                   | 2,674                          | 3,816                           | 6,490     |
| 2018                   | 2,006                          | 3,030                           | 5,036     |
| 2019                   | —                              | 2,484                           | 2,484     |
| 2020                   | —                              | 2,074                           | 2,074     |
| 2021                   | —                              | 1,647                           | 1,647     |
| Thereafter             | —                              | 455                             | 455       |
|                        | \$ 6,018                       | \$ 15,778                       | \$ 21,796 |

We perform an impairment assessment of our other intangible assets whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgment and often involves the use of significant estimates

and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

## 9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as cash flow 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. At June 30, 2016, we were not party to any cash flow hedging instruments.

## Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate locks and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At June 30, 2016, we were a party to interest rate lock and forward sale commitments on \$11.4 million and \$20.8 million of mortgage loans, respectively.

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

| Derivatives Financial Instruments Not Designated<br>as Hedging Instruments | Balance Sheet<br>Location        | Asset Derivatives      |                      | Liability Derivatives |                      |
|----------------------------------------------------------------------------|----------------------------------|------------------------|----------------------|-----------------------|----------------------|
|                                                                            |                                  | Fair Value at          |                      | Fair Value at         |                      |
|                                                                            |                                  | June 30,<br>2016       | December 31,<br>2015 | June 30,<br>2016      | December 31,<br>2015 |
|                                                                            |                                  | (dollars in thousands) |                      |                       |                      |
| Interest rate lock and forward sale commitments                            | Other assets / other liabilities | \$ 138                 | \$ 68                | \$ 188                | \$ 9                 |

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

| Derivatives Financial Instruments<br>Not Designated as Hedging Instruments | Location of Gain (Loss)<br>Recognized in<br>Earnings on Derivatives<br>(dollars in thousands) | Amount of Gain (Loss)<br>Recognized in<br>Earnings on Derivatives |
|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| Three Months Ended June 30, 2016                                           |                                                                                               |                                                                   |
| Interest rate lock and forward sale commitments                            | Other operating income                                                                        | \$ (29 )                                                          |
| Three Months Ended June 30, 2015                                           |                                                                                               |                                                                   |
| Interest rate lock and forward sale commitments                            | Other operating income                                                                        | (198 )                                                            |
| Six Months Ended June 30, 2016                                             |                                                                                               |                                                                   |
| Interest rate lock and forward sale commitments                            | Other operating income                                                                        | (108 )                                                            |

Six Months Ended June 30, 2015

Interest rate lock and forward sale commitments    Other operating income    268

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## 10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The bank is a member of the Federal Home Loan Bank of Des Moines (the “FHLB”) and maintained a \$1.32 billion line of credit as of June 30, 2016, of which \$1.09 billion was undrawn under this arrangement at June 30, 2016. Short-term borrowings under this arrangement totaled \$226.0 million at June 30, 2016, compared to \$69.0 million at December 31, 2015. There were no long-term borrowings under this arrangement at June 30, 2016 and December 31, 2015. FHLB advances outstanding at June 30, 2016 were secured by unencumbered investment securities with a fair value of \$0.3 million and certain real estate loans with a carrying value of \$1.73 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB.

At June 30, 2016 and December 31, 2015, our bank had additional unused borrowings available at the Federal Reserve discount window of \$67.2 million and \$40.8 million, respectively. As of June 30, 2016 and December 31, 2015, certain commercial and commercial real estate loans with a carrying value totaling \$140.7 million and \$87.3 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

## 11. EQUITY

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

On November 23, 2010, our Board of Directors declared a dividend of preferred share purchase rights (“Rights”) in respect to our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the “Tax Benefits Preservation Plan”), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for \$6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of 4.99% or more of our common stock (a “Threshold Holder”). On January 29, 2014, our Board of Directors approved an amendment to the Tax Benefits Preservation Plan to extend it for up to an additional two years (until February 18, 2016). Subsequently, our Board of Directors determined in January 2016 that it was no longer necessary to continue the Tax Benefits Preservation Plan because we have utilized a significant portion of our tax benefits and we expect to be able to utilize the remaining benefits even if an ownership change occurs. As a result, our Tax Benefits Preservation Plan expired in accordance with its terms on February 18, 2016.

To further protect our tax benefits, on January 26, 2011, our Board of Directors approved an amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the “Protective Charter Amendment”). At our annual meeting of shareholders on April 27, 2011, we proposed the amendment which shareholders approved. On January 29, 2014, our Board of Directors approved an amendment to the Protective Charter Amendment to extend it for up to an additional two years (until May 2, 2016). Our shareholders approved the Protective Charter Amendment on April 25, 2014. Subsequently, our Board of Directors determined in January 2016 that it was no longer necessary to continue the Protective Charter Amendment because we had utilized a significant portion of our tax benefits and we expect to be able to utilize the remaining benefits even if an ownership change occurs. As a result, our Protective Charter Amendment expired in accordance with its terms on May 2, 2016.

As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of June 30, 2016, the bank had Statutory Retained Earnings of \$66.6 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.

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 CPF Repurchase Plan previously approved by the Company's Board of Directors. In the six months ended June 30, 2016, 492,922 shares of common stock, at a cost of \$10.5 million, were repurchased under the 2016 Repurchase Plan.

## 12. SHARE-BASED COMPENSATION

### Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the six months ended June 30, 2016:

|                                                                   | Shares    | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------------------------------------------|-----------|-------------------------------------------------|
| Non-vested restricted stock awards and units, beginning of period | 463,917   | \$ 17.41                                        |
| Changes during the period:                                        |           |                                                 |
| Granted                                                           | 175,106   | 22.27                                           |
| Vested                                                            | (244,908) | 15.66                                           |
| Forfeited                                                         | (3,418)   | 19.02                                           |
| Non-vested restricted stock awards and units, end of period       | 390,697   | 20.68                                           |

## 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the components of other comprehensive income for the three and six months ended June 30, 2016 and 2015, by component:

| (dollars in thousands)                                             | Before Tax | Tax Effect | Net of Tax |
|--------------------------------------------------------------------|------------|------------|------------|
| Three Months Ended June 30, 2016                                   |            |            |            |
| Net unrealized gains on investment securities:                     |            |            |            |
| Net unrealized gains arising during the period                     | \$ 9,737   | \$ 3,871   | \$ 5,866   |
| Less: Reclassification adjustment for gains realized in net income | —          | —          | —          |
| Net unrealized gains on investment securities                      | 9,737      | 3,871      | 5,866      |
| Defined benefit plans:                                             |            |            |            |
| Amortization of net actuarial losses                               | 366        | 124        | 242        |
| Amortization of net transition obligation                          | 4          | 1          | 3          |
| Amortization of prior service cost                                 | 5          | 1          | 4          |
| Defined benefit plans, net                                         | 375        | 126        | 249        |
| Other comprehensive income                                         | \$ 10,112  | \$ 3,997   | \$ 6,115   |

| (dollars in thousands)                                              | Before Tax  | Tax Effect | Net of Tax  |
|---------------------------------------------------------------------|-------------|------------|-------------|
| Three Months Ended June 30, 2015                                    |             |            |             |
| Net unrealized losses on investment securities:                     |             |            |             |
| Net unrealized losses arising during the period                     | \$(20,752 ) | \$(8,259 ) | \$(12,493 ) |
| Less: Reclassification adjustment for losses realized in net income | 1,866       | 743        | 1,123       |
| Net unrealized losses on investment securities                      | (18,886 )   | (7,516 )   | (11,370 )   |
| Defined benefit plans:                                              |             |            |             |
| Amortization of net actuarial losses                                | 421         | 170        | 251         |
| Amortization of net transition obligation                           | 4           | 2          | 2           |
| Amortization of prior service cost                                  | 5           | 2          | 3           |
| Defined benefit plans, net                                          | 430         | 174        | 256         |
| Other comprehensive loss                                            | \$(18,456 ) | \$(7,342 ) | \$(11,114 ) |
| (dollars in thousands)                                              | Before Tax  | Tax Effect | Net of Tax  |
| Six Months Ended June 30, 2016                                      |             |            |             |
| Net unrealized gains on investment securities:                      |             |            |             |
| Net unrealized gains arising during the period                      | \$ 29,420   | \$ 11,701  | \$ 17,719   |
| Less: Reclassification adjustment for gains realized in net income  | —           | —          | —           |
| Net unrealized gains on investment securities                       | 29,420      | 11,701     | 17,719      |
| Defined benefit plans:                                              |             |            |             |
| Amortization of net actuarial losses                                | 733         | 248        | 485         |
| Amortization of net transition obligation                           | 8           | 2          | 6           |
| Amortization of prior service cost                                  | 10          | 2          | 8           |
| Defined benefit plans, net                                          | 751         | 252        | 499         |
| Other comprehensive income                                          | \$ 30,171   | \$ 11,953  | \$ 18,218   |
| Six Months Ended June 30, 2015                                      |             |            |             |
| Net unrealized losses on investment securities:                     |             |            |             |
| Net unrealized losses arising during the period                     | \$(9,276 )  | \$(3,692 ) | \$(5,584 )  |
| Less: Reclassification adjustment for losses realized in net income | 1,866       | 743        | 1,123       |
| Net unrealized losses on investment securities                      | (7,410 )    | (2,949 )   | (4,461 )    |
| Defined benefit plans:                                              |             |            |             |
| Amortization of net actuarial losses                                | 841         | 335        | 506         |
| Amortization of net transition obligation                           | 8           | 4          | 4           |
| Amortization of prior service cost                                  | 10          | 4          | 6           |
| Defined benefit plans, net                                          | 859         | 343        | 516         |
| Other comprehensive loss                                            | \$(6,551 )  | \$(2,606 ) | \$(3,945 )  |

The following tables present the changes in each component of AOCI, net of tax, for the three and six months ended June 30, 2016 and 2015:

| (dollars in thousands)                              | Investment<br>Securities | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income |
|-----------------------------------------------------|--------------------------|-----------------------------|-------------------------------------------------|
| Three Months Ended June 30, 2016                    |                          |                             |                                                 |
| Balance at beginning of period                      | \$ 21,034                | \$(8,728)                   | \$ 12,306                                       |
| Other comprehensive income before reclassifications | 5,866                    | —                           | 5,866                                           |
| Amounts reclassified from AOCI                      | —                        | 249                         | 249                                             |
| Total other comprehensive income                    | 5,866                    | 249                         | 6,115                                           |
| Balance at end of period                            | \$ 26,900                | \$(8,479)                   | \$ 18,421                                       |

| (dollars in thousands)                            | Investment<br>Securities | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------|--------------------------|-----------------------------|-------------------------------------------------|
| Three Months Ended June 30, 2015                  |                          |                             |                                                 |
| Balance at beginning of period                    | \$ 20,495                | \$(10,167)                  | \$ 10,328                                       |
| Other comprehensive loss before reclassifications | (12,493 )                | —                           | (12,493 )                                       |
| Amounts reclassified from AOCI                    | 1,123                    | 256                         | 1,379                                           |
| Total other comprehensive (loss) income           | (11,370 )                | 256                         | (11,114 )                                       |
| Balance at end of period                          | \$ 9,125                 | \$(9,911 )                  | \$ (786 )                                       |

| (dollars in thousands)                              | Investment<br>Securities | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income |
|-----------------------------------------------------|--------------------------|-----------------------------|-------------------------------------------------|
| Six Months Ended June 30, 2016                      |                          |                             |                                                 |
| Balance at beginning of period                      | \$ 9,181                 | \$(8,978)                   | \$ 203                                          |
| Other comprehensive income before reclassifications | 17,719                   | —                           | 17,719                                          |
| Amounts reclassified from AOCI                      | —                        | 499                         | 499                                             |
| Total other comprehensive income                    | 17,719                   | 499                         | 18,218                                          |
| Balance at end of period                            | \$ 26,900                | \$(8,479)                   | \$ 18,421                                       |

| (dollars in thousands)                            | Investment<br>Securities | Defined<br>Benefit<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------|--------------------------|-----------------------------|-------------------------------------------------|
| Six Months Ended June 30, 2015                    |                          |                             |                                                 |
| Balance at beginning of period                    | \$ 13,586                | \$(10,427)                  | \$ 3,159                                        |
| Other comprehensive loss before reclassifications | (5,584 )                 | —                           | (5,584 )                                        |
| Amounts reclassified from AOCI                    | 1,123                    | 516                         | 1,639                                           |

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|                                         |          |   |          |        |         |   |
|-----------------------------------------|----------|---|----------|--------|---------|---|
| Total other comprehensive (loss) income | (4,461   | ) | 516      | (3,945 | )       |   |
| Balance at end of period                | \$ 9,125 |   | \$(9,911 | )      | \$ (786 | ) |

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The following table presents the amounts reclassified out of each component of AOCI for the three and six months ended June 30, 2016 and 2015:

| Details about AOCI Components<br>(dollars in thousands)                                     | Amount Reclassified from AOCI    |             | Affected Line Item in the Statement<br>Where Net Income is Presented |
|---------------------------------------------------------------------------------------------|----------------------------------|-------------|----------------------------------------------------------------------|
|                                                                                             | Three months ended June 30, 2016 | 2015        |                                                                      |
| Sale of investment securities available for sale                                            | \$ —                             | \$ (1,866   | ) Investment securities losses                                       |
|                                                                                             | —                                | 743         | Tax benefit                                                          |
|                                                                                             | \$ —                             | \$ (1,123   | ) Net of tax                                                         |
| Amortization of defined benefit retirement and supplemental executive retirement plan items |                                  |             |                                                                      |
| Net actuarial losses                                                                        | \$ (366                          | ) \$ (421   | ) (1)                                                                |
| Net transition obligation                                                                   | (4                               | ) (4        | ) (1)                                                                |
| Prior service cost                                                                          | (5                               | ) (5        | ) (1)                                                                |
|                                                                                             | (375                             | ) (430      | ) Total before tax                                                   |
|                                                                                             | 126                              | 174         | Tax benefit                                                          |
|                                                                                             | \$ (249                          | ) \$ (256   | ) Net of tax                                                         |
| Total reclassifications for the period                                                      | \$ (249                          | ) \$ (1,379 | ) Net of tax                                                         |
| Details about AOCI Components<br>(dollars in thousands)                                     | Amount Reclassified from AOCI    |             | Affected Line Item in the Statement<br>Where Net Income is Presented |
|                                                                                             | Six months ended June 30, 2016   | 2015        |                                                                      |
| Sale of investment securities available for sale                                            | \$ —                             | \$ (1,866   | ) Investment securities losses                                       |
|                                                                                             | —                                | 743         | Tax benefit                                                          |
|                                                                                             | \$ —                             | \$ (1,123   | ) Net of tax                                                         |
| Amortization of defined benefit retirement and supplemental executive retirement plan items |                                  |             |                                                                      |
| Net actuarial losses                                                                        | \$ (733                          | ) \$ (841   | ) (1)                                                                |
| Net transition obligation                                                                   | (8                               | ) (8        | ) (1)                                                                |
| Prior service cost                                                                          | (10                              | ) (10       | ) (1)                                                                |
|                                                                                             | (751                             | ) (859      | ) Total before tax                                                   |
|                                                                                             | 252                              | 343         | Tax benefit                                                          |
|                                                                                             | \$ (499                          | ) \$ (516   | ) Net of tax                                                         |
| Total reclassifications for the period                                                      | \$ (499                          | ) \$ (1,639 | ) Net of tax                                                         |

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

## 14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

Central Pacific Bank has a defined benefit retirement plan (the "Pension Plan") which covers certain eligible employees. The plan was curtailed effective December 31, 2002, and accordingly, plan benefits were fixed as of that date. The following table sets forth the components of net periodic benefit cost for the Pension Plan:

|                                      | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|--------------------------------------|-----------------------------|--------|---------------------------|--------|
| (dollars in thousands)               | 2016                        | 2015   | 2016                      | 2015   |
| Interest cost                        | \$344                       | \$348  | \$687                     | \$696  |
| Expected return on plan assets       | (439 )                      | (472 ) | (878 )                    | (944 ) |
| Amortization of net actuarial losses | 354                         | 393    | 708                       | 786    |
| Net periodic cost                    | \$259                       | \$269  | \$517                     | \$538  |

Our bank also established Supplemental Executive Retirement Plans ("SERPs"), which provide certain (current and former) officers of our bank with supplemental retirement benefits. We have not entered into a SERP since December 31, 2008. The following table sets forth the components of net periodic benefit cost for the SERPs:

|                                           | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|-------------------------------------------|-----------------------------|-------|---------------------------|-------|
| (dollars in thousands)                    | 2016                        | 2015  | 2016                      | 2015  |
| Interest cost                             | \$117                       | \$110 | \$233                     | \$220 |
| Amortization of net actuarial losses      | 12                          | 28    | 25                        | 55    |
| Amortization of net transition obligation | 4                           | 4     | 8                         | 8     |
| Amortization of prior service cost        | 5                           | 5     | 10                        | 10    |
| Net periodic cost                         | \$138                       | \$147 | \$276                     | \$293 |

## 15. EARNINGS PER SHARE

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

|                                                      | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|------------------------------------------------------|-----------------------------|------------|---------------------------|------------|
| (dollars in thousands, except per share data)        | 2016                        | 2015       | 2016                      | 2015       |
| Net income                                           | \$12,137                    | \$12,335   | \$23,318                  | \$22,730   |
| Weighted average shares outstanding - basic          | 31,060,598                  | 31,525,075 | 31,162,013                | 31,166,987 |
| Dilutive effect of employee stock options and awards | 201,932                     | 427,947    | 197,555                   | 421,246    |
| Weighted average shares outstanding - diluted        | 31,262,525                  | 31,953,022 | 31,359,568                | 31,588,233 |
| Basic earnings per common share                      | \$0.39                      | \$0.39     | \$0.75                    | \$0.69     |
| Diluted earnings per common share                    | \$0.39                      | \$0.39     | \$0.74                    | \$0.68     |

A total of 8,227 and 9,439 potentially dilutive securities have been excluded from the dilutive share calculation for the three and six months ended June 30, 2016, respectively, as their effect was anti-dilutive, compared to 12,996 for the three and six months ended June 30, 2015.

## 16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### Disclosures about Fair Value of Financial Instruments

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

#### Short-Term Financial Instruments

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

#### Investment Securities

The fair value of investment securities is based on market price quotations received from third-party pricing services. The third-party pricing services utilize pricing models supported with timely market data information. Where quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

#### Loans

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

#### Loans Held for Sale

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

#### Other Interest Earning Assets

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

#### Deposit Liabilities

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

#### Long-Term Debt

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

#### Off-Balance Sheet Financial Instruments

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

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

## Limitations

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

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, premises and equipment and intangible assets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

| (dollars in thousands)                                     | Carrying Amount | Estimated Fair Value | Fair Value Measurement Using                                   |                                               |                                           |
|------------------------------------------------------------|-----------------|----------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                            |                 |                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2016                                              |                 |                      |                                                                |                                               |                                           |
| Financial assets                                           |                 |                      |                                                                |                                               |                                           |
| Cash and due from banks                                    | \$ 76,482       | \$ 76,482            | \$ 76,482                                                      | \$ —                                          | \$ —                                      |
| Interest-bearing deposits in other banks                   | 14,184          | 14,184               | 14,184                                                         | —                                             | —                                         |
| Investment securities                                      | 1,494,823       | 1,498,659            | 740                                                            | 1,484,604                                     | 13,315                                    |
| Loans held for sale                                        | 9,921           | 9,921                | —                                                              | —                                             | 9,921                                     |
| Net loans and leases                                       | 3,343,183       | 3,334,957            | —                                                              | 38,925                                        | 3,296,032                                 |
| Accrued interest receivable                                | 15,339          | 15,339               | 15,339                                                         | —                                             | —                                         |
| Financial liabilities                                      |                 |                      |                                                                |                                               |                                           |
| Deposits:                                                  |                 |                      |                                                                |                                               |                                           |
| Noninterest-bearing deposits                               | 1,152,666       | 1,152,666            | 1,152,666                                                      | —                                             | —                                         |
| Interest-bearing demand and savings deposits               | 2,217,752       | 2,217,752            | 2,217,752                                                      | —                                             | —                                         |
| Time deposits                                              | 1,034,724       | 1,035,776            | —                                                              | —                                             | 1,035,776                                 |
| Short-term borrowings                                      | 226,000         | 226,000              | —                                                              | 226,000                                       | —                                         |
| Long-term debt                                             | 92,785          | 66,110               | —                                                              | 66,110                                        | —                                         |
| Accrued interest payable (included in other liabilities)   | 1,385           | 1,385                | 1,385                                                          | —                                             | —                                         |
| Off-balance sheet financial instruments                    |                 |                      |                                                                |                                               |                                           |
| Commitments to extend credit                               | 797,008         | 1,006                | —                                                              | 1,006                                         | —                                         |
| Standby letters of credit and financial guarantees written | 14,589          | 219                  | —                                                              | 219                                           | —                                         |
| Derivatives:                                               |                 |                      |                                                                |                                               |                                           |
| Interest rate lock commitments                             | 11,403          | 136                  | —                                                              | 136                                           | —                                         |
| Forward sale commitments                                   | 20,775          | (186 )               | —                                                              | (186 )                                        | —                                         |



| (dollars in thousands)                                     | Carrying Amount | Estimated Fair Value | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------------------------------------------|-----------------|----------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| December 31, 2015                                          |                 |                      |                                                                                             |                                               |                                           |
| Financial assets                                           |                 |                      |                                                                                             |                                               |                                           |
| Cash and due from banks                                    | \$ 71,797       | \$ 71,797            | \$ 71,797                                                                                   | \$ —                                          | \$ —                                      |
| Interest-bearing deposits in other banks                   | 8,397           | 8,397                | 8,397                                                                                       | —                                             | —                                         |
| Investment securities                                      | 1,520,172       | 1,516,391            | 916                                                                                         | 1,502,996                                     | 12,479                                    |
| Loans held for sale                                        | 14,109          | 14,109               | —                                                                                           | —                                             | 14,109                                    |
| Net loans and leases                                       | 3,148,218       | 3,094,404            | —                                                                                           | 38,205                                        | 3,056,199                                 |
| Accrued interest receivable                                | 14,898          | 14,898               | 14,898                                                                                      | —                                             | —                                         |
| Financial liabilities                                      |                 |                      |                                                                                             |                                               |                                           |
| Deposits:                                                  |                 |                      |                                                                                             |                                               |                                           |
| Noninterest-bearing deposits                               | 1,145,244       | 1,145,244            | 1,145,244                                                                                   | —                                             | —                                         |
| Interest-bearing demand and savings deposits               | 2,223,988       | 2,223,988            | 2,223,988                                                                                   | —                                             | —                                         |
| Time deposits                                              | 1,064,207       | 1,064,255            | —                                                                                           | —                                             | 1,064,255                                 |
| Short-term borrowings                                      | 69,000          | 69,000               | —                                                                                           | 69,000                                        | —                                         |
| Long-term debt                                             | 92,785          | 67,421               | —                                                                                           | 67,421                                        | —                                         |
| Accrued interest payable (included in other liabilities)   | 1,072           | 1,072                | 1,072                                                                                       | —                                             | —                                         |
| Off-balance sheet financial instruments                    |                 |                      |                                                                                             |                                               |                                           |
| Commitments to extend credit                               | 801,835         | 1,014                | —                                                                                           | 1,014                                         | —                                         |
| Standby letters of credit and financial guarantees written | 13,434          | 202                  | —                                                                                           | 202                                           | —                                         |
| Derivatives:                                               |                 |                      |                                                                                             |                                               |                                           |
| Interest rate lock commitments                             | 24,009          | 43                   | —                                                                                           | 43                                            | —                                         |
| Forward sale commitments                                   | 9,973           | 15                   | —                                                                                           | 15                                            | —                                         |

#### 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 three and six months ended June 30, 2016.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

| (dollars in thousands)                                        | Fair Value  | Fair Value at Reporting Date Using                             |                                               |                                           |
|---------------------------------------------------------------|-------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                               |             | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2016                                                 |             |                                                                |                                               |                                           |
| Available for sale securities:                                |             |                                                                |                                               |                                           |
| Debt securities:                                              |             |                                                                |                                               |                                           |
| States and political subdivisions                             | \$193,863   | \$ —                                                           | \$ 180,548                                    | \$ 13,315                                 |
| Corporate securities                                          | 109,924     | —                                                              | 109,924                                       | —                                         |
| Mortgage-backed securities:                                   |             |                                                                |                                               |                                           |
| Residential - U.S. Government sponsored entities              | 750,663     | —                                                              | 750,663                                       | —                                         |
| Residential - Non-government agencies                         | 61,470      | —                                                              | 61,470                                        | —                                         |
| Commercial - Non-government agencies                          | 143,933     | —                                                              | 143,933                                       | —                                         |
| Other                                                         | 740         | 740                                                            | —                                             | —                                         |
| Total available for sale securities                           | 1,260,593   | 740                                                            | 1,246,538                                     | 13,315                                    |
| Derivatives - Interest rate lock and forward sale commitments | (50 )       | —                                                              | (50 )                                         | —                                         |
| Total                                                         | \$1,260,543 | \$ 740                                                         | \$ 1,246,488                                  | \$ 13,315                                 |

| (dollars in thousands)                                        | Fair Value | Fair Value at Reporting Date Using                             |                                               |                                           |
|---------------------------------------------------------------|------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                               |            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2015                                             |            |                                                                |                                               |                                           |
| Available for sale securities:                                |            |                                                                |                                               |                                           |
| Debt securities:                                              |            |                                                                |                                               |                                           |
| States and political subdivisions                             | \$190,473  | \$ —                                                           | \$ 177,994                                    | \$ 12,479                                 |
| Corporate securities                                          | 108,571    | —                                                              | 108,571                                       | —                                         |
| Mortgage-backed securities:                                   |            |                                                                |                                               |                                           |
| Residential - U.S. Government sponsored entities              | 771,909    | —                                                              | 771,909                                       | —                                         |
| Residential - Non-government agencies                         | 64,032     | —                                                              | 64,032                                        | —                                         |
| Commercial - Non-government agencies                          | 136,354    | —                                                              | 136,354                                       | —                                         |
| Other                                                         | 916        | 916                                                            | —                                             | —                                         |
| Total available for sale securities                           | 1,272,255  | 916                                                            | 1,258,860                                     | 12,479                                    |
| Derivatives - Interest rate lock and forward sale commitments | 59         | —                                                              | 59                                            | —                                         |

|       |             |        |              |           |
|-------|-------------|--------|--------------|-----------|
| Total | \$1,272,314 | \$ 916 | \$ 1,258,919 | \$ 12,479 |
|-------|-------------|--------|--------------|-----------|

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For the six months ended June 30, 2016 and 2015, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

| (dollars in thousands)                                     | Available for Sale<br>States and<br>Political<br>Subdivisions<br>Debt Securities |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| Balance at December 31, 2015                               | \$ 12,479                                                                        |
| Principal payments received                                | (166 )                                                                           |
| Unrealized net gain included in other comprehensive income | 1,002                                                                            |
| Balance at June 30, 2016                                   | \$ 13,315                                                                        |
| Balance at December 31, 2014                               | \$ 13,095                                                                        |
| Principal payments received                                | (812 )                                                                           |
| Unrealized net gain included in other comprehensive income | 345                                                                              |
| Balance at June 30, 2015                                   | \$ 12,628                                                                        |

Within the state and political subdivisions debt securities category, the Company holds four mortgage revenue bonds issued by the City & County of Honolulu with an aggregate fair value of \$13.3 million and \$12.6 million at June 30, 2016 and June 30, 2015, 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 June 30, 2016, the weighted average discount rate utilized was 3.90%, which was derived by incorporating a credit spread over the FHLB Fixed-Rate Advance curve. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at June 30, 2016 and December 31, 2015, the following table provides the level of valuation assumptions used to determine the respective fair values:

| (dollars in thousands) | Fair Value | Fair Value Measurements Using                                     |                                         | Significant Unobservable Inputs (Level 3) |   |
|------------------------|------------|-------------------------------------------------------------------|-----------------------------------------|-------------------------------------------|---|
|                        |            | Quoted Prices in Active Markets for Identifiable Assets (Level 1) | Significant Observable Inputs (Level 2) |                                           |   |
| June 30, 2016          |            |                                                                   |                                         |                                           |   |
| Impaired loans (1)     | \$ 38,886  | \$ —                                                              | \$ 38,886                               | \$                                        | — |
| Other real estate (2)  | 1,032      | —                                                                 | 1,032                                   | —                                         |   |
| December 31, 2015      |            |                                                                   |                                         |                                           |   |
| Impaired loans (1)     | \$ 38,153  | \$ —                                                              | \$ 38,153                               | \$                                        | — |
| Other real estate (2)  | 1,962      | —                                                                 | 1,962                                   | —                                         |   |

(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.

## 17. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. These 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, indirect auto 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 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 the Company's accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC. The majority of the Company's net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

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

Segment profits and assets are provided in the following table for the periods indicated.

| (dollars in thousands)                         | Banking<br>Operations | Treasury | All Others | Total     |
|------------------------------------------------|-----------------------|----------|------------|-----------|
| Three Months Ended June 30, 2016               |                       |          |            |           |
| Net interest income                            | \$ 31,985             | \$ 7,624 | \$ —       | \$ 39,609 |
| Inter-segment net interest income (expense)    | 9,435                 | (6,900 ) | (2,535 )   | —         |
| Credit for loan and lease losses               | 1,382                 | —        | —          | 1,382     |
| Other operating income                         | 6,493                 | 1,397    | 3,802      | 11,692    |
| Other operating expense                        | (14,904 )             | (439 )   | (18,872 )  | (34,215 ) |
| Administrative and overhead expense allocation | (16,709 )             | (194 )   | 16,903     | —         |
| Income before taxes                            | 17,682                | 1,488    | (702 )     | 18,468    |
| Income tax (expense) benefit                   | (6,078 )              | (513 )   | 260        | (6,331 )  |
| Net income (loss)                              | \$ 11,604             | \$ 975   | \$ (442 )  | \$ 12,137 |

| (dollars in thousands)                      | Banking<br>Operations | Treasury | All Others | Total     |
|---------------------------------------------|-----------------------|----------|------------|-----------|
| Three Months Ended June 30, 2015            |                       |          |            |           |
| Net interest income                         | \$ 28,837             | \$ 8,457 | \$ —       | \$ 37,294 |
| Inter-segment net interest income (expense) | 11,348                | (8,067 ) | (3,281 )   | —         |
| Credit for loan and lease losses            | 7,319                 | —        | —          | 7,319     |
| Other operating income                      | 6,008                 | (1,322 ) | 3,438      | 8,124     |

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|                                                |           |           |           |           |
|------------------------------------------------|-----------|-----------|-----------|-----------|
| Other operating expense                        | (15,354 ) | (493 )    | (16,611 ) | (32,458 ) |
| Administrative and overhead expense allocation | (15,937 ) | (266 )    | 16,203    | —         |
| Income before taxes                            | 22,221    | (1,691 )  | (251 )    | 20,279    |
| Income tax (expense) benefit                   | (7,776 )  | 591       | (759 )    | (7,944 )  |
| Net income (loss)                              | \$ 14,445 | \$(1,100) | \$(1,010) | \$12,335  |

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| (dollars in thousands)                           | Banking<br>Operations | Treasury     | All Others  | Total        |
|--------------------------------------------------|-----------------------|--------------|-------------|--------------|
| Six Months Ended June 30, 2016                   |                       |              |             |              |
| Net interest income                              | \$ 62,936             | \$ 15,884    | \$ —        | \$ 78,820    |
| Inter-segment net interest income (expense)      | 19,993                | (13,917 )    | (6,076 )    | —            |
| Credit for loan and lease losses                 | 2,129                 | —            | —           | 2,129        |
| Other operating income                           | 12,027                | 2,142        | 7,688       | 21,857       |
| Other operating expense                          | (29,647 )             | (827 )       | (36,616 )   | (67,090 )    |
| Administrative and overhead expense allocation   | (28,141 )             | (390 )       | 28,531      | —            |
| Income before taxes                              | 39,297                | 2,892        | (6,473 )    | 35,716       |
| Income tax (expense) benefit                     | (13,644 )             | (1,004 )     | 2,250       | (12,398 )    |
| Net income (loss)                                | \$ 25,653             | \$ 1,888     | \$ (4,223 ) | \$ 23,318    |
| (dollars in thousands)                           | Banking<br>Operations | Treasury     | All Others  | Total        |
| Six Months Ended June 30, 2015                   |                       |              |             |              |
| Net interest income                              | \$ 56,691             | \$ 16,838    | \$ —        | \$ 73,529    |
| Inter-segment net interest income (expense)      | 21,650                | (16,765 )    | (4,885 )    | —            |
| Credit for loan and lease losses                 | 10,066                | —            | —           | 10,066       |
| Other operating income                           | 12,454                | (295 )       | 7,155       | 19,314       |
| Other operating expense                          | (30,178 )             | (971 )       | (35,327 )   | (66,476 )    |
| Administrative and overhead expense allocation   | (28,041 )             | (554 )       | 28,595      | —            |
| Income before taxes                              | 42,642                | (1,747 )     | (4,462 )    | 36,433       |
| Income tax (expense) benefit                     | (14,924 )             | 611          | 610         | (13,703 )    |
| Net income                                       | \$ 27,718             | \$ (1,136 )  | \$ (3,852 ) | \$ 22,730    |
| (dollars in thousands)                           | Banking<br>Operations | Treasury     | All Others  | Total        |
| At June 30, 2016:                                |                       |              |             |              |
| Investment securities                            | \$ —                  | \$ 1,494,823 | \$ —        | \$ 1,494,823 |
| Loans and leases (including loans held for sale) | 3,413,868             | —            | —           | 3,413,868    |
| Other                                            | 49,802                | 235,554      | 88,920      | 374,276      |
| Total assets                                     | \$ 3,463,670          | \$ 1,730,377 | \$ 88,920   | \$ 5,282,967 |
| (dollars in thousands)                           | Banking<br>Operations | Treasury     | All Others  | Total        |
| At December 31, 2015:                            |                       |              |             |              |
| Investment securities                            | \$ —                  | \$ 1,520,172 | \$ —        | \$ 1,520,172 |
| Loans and leases (including loans held for sale) | 3,225,641             | —            | —           | 3,225,641    |
| Other                                            | 74,963                | 226,172      | 84,340      | 385,475      |
| Total assets                                     | \$ 3,300,604          | \$ 1,746,344 | \$ 84,340   | \$ 5,131,288 |

## 18. LEGAL PROCEEDINGS

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

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

### Overview

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

Central Pacific Bank is a full-service community bank with 35 branches and 103 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

### Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The following discussion should also be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 25, 2016.

### Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires that management make certain judgments and use certain estimates and assumptions that affect amounts reported and disclosures made. Accounting estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period and would materially impact our consolidated financial statements as of or for the periods presented. Management has discussed the development and selection of the critical accounting estimates noted below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the accompanying disclosures.

### Allowance for Loan and Lease Losses

The allowance for loan and lease losses (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. At June 30, 2016, we had an Allowance of \$60.8 million, compared to \$63.3 million at December 31, 2015.

The Company's approach to developing the Allowance has three basic elements. These elements include specific reserves for individually impaired loans, a general allowance for loans other than those analyzed as individually impaired, and an unallocated reserve. These three methods are explained below:

### Specific Reserve

Individually impaired loans in all loan categories are evaluated using one of three valuation methods as prescribed under 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. As of June 30, 2016, this specific reserve represented \$39 thousand of the total Allowance, compared to \$0.1 million at December 31, 2015.

#### 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. Six criteria divide the Company's loan portfolio into 128 homogeneous sub-sectors. First, loans are divided by general geographic region (U.S. Mainland and Hawaii). Second, loans are subdivided according to FDIC classification (Construction, Commercial Mortgage, Commercial, Financial and Agricultural, Leases, Residential Mortgage, Consumer). Third, loans within the Construction category are further subdivided by collateral type (Commercial and Residential). Fourth, loans within the Residential Mortgage category are further subdivided by ownership

type (Investor-owned and Owner-occupied). Fifth, loans are subdivided by state or for some, by County (All Hawaii, Hawaii Island, Kauai, Maui, Oahu, Other Hawaii, All U.S. Mainland, Los Angeles/Orange County CA, Riverside/San Bernardino CA, Sacramento/Placer/El Dorado/Yolo CA, San Diego CA, Washington/Oregon, Other U.S. Mainland). Finally, loans are further subdivided by risk rating (Pass, Special Mention, Substandard, and Doubtful).

For the purpose of determining general allowance loss factors, loss experience is derived from charge-offs and recoveries. A charge-off occurs when the Company makes the determination that an amount of debt is deemed to be uncollectible. Loans are also charged off when it is probable that a loss has been incurred and it is possible to make a reasonable estimate of the loss. Charge-offs are classified into sub-sectors according to the underlying loan's primary geography, loan category, collateral type (if applicable), investment type (if applicable), state/county, and the risk rating of the loan one year prior to the charge-off. A recovery occurs when a loan that is classified as a bad debt was either partially or fully charged off and has been subsequently recovered. Recoveries are classified according to the sub-sector of the earliest associated charge-off of the loan within the selected look-back period. The cumulative charge-offs are determined by summing all sub-sector-specific charge-offs that occurred within the selected look-back period and the cumulative recoveries are determined by summing the sub-sector-specific recoveries for each sub-sector. Sub-sector losses are measured by subtracting each sub-sector's cumulative recoveries from their respective cumulative charge-offs. Sub-sector losses are then divided by the sub-sector loan balance averaged over the look-back period to determine each sub-sector's historical loss rate.

From 2010 through 2013, the calculation of sub-sector loss factors involved a look-back period of eight quarters (for loans secured by real estate by FDIC classifications) or four quarters (for all other loans). The Company's then rapidly evolving loss experience necessitated the use of shorter loss analysis periods in order to ensure that loss rates would be adequately responsive to changes in loss experience. During that period, the Company considered recent loss data to be more relevant to the current period under analysis and consistent with commentary provided by our primary banking regulator.

As economic conditions continued to improve and stabilize, the Company experienced improving credit quality trends that contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the Company extended the look-back period for loans secured by real estate from 8 quarters to 17 quarters, with the intention of extending the look-back period each quarter thereafter to a total of 24 quarters or six years to incorporate broader loss experience through a more complete economic cycle. The Company believes this would also reduce the Company's reliance on proxy loss rates by capturing more of the Company's own historical loss experience in the extended look-back period. The Company also believes the longer look-back period is appropriate in light of the Company's limited loss experience throughout the recent economic recovery and stabilization. Additionally, as economic conditions have stabilized, the Company believes the lower loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. The enhanced methodology does not incorporate data before 2010 due to the anomalous loss activity during that time period that may cause pre-2010 internal loss data to be an inappropriate representation of the current inherent risk in the Company's loan portfolio. In our revised approach, the losses during the six year look-back period are weighted to place more emphasis on recent loss experience. At June 30, 2016, the look-back period for loans secured by real estate includes 24 quarters of historical loss experience.

#### Application of Proxies

The Company applies external proxies for minimum loss rates in those loan categories with negligible associated loss experience during the prescribed look-back period, including criticized credits. The Company believes the use of external proxies is a prudent approach versus using a zero loss factor for those loan categories that have negligible loss experience in the look-back period. The external proxies used are based on four select credit loss rates tracked by Moody's Investor Service.

The following table describes the Moody's loss rate that is applied as a proxy to each loan category when no associated loss experience is registered in a sub-sector of the loan category over the relevant look-back period.

| Loan Segment                           | Proxy - Moody's Loss Rate                              |
|----------------------------------------|--------------------------------------------------------|
| Commercial, Financial and Agricultural | Maximum of Last 5 Yrs' Annual Corporate Bond Loss Rate |
| Construction                           | Cumulative 2-Yr U.S. CMBS Loss Rate                    |
| Commercial Mortgage                    | Cumulative 2-Yr U.S. CMBS Loss Rate                    |
| Residential Mortgage                   | Cumulative 2-Yr U.S. RMBS/HEL Loss Rate                |
| Consumer                               | 1-Yr U.S. ABS excl. HEL Loss Rate                      |
| Leases                                 | Maximum of Last 5 Yrs' Annual Corporate Bond Loss Rate |

In those loan categories described in the table above, specific loss rate proxies are applied based on the equivalence of respective risk ratings between the proxy rate and the loan sub-sector. Based on the conformity of risk characterizations, B-rated proxy rates are matched to substandard loan segments (risk rating 8), Ba-rated proxy rates are matched to special mention loan segments (risk rating 7), and Aaa, Aa, A and Baa-rated proxy rates are matched to risk ratings strong quality, above average quality, average quality, and acceptable quality, respectively (risk ratings 1, 2, 3, 4, 5 and 6).

For Pass-rated loan segments with no associated loss experience during the respective prescribed look-back periods, the proxy loss rate is determined by weighting each proxy loss rate (ratings Aaa, Aa, A and Baa) by the loan balance in each equivalent risk rating (strong, above average, average and acceptable quality, respectively).

In assessing the appropriateness of Moody's proxy rates, the Company conducted a comprehensive review of other potential sources of proxy loss data, evaluated the qualitative and quantitative factors influencing the relevance and reliability of proxy data, and performed a correlation analysis to determine the co-dependency of historical loss ratios with Moody's loss rates. The analysis compared historical loss ratios in each loan category to the associated Moody's loss rates over ten years.

In deciding whether the application of proxy rates is appropriate, a historical analysis was performed between historical loss ratios and Moody's loss rates. The analysis revealed that the two metrics demonstrated a directionally consistent loss relationship in nearly every rating group and exhibited average to strong correlation across all rating groups in almost every segment. Given the results of the correlation analysis, the Company deemed application of these proxy loss rates to be reasonable and supportable.

#### Qualitative Adjustments

Our Allowance methodology uses qualitative adjustments for economic/market conditions and Company-specific conditions. The economic/market conditions factor is applied on a regional/geographic basis. The Company-specific condition factor is applied on a category basis. Two key indicators, personal income and unemployment, comprise the economic/market adjustment factor.

Personal income is analyzed by comparing average quarter-to-quarter percentage change trends reported by the U.S. Bureau of Economic Analysis. Specifically, the rolling four quarter average percentage change in personal income is calculated and compared to a baseline historical factor, calculated as the average quarter-to-quarter percentage change over the prior ten years. The difference between the current average change and the historical average change is utilized as the personal income component of the economic/market adjustment factor.

The second component of the economic/market factor, unemployment, is derived by comparing the current quarter unemployment rate, reported by the U.S. Bureau of Labor Statistics, to its ten year historical average. A constant scaling factor is applied to the difference between the current rate and the historical average in order to smooth significant period-to-period fluctuations. The result is utilized as the unemployment component of the economic factor. The personal income factor and unemployment factor are added together to determine each region's total economic/market adjustment factor. Management reviews the results of the qualitative adjustment factors to ensure it is consistent with the trends in the overall economy, and from time to time may make enhancements, if necessary, to ensure directional consistency.

The general allowance also incorporates qualitative adjustment factors that capture Company-specific conditions for which national/regional statistics are not available, or for which significant localized market specific events have not yet been captured within regional statistics or the Company's historical loss experience. Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and

lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine both our Allowance and Provision.

In recognizing that current and relevant environmental (economic, market or other) conditions that can affect repayment may not yet be fully reflected in historical loss experience, qualitative assessments are conducted to factor in current loan portfolio and market intelligence. These adjustments, which are added to (or subtracted from) the loss ratio, consider the nature of the bank's primary markets and are reasonable, consistently determined and appropriately documented. Management reviews the results of the qualitative adjustment factors to ensure it is consistent with the trends and risks in our portfolio, and from time to time may make enhancements, if necessary, to ensure directional consistency. These qualitative adjustments for 2012 through 2016 include the following:

## 2012

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

In the second quarter 2012, an adjustment factor was added in recognition of the delegation of increased credit authority to Line Division Management and changes in the underwriting and approval process for small business lending. This change involved moving from a judgmental underwriting process for all loans to a score-based approval process below a certain loan size threshold, and a streamlined judgmental process augmented by relationship officer involvement above a certain loan size threshold. This adjustment factor was subsequently removed in the fourth quarter of 2015.

## 2013

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

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

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

## 2014

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

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

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

In the fourth quarter of 2014, the Company determined that it was appropriate to separate U.S. Mainland commercial mortgages from Hawaii commercial mortgages for purposes of calculating concentration risk. In making this

assessment, the Company considered the regulatory guidance and concluded that the U.S. Mainland commercial mortgages were no longer similar in credit performance to the credit performance of the Hawaii commercial mortgages such that they would necessarily “perform like a single large exposure.” This is supported by a correlation analysis conducted by the Company. In light of the statistical evidence demonstrating the reduced dependency between the credit performance of the two segments, the Company concluded that the U.S. Mainland commercial mortgage segment should not be included with the Hawaii commercial mortgage segment for the determination of portfolio concentration.

In the fourth quarter of 2014, the Company adopted a time based graduated scale to reduce reliance on benchmark data by substituting our emerging actual experience in the pre-approved consumer loan and student loan portfolios of the consumer loan segment.

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

## 2015

In the first and second quarters of 2015, we increased a qualitative factor applied to our national syndicated loan portfolio in consideration of updated proxy information which became available in the first quarter of 2015 and better defined portfolio attributes during the second quarter of 2015.

In the third quarter of 2015, the Company enhanced its reasonableness review of the economic/market conditions qualitative factor and, if necessary, will adjust this factor to ensure directional consistency.

## 2016

No material enhancements were made during the first and second quarters of 2016.

The sum of each sub-sector's historical loss rate plus a region-specific economic/market qualitative adjustment and category-specific other qualitative adjustment, as discussed in the above "Application of Proxies" section, is then multiplied by the sub-sector's period-ending loan balance to determine each sub-sector's general allowance provision. The sum of the 128 sub-sector general allowance provisions represents the general allowance provision of the entire portfolio. As of June 30, 2016, this general allowance represented \$58.7 million of the total Allowance, compared to \$61.1 million at December 31, 2015.

We continually monitor for updated and refined information sources which will enable us to enhance the quality of our Allowance methodology from time to time.

In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our Allowance. The determination of the Allowance requires us to make estimates of losses that are highly uncertain and involves a high degree of judgment. Accordingly, actual results could differ from those estimates. Changes in the estimate of the Allowance and related Provision could materially affect our operating results.

## Unallocated Reserve

The Company maintains an unallocated Allowance amount to provide for other credit losses inherent in our loan and lease portfolio that may not have been contemplated in the credit loss factors. The unallocated reserve is a measure to address judgmental estimates that are inevitably imprecise and it reflects an adjustment to the Allowance that is not attributable to specific categories of the loan portfolio. The unallocated reserve is distinct from and not captured in the Company's qualitative enhancements in the general component of the Allowance. These qualitative adjustments only capture direct and specific risks to our portfolio, whereas the unallocated reserve is intended to capture broader national and global economic risks that could potentially have a ripple effect on our loan portfolio.

As of June 30, 2016 and December 31, 2015, an unallocated estimate of \$2.0 million and \$2.1 million, respectively, was based on the Company's recognition of domestic (U.S. Mainland) and international events that pose heightened volatility in the isolated Hawaii market. Examples of such stressors are acts of terrorism, pandemic events, energy price volatility and Federal budget changes. Any of these in isolation or combination could have significant effects on two key drivers of the Hawaii economy: tourism and Federal spending.

Although the Company does not have direct exposure to the economic and political crises occurring internationally, the ripple effect of continuous uncertainty surrounding ultimate resolution, along with quantifiable measures once achieved, may result in increased risk to the Company from the standpoint of consequences to its customer base and impacts on the Hawaii tourism market.

## 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 loans both in 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.

When a non-residential loan is transferred to the held for sale category, 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. 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. We report the fair values of the non-residential loans classified as held for sale net of applicable selling costs on our consolidated balance sheets. At June 30, 2016 and December 31, 2015, all of our loans held for sale were Hawaii residential mortgage loans.

## Mortgage Servicing Rights

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of operations. 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 pool.

Initial fair value of the servicing right is calculated by a discounted cash flow model 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. 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.

Prepayment speeds may be affected by economic factors such as changes in home prices, market interest rates, the availability of alternative 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 fair value of our mortgage servicing rights is validated by first ensuring the completeness and accuracy of the loan data used in the valuation analysis. Additionally, the critical assumptions which come from independent sources are reviewed and include comparing actual results to forecast assumptions or evaluating the reasonableness of market assumptions in relation to the values and trends of assumptions used by peer banks. The validation process also includes reviewing key metrics such as the fair value as a percentage of the total unpaid principal balance of the mortgages serviced, and the resulting percentage as a multiple of the net servicing fee. These key metrics are tracked to ensure the trends are reasonable, and are periodically compared to peer banks.

We perform an impairment assessment of our mortgage servicing rights 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 the uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

#### Deferred Tax Assets and Tax Contingencies

Deferred tax assets ("DTAs") 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 DTAs 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 DTAs may not be realized, which would result in a charge to earnings.

As of June 30, 2016, we have a valuation allowance on our net DTA of \$2.8 million, which relates to our California state income taxes as we do not expect to generate sufficient income in California to utilize the DTA. Given our five consecutive years of profitability and the expectation of continued profitability, strong asset quality, and well-capitalized position, we continue to believe that it is more likely than not that our remaining net DTA totaling \$58.3 million at June 30, 2016 will be realized.

We have established 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.

#### Impact of Recently Issued Accounting Pronouncements on Future Filings

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 was initially 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 - 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, "Principal versus Agent Considerations," ASU 2016-10, "Identifying Performance Obligations and Licensing," and ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients." We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments." ASU 2016-01 changes the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is selected. ASU 2016-01 is effective for the Company's reporting period beginning January 1, 2019. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Company's reporting period beginning January 1, 2019. We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation" 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. ASU 2016-09 is effective for the Company's reporting period beginning January 1, 2017. We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This update will be effective for the Company's reporting period beginning January 1, 2020. We are currently evaluating the potential impact the update will have on our consolidated financial statements.

### Financial Summary

Net income for the three months ended June 30, 2016 was \$12.1 million, or \$0.39 per diluted share, compared to \$12.3 million, or \$0.39 per diluted share for the three months ended June 30, 2015. Net income for the six months ended June 30, 2016 was \$23.3 million, or \$0.74 per diluted share, compared to \$22.7 million, or \$0.68 per diluted share for the six months ended June 30, 2015.

The following table presents annualized returns on average assets, average shareholders' equity, average tangible equity and basic and diluted earnings per share for the periods indicated.

|                                        | Three Months Ended<br>June 30,<br>2016 |   | 2015   |   | Six Months Ended<br>June 30,<br>2016 |   | 2015   |   |
|----------------------------------------|----------------------------------------|---|--------|---|--------------------------------------|---|--------|---|
| Return on average assets               | 0.93                                   | % | 1.00   | % | 0.90                                 | % | 0.92   | % |
| Return on average shareholders' equity | 9.51                                   |   | 9.93   |   | 9.18                                 |   | 8.54   |   |
| Return on average tangible equity      | 9.63                                   |   | 10.11  |   | 9.30                                 |   | 8.70   |   |
| Basic earnings per common share        | \$0.39                                 |   | \$0.39 |   | \$0.75                               |   | \$0.69 |   |
| Diluted earnings per common share      | 0.39                                   |   | 0.39   |   | 0.74                                 |   | 0.68   |   |

### Use of Non-GAAP Financial Measures

The return on average tangible equity ratio is a non-GAAP financial measure which should be read and used in conjunction with the Company's GAAP financial information. Comparison of our return on average tangible equity ratio with those of other companies may not be possible because other companies may calculate the return on average tangible equity ratio differently. Our return on average tangible equity ratio is derived by dividing annualized net income by average shareholders' equity less average intangible assets, which excludes mortgage servicing rights.

The following table sets forth a reconciliation of our return on average tangible equity ratio for the periods indicated:

|                         | Three Months Ended<br>June 30,<br>2016 |  | 2015     |  | Six Months Ended<br>June 30,<br>2016 |  | 2015     |  |
|-------------------------|----------------------------------------|--|----------|--|--------------------------------------|--|----------|--|
| Net income              | \$12,137                               |  | \$12,335 |  | \$23,318                             |  | \$22,730 |  |
| Net income - Annualized | \$48,548                               |  | \$49,340 |  | 46,636                               |  | 45,460   |  |

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|                                   |           |           |         |         |
|-----------------------------------|-----------|-----------|---------|---------|
| Average shareholders' equity      | \$510,753 | \$496,881 | 508,041 | 532,239 |
| Less: Average intangible assets   | 6,387     | 9,084     | 6,722   | 9,425   |
| Average tangible equity           | \$504,366 | \$487,797 | 501,319 | 522,814 |
| Return on average tangible equity | 9.63      | % 10.11   | % 9.30  | % 8.70  |
|                                   |           | %         |         | %       |

## Material Trends

While the U.S. economy is in its 7th year of recovery following the downturn, there is continued uncertainty in the global macroeconomic environment. In the second quarter of 2016, the U.K. voted to terminate its membership in the European Union and certain U.S. employment reports were weaker than expected. These factors weighed in on the Federal Reserve's decision to hold the Federal Funds rate constant and also drove long-term market rates lower. The U.S. economic recovery continues to be weighed down by underutilization of labor forces, low level of inflation as a result of declining commodity prices, weakness in business investment and manufacturing, and increased concerns over the pace of the global economic recovery. In addition, the upcoming U.S. presidential election adds further to the uncertainty in the economic environment.

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

In its second quarter of 2016 report, the Hawaii Department of Business Economic Development & Tourism ("DBEDT") projects Hawaii's economy, as measured by the growth of real gross domestic product, will continue at a rate of 2.3% and 2.4% for 2016 and 2017, respectively. According to the Blue Chip Economic Consensus Forecasts, these growth rates exceed the projected U.S. economic growth rates of 1.8% and 2.3% for 2016 and 2017, respectively.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 3.3% in June 30, 2016, compared to 3.6% in June 30, 2015. In addition, Hawaii's unemployment rate is among the lowest in the nation, and remained below the national seasonally adjusted unemployment rate of 4.9%. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate to be at 3.2% in 2016.

Tourism continues to be Hawaii's center of strength and its most significant economic driver. Last year, Hawaii's strong visitor industry broke records for visitor arrivals and visitor spending for the fourth straight year. Although visitor arrivals are off to a strong start in 2016, visitor spending is decelerating, related in part to the strengthening of the U.S. dollar. According to the Hawaii Tourism Authority ("HTA"), 4.4 million visitors visited the state in the six months ended June 30, 2016. This was an increase of 3.3% from the number of visitor arrivals in the six months ended June 30, 2015. Total spending by visitors increased to \$7.7 billion in the six months ended June 30, 2016, or an increase of \$129.6 million, or 1.7%, from the six months ended June 30, 2015. According to DBEDT, total visitor arrivals and visitor spending are expected to increase 2.2% and 2.5% in 2016, respectively.

Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii's real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased by 7.8% for single-family homes and 10.7% for condominiums for the six months ended June 30, 2016 compared to the same time period last year. The median sales price for single-family homes on Oahu for the six months ended June 30, 2016 was \$727,000, representing an increase of 6.1% from \$685,000 in the same prior year period. The median sales price for condominiums on Oahu for the six months ended June 30, 2016 was \$385,000, representing an increase of 7.4% from \$358,500 in the same prior year period. We believe the Hawaii real estate market will remain stable during the remainder of 2016, however, there can be no assurance that this will occur.

As we have seen in the past, our operating results are significantly impacted by: (i) the economy in Hawaii, and to a significantly lesser extent, California, and (ii) the composition of our loan portfolio. Loan demand, deposit growth,

Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in the latter part of 2007 through 2010, our results of operations would be negatively impacted.

## Results of Operations

## Net Interest Income

Net interest income, when annualized and expressed as a percentage of average interest earning assets, is referred to as “net interest margin.” Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis (“net interest income”) for the three and six months ended June 30, 2016 and 2015 is set forth below.

| (dollars in thousands)                                | Three Months Ended June 30,<br>2016 |                           |                       | 2015               |                           |                       |
|-------------------------------------------------------|-------------------------------------|---------------------------|-----------------------|--------------------|---------------------------|-----------------------|
|                                                       | Average<br>Balance                  | Average<br>Yield/<br>Rate | Amount<br>of Interest | Average<br>Balance | Average<br>Yield/<br>Rate | Amount<br>of Interest |
| Assets                                                |                                     |                           |                       |                    |                           |                       |
| Interest earning assets:                              |                                     |                           |                       |                    |                           |                       |
| Interest-bearing deposits in other banks              | \$8,946                             | 0.48 %                    | 11                    | \$17,160           | 0.24 %                    | 11                    |
| Investment securities, excluding valuation allowance: |                                     |                           |                       |                    |                           |                       |
| Taxable (1)                                           | 1,318,579                           | 2.42                      | 7,963                 | 1,360,101          | 2.44                      | 8,285                 |
| Tax-exempt (1)                                        | 173,396                             | 3.53                      | 1,530                 | 176,086            | 3.53                      | 1,554                 |
| Total investment securities                           | 1,491,975                           | 2.55                      | 9,493                 | 1,536,187          | 2.56                      | 9,839                 |
| Loans and leases, including loans held for sale (2)   | 3,377,362                           | 3.91                      | 32,878                | 2,981,184          | 3.97                      | 29,572                |
| Federal Home Loan Bank stock                          | 12,115                              | 0.76                      | 23                    | 32,046             | 0.23                      | 18                    |
| Total interest earning assets                         | 4,890,398                           | 3.48                      | 42,405                | 4,566,577          | 3.46                      | 39,440                |
| Non-earning assets                                    | 357,690                             |                           |                       | 381,225            |                           |                       |
| Total assets                                          | \$5,248,088                         |                           |                       | \$4,947,802        |                           |                       |
| Liabilities and Equity                                |                                     |                           |                       |                    |                           |                       |
| Interest-bearing liabilities:                         |                                     |                           |                       |                    |                           |                       |
| Interest-bearing demand deposits                      | \$843,611                           | 0.06 %                    | 123                   | \$812,339          | 0.05 %                    | 99                    |
| Savings and money market deposits                     | 1,435,754                           | 0.08                      | 269                   | 1,257,940          | 0.07                      | 225                   |
| Time deposits under \$100,000                         | 207,371                             | 0.38                      | 195                   | 230,425            | 0.37                      | 212                   |
| Time deposits \$100,000 and over                      | 837,619                             | 0.37                      | 762                   | 846,966            | 0.16                      | 337                   |
| Total interest-bearing deposits                       | 3,324,355                           | 0.16                      | 1,349                 | 3,147,670          | 0.11                      | 873                   |
| Short-term borrowings                                 | 148,390                             | 0.48                      | 177                   | 116,945            | 0.28                      | 79                    |
| Long-term debt                                        | 92,785                              | 3.19                      | 735                   | 92,785             | 2.81                      | 650                   |
| Total interest-bearing liabilities                    | 3,565,530                           | 0.26                      | 2,261                 | 3,357,400          | 0.19                      | 1,602                 |
| Noninterest-bearing deposits                          | 1,134,664                           |                           |                       | 1,051,088          |                           |                       |
| Other liabilities                                     | 37,127                              |                           |                       | 42,433             |                           |                       |
| Total liabilities                                     | 4,737,321                           |                           |                       | 4,450,921          |                           |                       |
| Shareholders' equity                                  | 510,753                             |                           |                       | 496,881            |                           |                       |
| Non-controlling interest                              | 14                                  |                           |                       | —                  |                           |                       |
| Total equity                                          | 510,767                             |                           |                       | 496,881            |                           |                       |
| Total liabilities and equity                          | \$5,248,088                         |                           |                       | \$4,947,802        |                           |                       |
| Net interest income                                   |                                     |                           | \$ 40,144             |                    |                           | \$ 37,838             |
| Interest rate spread                                  |                                     | 3.22 %                    |                       |                    | 3.27 %                    |                       |

|                     |        |        |
|---------------------|--------|--------|
| Net interest margin | 3.29 % | 3.32 % |
|---------------------|--------|--------|

(1) At amortized cost.

(2) Includes nonaccrual loans.

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Net interest income (expressed on a taxable-equivalent basis) was \$40.1 million for the second quarter of 2016, representing an increase of 6.1% from \$37.8 million in the second quarter of 2015. The increase was primarily attributable to a significant increase in average loans and leases balances as we continue to redeploy excess liquidity into higher yielding assets. Offsetting this increase was a 21 basis point ("bp") increase in rates paid on the average time deposits \$100,000 and over.

Average yields earned on our interest-earning assets during the second quarter of 2016 increased by 2 bp from the second quarter of 2015. Average rates paid on our interest-bearing liabilities increased by 7 bp in the second quarter of 2016 from the second quarter of 2015.

|                                                       | Six Months Ended June 30,<br>2016 |                           |                       | 2015               |                           |                       |
|-------------------------------------------------------|-----------------------------------|---------------------------|-----------------------|--------------------|---------------------------|-----------------------|
|                                                       | Average<br>Balance                | Average<br>Yield/<br>Rate | Amount<br>of Interest | Average<br>Balance | Average<br>Yield/<br>Rate | Amount<br>of Interest |
| Assets                                                |                                   |                           |                       |                    |                           |                       |
| Interest earning assets:                              |                                   |                           |                       |                    |                           |                       |
| Interest-bearing deposits in other banks              | \$11,468                          | 0.48 %                    | 28                    | \$17,601           | 0.25 %                    | 22                    |
| Investment securities, excluding valuation allowance: |                                   |                           |                       |                    |                           |                       |
| Taxable investment securities (1)                     | 1,325,148                         | 2.47                      | 16,369                | 1,335,642          | 2.46                      | 16,444                |
| Tax-exempt investment securities (1)                  | 173,720                           | 3.53                      | 3,063                 | 176,841            | 3.49                      | 3,089                 |
| Total investment securities                           | 1,498,868                         | 2.59                      | 19,432                | 1,512,483          | 2.58                      | 19,533                |
| Loans and leases, including loans held for sale (2)   | 3,318,117                         | 3.91                      | 64,671                | 2,968,425          | 3.94                      | 58,174                |
| Federal Home Loan Bank stock                          | 9,874                             | 1.21                      | 60                    | 37,895             | 0.15                      | 29                    |
| Total interest earning assets                         | 4,838,327                         | 3.49                      | 84,191                | 4,536,404          | 3.44                      | 77,758                |
| Non-earning assets                                    | 360,089                           |                           |                       | 382,519            |                           |                       |
| Total assets                                          | \$5,198,416                       |                           |                       | \$4,918,923        |                           |                       |
| Liabilities and Equity                                |                                   |                           |                       |                    |                           |                       |
| Interest-bearing liabilities:                         |                                   |                           |                       |                    |                           |                       |
| Interest-bearing demand deposits                      | \$835,556                         | 0.06 %                    | 234                   | \$800,096          | 0.05 %                    | 194                   |
| Savings and money market deposits                     | 1,431,743                         | 0.07                      | 532                   | 1,253,428          | 0.07                      | 448                   |
| Time deposits under \$100,000                         | 209,497                           | 0.38                      | 392                   | 233,813            | 0.37                      | 434                   |
| Time deposits \$100,000 and over                      | 863,151                           | 0.34                      | 1,463                 | 841,629            | 0.16                      | 663                   |
| Total interest-bearing deposits                       | 3,339,947                         | 0.16                      | 2,621                 | 3,128,966          | 0.11                      | 1,739                 |
| Short-term borrowings                                 | 96,407                            | 0.47                      | 227                   | 90,235             | 0.27                      | 122                   |
| Long-term debt                                        | 92,785                            | 3.14                      | 1,451                 | 92,785             | 2.80                      | 1,287                 |
| Total interest-bearing liabilities                    | 3,529,139                         | 0.24                      | 4,299                 | 3,311,986          | 0.19                      | 3,148                 |
| Noninterest-bearing deposits                          | 1,123,597                         |                           |                       | 1,032,268          |                           |                       |
| Other liabilities                                     | 37,620                            |                           |                       | 42,430             |                           |                       |
| Total liabilities                                     | 4,690,356                         |                           |                       | 4,386,684          |                           |                       |
| Shareholders' equity                                  | 508,041                           |                           |                       | 532,239            |                           |                       |
| Non-controlling interest                              | 19                                |                           |                       | —                  |                           |                       |
| Total equity                                          | 508,060                           |                           |                       | 532,239            |                           |                       |
| Total liabilities and equity                          | \$5,198,416                       |                           |                       | \$4,918,923        |                           |                       |
| Net interest income                                   |                                   |                           | \$ 79,892             |                    |                           | \$ 74,610             |
| Interest rate spread                                  |                                   | 3.25 %                    |                       |                    | 3.25 %                    |                       |

|                     |        |        |
|---------------------|--------|--------|
| Net interest margin | 3.31 % | 3.30 % |
|---------------------|--------|--------|

(1) At amortized cost.

(2) Includes nonaccrual loans.

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Net interest income (expressed on a taxable-equivalent basis) was \$79.9 million for the six months ended June 30, 2016, representing an increase of 7.1% from \$74.6 million in the six months ended June 30, 2015. The increase was primarily attributable to a significant increase in average loans and leases balances as we continue to redeploy excess liquidity into higher yielding assets. Offsetting this increase was an 18 bp increase in rates paid on the average time deposits \$100,000 and over.

Average yields earned on our interest-earning assets during the six months ended June 30, 2016 increased by 5 bp from the six months ended June 30, 2015. Average rates paid on our interest-bearing liabilities also increased by 5 bp in the six months ended June 30, 2016 from the six months ended June 30, 2015.

#### Interest Income

Taxable-equivalent interest income was \$42.4 million for the second quarter of 2016, representing an increase of 7.5% from \$39.4 million in the second quarter of 2015. The increase was primarily attributable to a \$396.2 million increase in average loans and leases compared to the second quarter of 2015, accounting for approximately \$3.9 million of the increase in interest income during the second quarter of 2016. The increase was partially offset by a decrease in average taxable investment securities of \$41.5 million, compared to the second quarter of 2015, accounting for a decrease of approximately \$0.3 million in interest income during the second quarter of 2016. Average yields earned on loans and leases decreased by 6 bp compared to the second quarter of 2015, decreasing interest income by approximately \$0.4 million.

Taxable-equivalent interest income was \$84.2 million for the six months ended June 30, 2016, representing an increase of 8.3% from \$77.8 million in the six months ended June 30, 2015. The increase was primarily attributable to a \$349.7 million increase in average loans and leases compared to the six months ended June 30, 2015, accounting for approximately \$6.9 million of the increase in interest income during the six months ended June 30, 2016. The increase was partially offset by a decrease in average taxable investment securities of \$10.5 million, compared to the six months ended June 30, 2015, accounting for a decrease of approximately \$0.1 million in interest income during the six months ended June 30, 2016. Average yields earned on loans and leases decreased by 3 bp compared to the six months ended June 30, 2015, decreasing interest income by approximately \$0.4 million.

#### Interest Expense

Interest expense for the second quarter of 2016 was \$2.3 million, representing an increase of 41.1% from the second quarter of 2015. The increase was primarily attributable to a 21 bp increase in average rates paid on time deposits \$100,000 and over, which increased interest expense by \$0.4 million.

Interest expense for the six months ended June 30, 2016 was \$4.3 million, representing an increase of 36.6% from the six months ended June 30, 2015. The increase was primarily attributable a 18 bp increase in average rates paid on time deposits \$100,000 and over, which increased interest expense by \$0.8 million.

#### Net Interest Margin

Our net interest margin was 3.29% for the second quarter of 2016, compared to 3.32% for the second quarter of 2015. The decrease in our net interest margin reflects decreases of 6 bp and 2 bp on our average loans and leases and taxable investment securities portfolios, respectively, combined with an increase in rates paid on our average time deposits \$100,000 and over of 21 bp.

Our net interest margin was 3.31% for the six months ended June 30, 2016, compared to 3.30% for the six months ended June 30, 2015. The increase in our net interest margin reflects a \$349.7 million increase in our average loans

and leases. This increase was partially offset by a 3 bp decrease in rates paid on our average loans and leases portfolio, combined with a \$21.5 million increase in average time deposits \$100,000 and over and an 18 bp increase in rates paid on the portfolio.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the third quarter of 2015. In December 2015, the Federal Reserve increased the target Fed Funds range to 0.25% to 0.50% based on the improvement in labor market conditions and positive economic outlook, and the range has remained unchanged through the second quarter of 2016.

We continue to expect the target Fed Funds rate to remain low throughout 2016, as longer-term inflation continues to run below the Federal Open Market Committee's 2% longer-run objective and global macroeconomic uncertainties continue from the recent decision from the U.K. to exit the European Union. We expect the yield curve to remain relatively unchanged throughout

2016, as concerns about the ability to maintain a sustained economic recovery still remain. Thus, we expect our net interest margin to remain relatively unchanged and expand modestly as interest rates increase and the economy continues to recover.

#### Provision for Loan and Lease Losses

Our Provision was a credit of \$1.4 million during the second quarter of 2016, compared to a credit of \$7.3 million in the second quarter of 2015. Our net charge-offs were \$3 thousand during the second quarter of 2016, compared to net recoveries of \$2.8 million in the second quarter of 2015.

Our Provision was a credit of \$2.1 million during the six months ended June 30, 2016, compared to a credit of \$10.1 million in the six months ended June 30, 2015. Our net charge-offs were \$0.4 million during the six months ended June 30, 2016, compared to net recoveries of \$3.0 million in the six months ended June 30, 2015.

The credit to the provision for loan and lease losses in the three and six months ended June 30, 2016 was primarily attributable to improving trends in credit quality. Nonperforming assets as of June 30, 2016 decreased by \$17.2 million and \$1.3 million from June 30, 2015 and December 31, 2015 respectively.

#### Other Operating Income

The following table sets forth components of other operating income for the periods indicated:

| (dollars in thousands)                                                                  | Three Months Ended |               |           |          |   |
|-----------------------------------------------------------------------------------------|--------------------|---------------|-----------|----------|---|
|                                                                                         | June 30, 2016      | June 30, 2015 | \$ Change | % Change |   |
| Service charges on deposit accounts                                                     | \$1,908            | \$1,915       | \$(7)     | -0.4     | % |
| Loan servicing fees                                                                     | 1,362              | 1,427         | (65)      | -4.6     | % |
| Other service charges and fees                                                          | 3,028              | 2,781         | 247       | 8.9      | % |
| Income from fiduciary activities                                                        | 857                | 830           | 27        | 3.3      | % |
| Equity in earnings of unconsolidated subsidiaries                                       | 184                | 229           | (45)      | -19.7    | % |
| Fees on foreign exchange                                                                | 126                | 98            | 28        | 28.6     | % |
| Investment securities gains (losses)                                                    | —                  | (1,866)       | 1,866     | -100.0   | % |
| Income from bank-owned life insurance                                                   | 1,232              | 461           | 771       | 167.2    | % |
| Loan placement fees                                                                     | 133                | 225           | (92)      | -40.9    | % |
| Net gain on sales of residential loans                                                  | 1,845              | 1,630         | 215       | 13.2     | % |
| Net gain on sales of foreclosed assets                                                  | 241                | 94            | 147       | 156.4    | % |
| Other:                                                                                  |                    |               |           |          |   |
| Income recovered on nonaccrual loans previously charged-off                             | 301                | 209           | 92        | 44.0     | % |
| Other recoveries                                                                        | 249                | 15            | 234       | 1,560.0  | % |
| Net unrealized gains (losses) on loans-held-for-sale and interest rate lock commitments | (29)               | (198)         | 169       | -85.4    | % |
| Commissions on sale of checks                                                           | 86                 | 82            | 4         | 4.9      | % |
| Other                                                                                   | 169                | 192           | (23)      | -12.0    | % |
| Total other operating income                                                            | \$11,692           | \$8,124       | \$3,568   | 43.9     | % |

For the second quarter of 2016, total other operating income of \$11.7 million increased by \$3.6 million, or 43.9%, from \$8.1 million in the comparable prior year period. The increase from the comparable prior year period was primarily due to investment securities losses of \$1.9 million recorded in the year-ago quarter, and higher income from bank-owned life insurance of \$0.8 million recorded in the current quarter. The investment securities losses recorded in

the year-ago quarter was primarily attributable to the sale of \$119.4 million in available-for-sale securities which were sold as part of an investment portfolio repositioning designed to improve profitability. The higher income from bank-owned life insurance was primarily attributable to death benefit proceeds received during the current quarter totaling \$0.5 million. In addition, we recorded higher other service charges and fees, and higher other recoveries of \$0.2 million each. In the current quarter, we also recorded lower net unrealized losses on interest rate lock commitments of \$0.2 million.

| (dollars in thousands)                                                                  | Six Months Ended |                  |              |             |   |
|-----------------------------------------------------------------------------------------|------------------|------------------|--------------|-------------|---|
|                                                                                         | June 30,<br>2016 | June 30,<br>2015 | \$<br>Change | %<br>Change |   |
| Service charges on deposit accounts                                                     | \$3,872          | \$3,883          | \$(11 )      | -0.3        | % |
| Loan servicing fees                                                                     | 2,724            | 2,850            | (126 )       | -4.4        | % |
| Other service charges and fees                                                          | 5,795            | 5,886            | (91 )        | -1.5        | % |
| Income from fiduciary activities                                                        | 1,697            | 1,664            | 33           | 2.0         | % |
| Equity in earnings of unconsolidated subsidiaries                                       | 274              | 325              | (51 )        | -15.7       | % |
| Fees on foreign exchange                                                                | 274              | 226              | 48           | 21.2        | % |
| Investment securities gains (losses)                                                    | —                | (1,866 )         | 1,866        | -100.0      | % |
| Income from bank-owned life insurance                                                   | 1,857            | 1,135            | 722          | 63.6        | % |
| Loan placement fees                                                                     | 179              | 372              | (193 )       | -51.9       | % |
| Net gain on sales of residential loans                                                  | 3,311            | 3,224            | 87           | 2.7         | % |
| Net gain on sales of foreclosed assets                                                  | 549              | 127              | 422          | 332.3       | % |
| Other:                                                                                  |                  |                  |              |             |   |
| Income recovered on nonaccrual loans previously charged-off                             | 458              | 428              | 30           | 7.0         | % |
| Other recoveries                                                                        | 270              | 289              | (19 )        | -6.6        | % |
| Net unrealized gains (losses) on loans-held-for-sale and interest rate lock commitments | (108 )           | 268              | (376 )       | -140.3      | % |
| Commissions on sale of checks                                                           | 172              | 160              | 12           | 7.5         | % |
| Other                                                                                   | 533              | 343              | 190          | 55.4        | % |
| Total other operating income                                                            | \$21,857         | \$19,314         | \$2,543      | 13.2        | % |

For the six months ended June 30, 2016, total other operating income of \$21.9 million increased by \$2.5 million, or 13.2%, from \$19.3 million in the comparable prior year period. The increase from the comparable prior year period was primarily due to investment securities losses of \$1.9 million recorded in the year-ago quarter, higher income from bank-owned life insurance of \$0.7 million, and higher net gains on sales of foreclosed assets of \$0.4 million. These increases were partially offset by net unrealized losses on interest rate lock commitments of \$0.1 million recorded in the current period, compared to net unrealized gains on interest rate lock commitments of \$0.3 million recorded in the comparable prior year period.

## Other Operating Expense

The following table sets forth components of other operating expense for the periods indicated:

| (dollars in thousands)                                                    | Three Months Ended |               |           |          |
|---------------------------------------------------------------------------|--------------------|---------------|-----------|----------|
|                                                                           | June 30, 2016      | June 30, 2015 | \$ Change | % Change |
| Salaries and employee benefits                                            | \$17,850           | \$15,176      | \$2,674   | 17.6 %   |
| Net occupancy                                                             | 3,557              | 3,403         | 154       | 4.5 %    |
| Equipment                                                                 | 769                | 933           | (164 )    | -17.6 %  |
| Amortization of other intangible assets                                   | 2,423              | 1,559         | 864       | 55.4 %   |
| Communication expense                                                     | 919                | 942           | (23 )     | -2.4 %   |
| Legal and professional services                                           | 1,723              | 1,642         | 81        | 4.9 %    |
| Computer software expense                                                 | 2,222              | 2,382         | (160 )    | -6.7 %   |
| Advertising expense                                                       | 433                | 449           | (16 )     | -3.6 %   |
| Foreclosed asset expense                                                  | 49                 | 257           | (208 )    | -80.9 %  |
| Other:                                                                    |                    |               |           |          |
| Charitable contributions                                                  | 184                | 2,138         | (1,954 )  | -91.4 %  |
| FDIC insurance assessment                                                 | 563                | 701           | (138 )    | -19.7 %  |
| Miscellaneous loan expenses                                               | 306                | 434           | (128 )    | -29.5 %  |
| ATM and debit card expenses                                               | 448                | 180           | 268       | 148.9 %  |
| Amortization of investments in low-income housing tax credit partnerships | 258                | 274           | (16 )     | -5.8 %   |
| Armored car expenses                                                      | 201                | 195           | 6         | 3.1 %    |
| Entertainment and promotions                                              | 223                | 266           | (43 )     | -16.2 %  |
| Stationery and supplies                                                   | 172                | 219           | (47 )     | -21.5 %  |
| Directors' fees and expenses                                              | 199                | 214           | (15 )     | -7.0 %   |
| Provision (credit) for residential mortgage loan repurchase losses        | (36 )              | (32 )         | (4 )      | 12.5 %   |
| Increase (decrease) to the reserve for unfunded commitments               | 20                 | (272 )        | 292       | -107.4 % |
| Other                                                                     | 1,732              | 1,398         | 334       | 23.9 %   |
| Total other operating expense                                             | \$34,215           | \$32,458      | \$1,757   | 5.4 %    |

For the second quarter of 2016, total other operating expense was \$34.2 million and increased by \$1.8 million, or 5.4%, from \$32.5 million in the comparable prior year period. The increase from the comparable prior year period was primarily attributable to higher salaries and employee benefits of \$2.7 million and higher amortization of mortgage servicing rights of \$0.9 million, partially offset by lower charitable contributions of \$2.0 million. The higher salaries and employee benefits is primarily attributable to a one-time reversal in the year-ago quarter of \$2.4 million related to an accrual for a former executive officer's retirement benefits which were not paid. The higher amortization of mortgage servicing rights was primarily attributable to the decline in long-term market interest rates experienced near the end of the quarter. The lower charitable contributions was primarily attributable to a \$2.0 million contribution to the Central Pacific Bank Foundation in the year-ago quarter.

| (dollars in thousands)                                                    | Six Months Ended |               |           |          |
|---------------------------------------------------------------------------|------------------|---------------|-----------|----------|
|                                                                           | June 30, 2016    | June 30, 2015 | \$ Change | % Change |
| Salaries and employee benefits                                            | \$34,787         | \$32,341      | \$2,446   | 7.6 %    |
| Net occupancy                                                             | 6,871            | 6,904         | (33)      | -0.5 %   |
| Equipment                                                                 | 1,580            | 1,842         | (262)     | -14.2 %  |
| Amortization of other intangible assets                                   | 4,601            | 3,664         | 937       | 25.6 %   |
| Communication expense                                                     | 1,878            | 1,766         | 112       | 6.3 %    |
| Legal and professional services                                           | 3,336            | 3,861         | (525)     | -13.6 %  |
| Computer software expense                                                 | 4,926            | 4,478         | 448       | 10.0 %   |
| Advertising expense                                                       | 1,067            | 1,084         | (17)      | -1.6 %   |
| Foreclosed asset expense                                                  | 64               | 329           | (265)     | -80.5 %  |
| Other:                                                                    |                  |               |           |          |
| Charitable contributions                                                  | 402              | 2,277         | (1,875)   | -82.3 %  |
| FDIC insurance assessment                                                 | 1,202            | 1,399         | (197)     | -14.1 %  |
| Miscellaneous loan expenses                                               | 560              | 709           | (149)     | -21.0 %  |
| ATM and debit card expenses                                               | 876              | 766           | 110       | 14.4 %   |
| Amortization of investments in low-income housing tax credit partnerships | 515              | 562           | (47)      | -8.4 %   |
| Armored car expenses                                                      | 402              | 429           | (27)      | -6.3 %   |
| Entertainment and promotions                                              | 454              | 463           | (9)       | -1.9 %   |
| Stationery and supplies                                                   | 439              | 415           | 24        | 5.8 %    |
| Directors' fees and expenses                                              | 404              | 405           | (1)       | -0.2 %   |
| Provision (credit) for residential mortgage loan repurchase losses        | (387)            | ) 127         | (514)     | -404.7 % |
| Increase (decrease) to the reserve for unfunded commitments               | 64               | (303)         | ) 367     | -121.1 % |
| Other                                                                     | 3,049            | 2,958         | 91        | 3.1 %    |
| Total other operating expense                                             | \$67,090         | \$66,476      | \$614     | 0.9 %    |

For the six months ended June 30, 2016, total other operating expense was \$67.1 million and increased by \$0.6 million, or 0.9%, from \$66.5 million in the comparable prior year period. The increase from the comparable prior year period was primarily attributable to higher salaries and employee benefits of \$2.4 million, higher amortization of mortgage servicing rights of \$0.9 million, and higher computer software expense of \$0.4 million, partially offset by lower charitable contributions of \$1.9 million, lower legal and professional services of \$0.5 million, and a credit to the reserve for residential mortgage loan repurchase losses of \$0.4 million in the current period, compared to an increase to the reserve of \$0.1 million in the comparable prior year period.

#### Income Taxes

For the second quarter of 2016, the Company recorded income tax expense of \$6.3 million compared to \$7.9 million in the same prior year period. The effective tax rate for the second quarter of 2016 was 34.28% compared to 39.17% in the same prior year period.

For the six months ended June 30, 2016, the Company recorded income tax expense of \$12.4 million compared to \$13.7 million in the same prior year period. The effective tax rate for the six months ended June 30, 2016 was 34.71% compared to 37.61% in the same prior year period.

Income tax expense decreased in the three and six months ended June 30, 2016 due to a decrease in operating income. Additionally, income tax expense and the effective tax rate in the three and six months ended June 30, 2015 was impacted by \$0.6 million in additional state income tax expense resulting from the reduction in deferred tax liabilities related to the redemption of Federal Home Loan Bank of Des Moines membership stock in June 2015.

The remaining valuation allowance on our net DTA totaled \$2.8 million at June 30, 2016 and December 31, 2015, which related to our California state income taxes as we do not expect to generate sufficient income in California to utilize the DTA. Net of this valuation allowance, the Company's net DTA totaled \$58.3 million at June 30, 2016 compared to a net DTA of \$82.0 million as of December 31, 2015, and is included in other assets on our consolidated balance sheets.

## Financial Condition

Total assets at June 30, 2016 of \$5.28 billion increased by \$151.7 million from \$5.13 billion at December 31, 2015.

## Investment Securities

Investment securities of \$1.49 billion at June 30, 2016 decreased by \$25.3 million, or 1.7%, from December 31, 2015. The decrease reflects principal runoff, offset by investment securities purchases totaling \$46.2 million and a \$9.7 million increase in the market valuation on the available-for-sale portfolio.

## Loans and Leases

The following table sets forth information regarding our outstanding loans and leases by category and geographic location as of the dates indicated.

| (Dollars in thousands)                 | June 30,<br>2016 | December<br>31,<br>2015 | \$ Change  | %<br>Change |
|----------------------------------------|------------------|-------------------------|------------|-------------|
| Hawaii:                                |                  |                         |            |             |
| Commercial, financial and agricultural | \$360,102        | \$339,738               | \$20,364   | 6.0 %       |
| Real estate:                           |                  |                         |            |             |
| Construction                           | 95,355           | 81,655                  | 13,700     | 16.8        |
| Mortgage - residential                 | 1,501,775        | 1,436,305               | 65,470     | 4.6         |
| Mortgage - commercial                  | 716,452          | 642,845                 | 73,607     | 11.5        |
| Consumer                               | 277,874          | 273,248                 | 4,626      | 1.7         |
| Leases                                 | 843              | 1,028                   | (185)      | (18.0)      |
| Total loans and leases                 | 2,952,401        | 2,774,819               | 177,582    | 6.4         |
| Allowance for loan and lease losses    | (52,375)         | (54,141)                | 1,766      | (3.3)       |
| Net loans and leases                   | \$2,900,026      | \$2,720,678             | \$179,348  | 6.6         |
| U.S. Mainland:                         |                  |                         |            |             |
| Commercial, financial and agricultural | \$143,965        | \$181,348               | \$(37,383) | (20.6)      |
| Real estate:                           |                  |                         |            |             |
| Construction                           | 3,073            | 3,230                   | (157)      | (4.9)       |
| Mortgage - residential                 | —                | —                       | —          | —           |
| Mortgage - commercial                  | 126,132          | 117,904                 | 8,228      | 7.0         |
| Consumer                               | 178,376          | 134,231                 | 44,145     | 32.9        |
| Leases                                 | —                | —                       | —          | —           |
| Total loans and leases                 | 451,546          | 436,713                 | 14,833     | 3.4         |
| Allowance for loan and lease losses    | (8,389)          | (9,173)                 | 784        | (8.5)       |
| Net loans and leases                   | \$443,157        | \$427,540               | \$15,617   | 3.7         |
| Total:                                 |                  |                         |            |             |
| Commercial, financial and agricultural | \$504,067        | \$521,086               | \$(17,019) | (3.3)       |
| Real estate:                           |                  |                         |            |             |
| Construction                           | 98,428           | 84,885                  | 13,543     | 16.0        |
| Mortgage - residential                 | 1,501,775        | 1,436,305               | 65,470     | 4.6         |
| Mortgage - commercial                  | 842,584          | 760,749                 | 81,835     | 10.8        |

|                                     |             |             |           |        |
|-------------------------------------|-------------|-------------|-----------|--------|
| Consumer                            | 456,250     | 407,479     | 48,771    | 12.0   |
| Leases                              | 843         | 1,028       | (185)     | (18.0) |
| Total loans and leases              | 3,403,947   | 3,211,532   | 192,415   | 6.0    |
| Allowance for loan and lease losses | (60,764)    | (63,314)    | 2,550     | (4.0)  |
| Net loans and leases                | \$3,343,183 | \$3,148,218 | \$194,965 | 6.2    |

Loans and leases, net of deferred income/costs, of \$3.40 billion at June 30, 2016 increased by \$192.4 million, or 6.0%, from December 31, 2015. The increase was due to increases in the commercial mortgage, residential mortgage, consumer, and construction loan portfolios of \$81.8 million, \$65.5 million, \$48.8 million, and \$13.5 million, respectively, partially offset by a decrease in the commercial loan portfolio of \$17.0 million. The net increase in the portfolio is partially offset by loan charge-offs totaling \$2.9 million.

The Hawaii commercial mortgage and residential mortgage loan portfolios increased by \$73.6 million and \$65.5 million, respectively, from December 31, 2015. These increases were primarily due to an increased demand from both new and existing customers as the real estate economy in Hawaii has continued to improve.

The increase in the U.S. Mainland consumer loan portfolio was primarily due to consumer loan portfolio purchases. In March 2016, we purchased a direct auto loan portfolio totaling \$23.2 million, which included a \$0.3 million premium over the \$22.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 56 months and a weighted average yield of 3.88%. During the first quarter of 2016, we also purchased unsecured consumer loans totaling \$29.2 million, which represented the outstanding balances at the time of purchases. At the time of purchases, the unsecured consumer loans had a weighted average remaining term of 38 months and a weighted average interest rate of 7.55%.

In May 2016, we purchased another direct auto loan portfolio totaling \$18.0 million which included a \$0.5 million premium over the \$17.5 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 75 months and a weighted average yield of 3.75%. During the second quarter of 2016, we also purchased unsecured consumer loans totaling \$7.3 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 37 months and a weighted average interest rate of 7.57%.

#### Nonperforming Assets, Accruing Loans Delinquent for 90 Days or More, Restructured Loans Still Accruing Interest

The following table sets forth nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as of the dates indicated.

| (dollars in thousands)                                                                                                                                          | June 30,<br>2016 | December<br>31,<br>2015 | \$<br>Change | %<br>Change |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|--------------|-------------|
| Nonperforming Assets                                                                                                                                            |                  |                         |              |             |
| Nonaccrual loans (including loans held for sale):                                                                                                               |                  |                         |              |             |
| Commercial, financial and agricultural                                                                                                                          | \$2,132          | \$1,044                 | \$1,088      | 104.2 %     |
| Real estate:                                                                                                                                                    |                  |                         |              |             |
| Mortgage - residential                                                                                                                                          | 8,670            | 6,130                   | 2,540        | 41.4        |
| Mortgage - commercial                                                                                                                                           | 3,073            | 7,094                   | (4,021 )     | (56.7 )     |
| Total nonaccrual loans                                                                                                                                          | 13,875           | 14,268                  | (393 )       | (2.8 )      |
| Other real estate owned ("OREO"):                                                                                                                               |                  |                         |              |             |
| Real estate:                                                                                                                                                    |                  |                         |              |             |
| Mortgage - residential                                                                                                                                          | 1,032            | 1,962                   | (930 )       | (47.4 )     |
| Total OREO                                                                                                                                                      | 1,032            | 1,962                   | (930 )       | (47.4 )     |
| Total nonperforming assets                                                                                                                                      | 14,907           | 16,230                  | (1,323 )     | (8.2 )      |
| Accruing Loans Delinquent for 90 Days or More                                                                                                                   |                  |                         |              |             |
| Real estate:                                                                                                                                                    |                  |                         |              |             |
| Mortgage - residential                                                                                                                                          | 135              | —                       | 135          | —           |
| Consumer                                                                                                                                                        | 134              | 273                     | (139 )       | (50.9 )     |
| Total accruing loans delinquent for 90 days or more                                                                                                             | 269              | 273                     | (4 )         | (1.5 )      |
| Restructured Loans Still Accruing Interest                                                                                                                      |                  |                         |              |             |
| Real estate:                                                                                                                                                    |                  |                         |              |             |
| Construction                                                                                                                                                    | 745              | 809                     | (64 )        | (7.9 )      |
| Mortgage - residential                                                                                                                                          | 15,729           | 16,224                  | (495 )       | (3.1 )      |
| Mortgage - commercial                                                                                                                                           | 3,020            | 3,224                   | (204 )       | (6.3 )      |
| Total restructured loans still accruing interest                                                                                                                | 19,494           | 20,257                  | (763 )       | (3.8 )      |
| Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest                                        | \$34,670         | \$36,760                | \$(2,090)    | (5.7 )      |
| Ratio of nonaccrual loans to total loans and leases                                                                                                             | 0.41             | % 0.44                  | %            | (0.03 )%    |
| Ratio of nonperforming assets to total loans and leases and OREO                                                                                                | 0.44             | % 0.51                  | %            | (0.07 )%    |
| Ratio of nonperforming assets and accruing loans delinquent for 90 days or more to total loans and leases and OREO                                              | 0.45             | % 0.51                  | %            | (0.06 )%    |
| Ratio of nonperforming assets, accruing loans delinquent for 90 days or more, and restructured loans still accruing interest to total loans and leases and OREO | 1.02             | % 1.14                  | %            | (0.12 )%    |

The following table sets forth activity in nonperforming assets as of the date indicated.

#### Year-to-Date Changes in Nonperforming Assets:

(dollars in thousands)

|                              |          |
|------------------------------|----------|
| Balance at December 31, 2015 | \$16,230 |
| Additions                    | 5,637    |
| Reductions:                  |          |

|                                          |           |
|------------------------------------------|-----------|
| Payments                                 | (1,681 )  |
| Return to accrual status                 | (3,850 )  |
| Sales of nonperforming assets            | (1,567 )  |
| Charge-offs and/or valuation adjustments | 138       |
| Total reductions                         | (6,960 )  |
| Net increase (decrease)                  | (1,323 )  |
| Balance at June 30, 2016                 | \$ 14,907 |

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Nonperforming assets, which includes nonaccrual loans and leases and other real estate, totaled \$14.9 million at June 30, 2016, compared to \$16.2 million at December 31, 2015. There were no nonperforming loans classified as held for sale at June 30, 2016 and December 31, 2015. The decrease in nonperforming assets from December 31, 2015 was attributable to \$1.7 million in repayments, \$3.9 million in loans restored to accrual status, and \$1.6 million in sales of nonperforming assets, offset by gross additions of \$5.6 million.

Net changes to nonperforming assets by category included net decreases in Hawaii commercial mortgage assets of \$4.0 million, offset by increases in Hawaii residential mortgage assets of \$1.6 million, and Hawaii commercial assets of \$1.1 million.

Troubled debt restructurings (“TDRs”) included in nonperforming assets at June 30, 2016 totaled \$4.3 million and consisted of 21 Hawaii residential mortgage loans with a combined principal balance of \$3.4 million and three Hawaii commercial, financial and agricultural loans with a combined principal balance of \$0.9 million.

Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were \$19.5 million of TDRs still accruing interest at June 30, 2016, none of which were more than 90 days delinquent. At December 31, 2015, there were \$20.3 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

# Allowance for Loan and Lease Losses

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

|                                                                              | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|------------------------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
| (dollars in thousands)                                                       | 2016                           | 2015       | 2016                         | 2015       |
| Allowance for Loan and Lease Losses:                                         |                                |            |                              |            |
| Balance at beginning of period                                               | \$62,149                       | \$71,433   | \$63,314                     | \$74,040   |
| Provision (credit) for loan and lease losses                                 | (1,382 )                       | (7,319 )   | (2,129 )                     | (10,066 )  |
| Charge-offs:                                                                 |                                |            |                              |            |
| Commercial, financial and agricultural                                       | 272                            | 4,003      | 624                          | 4,934      |
| Real estate:                                                                 |                                |            |                              |            |
| Construction                                                                 | —                              | —          | —                            | —          |
| Mortgage-residential                                                         | —                              | 50         | —                            | 64         |
| Mortgage-commercial                                                          | —                              | —          | —                            | —          |
| Consumer                                                                     | 1,135                          | 1,214      | 2,247                        | 3,055      |
| Leases                                                                       | —                              | —          | —                            | —          |
| Total charge-offs                                                            | 1,407                          | 5,267      | 2,871                        | 8,053      |
| Recoveries:                                                                  |                                |            |                              |            |
| Commercial, financial and agricultural                                       | 720                            | 3,279      | 1,069                        | 3,873      |
| Real estate:                                                                 |                                |            |                              |            |
| Construction                                                                 | 9                              | 464        | 18                           | 587        |
| Mortgage-residential                                                         | 177                            | 397        | 214                          | 1,885      |
| Mortgage-commercial                                                          | 14                             | 3,562      | 27                           | 3,575      |
| Consumer                                                                     | 484                            | 375        | 1,122                        | 1,083      |
| Leases                                                                       | —                              | —          | —                            | —          |
| Total recoveries                                                             | 1,404                          | 8,077      | 2,450                        | 11,003     |
| Net charge-offs (recoveries)                                                 | 3                              | (2,810 )   | 421                          | (2,950 )   |
| Balance at end of period                                                     | \$60,764                       | \$66,924   | \$60,764                     | \$66,924   |
| Annualized ratio of net charge-offs (recoveries) to average loans and leases | —                              | % (0.38 )% | 0.03                         | % (0.20 )% |

Our Allowance at June 30, 2016 totaled \$60.8 million compared to \$63.3 million at December 31, 2015. The decrease in our Allowance during the six months ended June 30, 2016, was a direct result of a credit to the Provision of \$2.1 million and by \$0.4 million in net loan charge-offs.

Our Allowance as a percentage of total loans and leases decreased from 1.97% at December 31, 2015 to 1.79% at June 30, 2016. Our Allowance as a percentage of nonperforming assets increased from 390.10% at December 31, 2015 to 407.62% at June 30, 2016.

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

#### Federal Home Loan Bank Stock

The bank is a member of the Federal Home Loan Bank of Des Moines (the “FHLB”). FHLB membership stock of \$15.2 million at June 30, 2016 increased by \$6.6 million, or 76.83%, from the FHLB membership stock balance at December 31, 2015.

## Deposits

Total deposits of \$4.41 billion at June 30, 2016 reflected a decrease of \$28.3 million, or 0.6%, from total deposits of \$4.43 billion at December 31, 2015. The decrease was attributable to net decreases in savings and money market deposits of \$27.9 million, time deposits \$100,000 and greater of \$19.3 million, and time deposits less than \$100,000 of \$10.2 million, offset by net increases in interest-bearing demand deposits of \$21.7 million and noninterest-bearing demand deposits of \$7.4 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than \$100,000, totaled \$3.57 billion at June 30, 2016 and decreased by \$9.0 million, or 0.3%, from December 31, 2015.

The following table sets forth the composition of our deposits by category for the periods indicated:

| (dollars in thousands)                    | June 30,<br>2016 | December<br>31, 2015 | \$ Change  | %<br>Change |
|-------------------------------------------|------------------|----------------------|------------|-------------|
| Noninterest-bearing demand deposits       | \$ 1,152,666     | \$ 1,145,244         | \$ 7,422   | 0.6 %       |
| Interest-bearing demand deposits          | 846,589          | 824,895              | 21,694     | 2.6         |
| Savings and money market deposits         | 1,371,163        | 1,399,093            | (27,930 )  | (2.0 )      |
| Time deposits less than \$100,000         | 202,733          | 212,946              | (10,213 )  | (4.8 )      |
| Core deposits                             | 3,573,151        | 3,582,178            | (9,027 )   | (0.3 )      |
| Government deposits                       | 645,134          | 664,756              | (19,622 )  | (3.0 )      |
| Other time deposits \$100,000 and greater | 186,857          | 186,505              | 352        | 0.2         |
| Total deposits \$100,000 and greater      | 831,991          | 851,261              | (19,270 )  | (2.3 )      |
| Total deposits                            | \$4,405,142      | \$4,433,439          | \$(28,297) | (0.6 )      |

## Capital Resources

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with an analysis of the size and quality of our assets, the level of risk and regulatory capital requirements. As part of this ongoing assessment, the Board of Directors reviews our capital position on an ongoing basis to ensure it is adequate, including, but not limited to, need for raising additional capital or returning capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

## Common Stock

Shareholders' equity totaled \$517.6 million at June 30, 2016, compared to \$494.6 million at December 31, 2015. The increase in total shareholders' equity was attributable to other comprehensive income of \$18.2 million and net income of \$23.3 million in the six months ended June 30, 2016, partially offset by the repurchase of 492,922 shares of common stock, at a cost of \$10.5 million, under our repurchase program, and cash dividends paid of \$8.7 million. During the six months ended June 30, 2016, we repurchased approximately 1.6% of our common stock outstanding as of December 31, 2015.

## Holding Company Capital Resources

As a Hawaii state-chartered bank, the bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of June 30, 2016, the bank had Statutory Retained Earnings of \$66.6 million. On July 27, 2016, the Company's Board of Directors

declared a cash dividend of \$0.16 per share, a 14.3% and a 33.3% increase from the \$0.14 and \$0.12 per share in the first quarter of 2016 and second quarter of 2015, respectively, on the Company's outstanding common stock.

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.

In January 2016, the Board of Directors approved the authorization to repurchase up to \$30.0 million of the Company's common stock (the "2016 Repurchase Plan"), which supersedes in its entirety the repurchase plan that was previously approved by the Board of Directors. As of June 30, 2016, \$19.5 million remained of the total \$30.0 million total repurchase amount authorized by the Board of Directors under the 2016 Repurchase Plan. The plan has no set expiration or termination date.

As of June 30, 2016, on a stand-alone basis, CPF had an available cash balance of approximately \$13.1 million in order to meet its ongoing obligations.

#### Trust Preferred Securities

We have four statutory trusts, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of \$90.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

#### Regulatory Capital Ratios

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain minimum leverage capital, Tier 1 risk-based capital, total risk-based capital, and common equity Tier 1 ("CET1") capital ratios. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our 2015 Form 10-K "Business — Supervision and Regulation."

The Company's and the bank's leverage capital, tier 1 risk-based capital, total risk-based capital, and CET1 risk-based capital ratios as of June 30, 2016 were above the levels required for a "well capitalized" regulatory designation.

The following table sets forth the Company's and the bank's capital ratios, as well as the minimum capital adequacy requirements applicable to all financial institutions as of the dates indicated.

|                           | Actual    |        | Minimum<br>Required for<br>Capital Adequacy<br>Purposes |       | Minimum<br>Required to be<br>Well Capitalized |       |
|---------------------------|-----------|--------|---------------------------------------------------------|-------|-----------------------------------------------|-------|
| (dollars in thousands)    | Amount    | Ratio  | Amount                                                  | Ratio | Amount                                        | Ratio |
| Company                   |           |        |                                                         |       |                                               |       |
| At June 30, 2016:         |           |        |                                                         |       |                                               |       |
| Leverage capital          | \$560,674 | 10.8 % | \$ 207,829                                              | 4.0 % | \$259,786                                     | 5.0 % |
| Tier 1 risk-based capital | 560,674   | 14.6   | 230,335                                                 | 6.0   | 307,113                                       | 8.0   |
| Total risk-based capital  | 609,012   | 15.9   | 307,113                                                 | 8.0   | 383,892                                       | 10.0  |
| CET1 risk-based capital   | 481,209   | 12.5   | 172,751                                                 | 4.5   | 249,530                                       | 6.5   |

At December 31, 2015:

|                           |           |        |            |       |           |       |
|---------------------------|-----------|--------|------------|-------|-----------|-------|
| Leverage capital          | \$532,787 | 10.7 % | \$ 199,350 | 4.0 % | \$249,187 | 5.0 % |
| Tier 1 risk-based capital | 532,787   | 14.4   | 221,808    | 6.0   | 295,745   | 8.0   |
| Total risk-based capital  | 579,651   | 15.7   | 295,745    | 8.0   | 369,681   | 10.0  |
| CET1 risk-based capital   | 472,698   | 12.8   | 166,356    | 4.5   | 240,292   | 6.5   |

Central Pacific Bank

At June 30, 2016:

|                           |           |        |            |       |           |       |
|---------------------------|-----------|--------|------------|-------|-----------|-------|
| Leverage capital          | \$529,754 | 10.2 % | \$ 207,161 | 4.0 % | \$258,951 | 5.0 % |
| Tier 1 risk-based capital | 529,754   | 13.8   | 229,985    | 6.0   | 306,647   | 8.0   |
| Total risk-based capital  | 577,966   | 15.1   | 306,647    | 8.0   | 383,309   | 10.0  |
| CET1 risk-based capital   | 529,754   | 13.8   | 172,489    | 4.5   | 249,151   | 6.5   |

At December 31, 2015:

|                           |           |        |            |       |           |       |
|---------------------------|-----------|--------|------------|-------|-----------|-------|
| Leverage capital          | \$518,617 | 10.4 % | \$ 199,098 | 4.0 % | \$248,872 | 5.0 % |
| Tier 1 risk-based capital | 518,617   | 14.1   | 221,435    | 6.0   | 295,247   | 8.0   |
| Total risk-based capital  | 565,231   | 15.3   | 295,247    | 8.0   | 369,058   | 10.0  |
| CET1 risk-based capital   | 518,617   | 14.1   | 166,076    | 4.5   | 239,888   | 6.5   |

### Liquidity and Borrowing Arrangements

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

Core deposits have historically provided us with a sizable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. In addition to core deposit funding, we also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the FHLB, secured repurchase agreements and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these other funding sources, access to these sources may not be guaranteed and can be restricted in the future as a result of market conditions or the Company's and bank's financial position.

The bank is a member of and maintained a \$1.3 billion line of credit with the FHLB as of June 30, 2016. Short-term borrowings under this arrangement totaled \$226.0 million at June 30, 2016, compared to \$69.0 million at December 31, 2015, respectively. There were no long-term borrowings under this arrangement at June 30, 2016 and December 31, 2015. FHLB advances outstanding at June 30, 2016 were secured by unencumbered investment securities with a fair value of \$0.7 million and certain real estate loans with a carrying value of \$1.7 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At June 30, 2016, \$1.2 billion was undrawn under this arrangement.

At June 30, 2016 and December 31, 2015, our bank had additional unused borrowings available at the Federal Reserve discount window of \$67.2 million and \$40.8 million, respectively. As of June 30, 2016 and December 31, 2015, certain commercial and commercial real estate loans with a carrying value totaling \$140.7 million and \$87.3 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.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to maintain our strong risk profile and capital base. Our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

#### Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes in our contractual obligations since December 31, 2015.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk that occurs when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives. The Asset/Liability Committee (“ALCO”) monitors interest rate risk through the use of interest rate sensitivity gap, net interest income and market value of portfolio equity simulation, and rate shock analyses. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at June 30, 2016 would not result in a fluctuation of NII that would exceed the established policy limits.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), the Company’s management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company’s Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company’s disclosure controls and procedures were effective.

##### Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, there have been no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this

report relates that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 25, 2016.

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

## Issuer Purchases of Equity Securities

In the three months ended June 30, 2016, 259,200 shares of common stock, at an aggregate cost of \$5.8 million, excluding fees and expenses, were repurchased under this program as described in the table below. A total of \$19.5 million remained available for repurchase under the program at June 30, 2016.

| Issuer Purchases of Equity Securities |                                  |                              |                                                               |                                                                               |
|---------------------------------------|----------------------------------|------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------------|
| Period                                | Total Number of Shares Purchased | Average Price Paid per Share | Total Shares Purchased as Part of Publicly Announced Programs | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(1) |
| April 1-30, 2016                      | 126,000                          | \$ 21.50                     | 126,000                                                       | \$ 22,541,103                                                                 |
| May 1-31, 2016                        | 65,800                           | 22.83                        | 65,800                                                        | 21,039,147                                                                    |
| June 1-30, 2016                       | 67,400                           | 23.49                        | 67,400                                                        | 19,455,792                                                                    |
| Total                                 | 259,200                          | \$ 22.36                     | 259,200                                                       | \$ 19,455,792                                                                 |

On January 27, 2016, our Board of Directors (the "BOD") approved the authorization to repurchase up to \$30.0 million of the Company's common stock (the "2016 Repurchase Plan"), which supersedes in its entirety the (1) repurchase plan that was previously approved by the BOD. As of June 30, 2016, \$19.5 million remained of the total \$30.0 million total repurchase amount authorized by the BOD under the 2016 Repurchase Plan. The plan has no set expiration or termination date.

Item 6. Exhibits

Exhibit No. Document

|         |                                                                                                                            |
|---------|----------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 * |
| 31.2    | Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 * |
| 32.1    | Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **  |
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| 101.INS | XBRL Instance Document*                                                                                                    |
| 101.SCH | XBRL Taxonomy Extension Schema Document*                                                                                   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*                                                                     |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*                                                                           |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*                                                                    |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document*                                                                      |

\* Filed herewith.

\*\* Furnished herewith.

SIGNATURES

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

CENTRAL PACIFIC FINANCIAL CORP.  
(Registrant)

Date: August 3, 2016 /s/ A. Catherine Ngo  
A. Catherine Ngo  
President and Chief Executive Officer

Date: August 3, 2016 /s/ David S. Morimoto  
David S. Morimoto  
Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.  
Exhibit Index

Exhibit No. Description

|         |                                                                                                                          |
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