CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 09, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from to

Commission file number 001-31567

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

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

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

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

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 ý No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act . o

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

The number of shares outstanding of registrant's common stock, no par value, on April 25, 2018 was 29,600,237 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
Form 10-Q

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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, plans and objectives of management for future operations, future economic performance, or 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 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, the results of regulatory examinations or reviews and the effect of, and our ability to comply with, any regulatory orders or actions we are or may become subject to; ability to successfully implement our initiatives to lower our efficiency ratio; the ability to address any material weakness in our internal controls over financial reporting or disclosure controls and procedures; 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)	March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	$59,905	$75,318
Interest-bearing deposits in other banks	5,875	6,975
Investment securities:		
Available-for-sale debt securities, at fair value	1,326,092	1,304,066
Held-to-maturity debt securities, at amortized cost; fair value of: $171,399 at March 31, 2018 and $189,201 at December 31, 2017	177,078	191,753
Equity securities, at fair value	753	825
Total investment securities	1,503,923	1,496,644
Loans held for sale	7,492	16,336
Loans and leases	3,816,146	3,770,615
Allowance for loan and lease losses	(49,217)	(50,001)
Net loans and leases	3,766,929	3,720,614
Premises and equipment, net	47,436	48,348
Accrued interest receivable	16,070	16,581
Investment in unconsolidated subsidiaries	6,478	7,088
Other real estate owned	595	851
Mortgage servicing rights	15,821	15,843
Core deposit premium	1,337	2,006
Bank-owned life insurance	156,611	156,293
Federal Home Loan Bank stock	9,007	7,761
Other assets	53,808	53,050
Total assets	$5,651,287	$5,623,708
Liabilities		
Deposits:		
Noninterest-bearing demand	$1,349,029	$1,395,556
Interest-bearing demand	946,464	933,054
Savings and money market	1,533,483	1,481,876
Time	1,151,455	1,145,868
Total deposits	4,980,431	4,956,354
Short-term borrowings	56,000	32,000
Long-term debt	92,785	92,785
Other liabilities	37,963	42,534
Total liabilities	5,167,179	5,123,673
Equity		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding: none at March 31, 2018 and December 31, 2017	—	—
	493,794	503,988

Common stock, no par value, authorized 185,000,000 shares; issued and outstanding: 29,707,122 at March 31, 2018 and 30,024,222 at December 31, 2017		
Surplus	86,497	86,098
Accumulated deficit	(78,454)	(89,036)
Accumulated other comprehensive income (loss)	(17,729)	(1,039)
Total shareholders' equity	484,108	500,011
Non-controlling interest	—	24
Total equity	484,108	500,035
Total liabilities and equity	$5,651,287	$5,623,708

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(dollars in thousands, except per share data)	2018	2017
Interest income:		
Interest and fees on loans and leases	$37,390	$ 34,957
Interest and dividends on investment securities:		
Taxable interest	8,843	8,135
Tax-exempt interest	933	979
Dividends	15	12
Interest on deposits in other banks	84	74
Dividends on Federal Home Loan Bank stock	45	56
Total interest income	47,310	44,213
Interest expense:		
Interest on deposits:		
Demand	180	140
Savings and money market	369	257
Time	3,425	1,717
Interest on short-term borrowings	43	31
Interest on long-term debt	971	813
Total interest expense	4,988	2,958
Net interest income	42,322	41,255
Provision (credit) for loan and lease losses	(211)	(80)
Net interest income after credit for loan and lease losses	42,533	41,335
Other operating income:		
Mortgage banking income	1,847	1,943
Service charges on deposit accounts	2,003	2,036
Other service charges and fees	3,034	2,748
Income from fiduciary activities	956	864
Equity in earnings of unconsolidated subsidiaries	43	61
Fees on foreign exchange	211	163
Income from bank-owned life insurance	318	1,117
Loan placement fees	197	134
Net gain on sales of foreclosed assets	—	102
Other	345	846
Total other operating income	8,954	10,014
Other operating expense:		
Salaries and employee benefits	18,505	17,387
Net occupancy	3,266	3,414
Equipment	1,068	842
Amortization of core deposit premium	669	668
Communication expense	898	900
Legal and professional services	1,821	1,792
Computer software expense	2,267	2,252
Advertising expense	612	392
Foreclosed asset expense	294	36
Other	4,118	3,777
Total other operating expense	33,518	31,460

Income before income taxes	17,969	19,889
Income tax expense	3,692	6,810
Net income	$ 14,277	$ 13,079
Per common share data:		
Basic earnings per common share	$ 0.48	$ 0.43
Diluted earnings per common share	$ 0.48	$ 0.42
Cash dividends declared	$ 0.19	$ 0.16
Shares used in computation:		
Basic shares	29,807,572	30,714,895
Diluted shares	30,041,351	31,001,238

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Net income	$14,277	$13,079
Other comprehensive income (loss), net of tax:		
Net change in unrealized gain (loss) on investment securities	(14,971)	2,124
Minimum pension liability adjustment	256	(364)
Total other comprehensive income (loss), net of tax	(14,715)	1,760
Comprehensive income (loss)	$(438)	$14,839

See accompanying notes to consolidated financial statements.

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

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(dollars in thousands, except per share data)							
Balance at December 31, 2017	30,024,222	$ —	$503,988	$86,098	$(89,036)	$(1,039)	$ 24	$500,035
Impact of the adoption of new accounting standards (1)	—	—	—	—	1,975	(1,975)	—	—
Net income	—	—	—	—	14,277	—	—	14,277
Other comprehensive loss	—	—	—	—	—	(14,715)	—	(14,715)
Cash dividends ($0.19 per share)	—	—	—	—	(5,670)	—	—	(5,670)
2,850 net shares of common stock purchased by directors' deferred compensation plan	—	—	(83)	—	—	—	—	(83)
344,362 shares of common stock repurchased and other related costs	(344,362)	—	(10,111)		—	—	—	(10,111)
Share-based compensation	27,262	—	—	399	—	—	—	399
Non-controlling interest	—	—	—	—	—	—	(24)	(24)
Balance at March 31, 2018	29,707,122	$ —	$493,794	$86,497	$(78,454)	$(17,729)	$ —	$484,108
Balance at December 31, 2016	30,796,243	$ —	$530,932	$84,180	$(108,941)	$(1,521)	$ 25	$504,675
Net income	—	—	—	—	13,079	—	—	13,079
Other comprehensive income	—	—	—	—	—	1,760	—	1,760
Cash dividends ($0.16 per share)	—	—	—	—	(4,922)	—	—	(4,922)
113,750 shares of common stock repurchased and other related costs	(113,750)	—	(3,529)	—	—	—	—	(3,529)
Share-based compensation	18,726	—	—	498	—	—	—	498
Non-controlling interest	—	—	—	—	—	—	—	—
Balance at March 31, 2017	30,701,219	$ —	$527,403	$84,678	$(100,784)	$ 239	$ 25	$511,561

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") 2018-02 and ASU 2016-01. See Note 2 - Recent Accounting Pronouncements to the consolidated financial statements for additional information.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$14,277	$13,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(211)	(80)
Depreciation and amortization	1,599	1,537
Write down of other real estate, net of gain on sale	256	(162)
Amortization of core deposit premium and mortgage servicing rights	1,126	1,188
Net amortization and accretion of premium/discounts on investment securities	2,922	2,966
Share-based compensation	399	498
Net gain on sales of residential mortgage loans	(972)	(1,312)
Proceeds from sales of loans held for sale	64,106	86,663
Originations of loans held for sale	(54,290)	(63,375)
Equity in earnings of unconsolidated subsidiaries	(43)	(61)
Net increase in cash surrender value of bank-owned life insurance	(318)	(208)
Deferred income taxes	3,620	6,685
Net tax benefits from share-based compensation	72	125
Net change in other assets and liabilities	(3,198)	(2,373)
Net cash provided by operating activities	29,345	45,170
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available-for-sale	40,039	49,204
Purchases of investment securities available-for-sale	(85,240)	(107,512)
Proceeds from maturities of and calls on investment securities held-to-maturity	14,545	6,069
Net loan proceeds (originations)	(46,144)	2,111
Purchases of loan portfolios	—	(24,121)
Proceeds from sale of foreclosed loans/other real estate owned	40	102
Proceeds from bank-owned life insurance	—	782
Purchases of premises and equipment	(687)	(1,582)
Net return of capital from unconsolidated subsidiaries	539	438
Net (purchases of) proceeds from redemption of FHLB stock	(1,246)	4,239
Net cash used in investing activities	(78,154)	(70,270)
Cash flows from financing activities:		
Net increase in deposits	24,077	169,243
Net (decrease) increase in short-term borrowings	24,000	(114,000)
Cash dividends paid on common stock	(5,670)	(4,922)
Repurchases of common stock and other related costs	(10,111)	(3,529)
Net cash provided by financing activities	32,296	46,792
Net increase (decrease) in cash and cash equivalents	(16,513)	21,692
Cash and cash equivalents at beginning of period	82,293	84,341
Cash and cash equivalents at end of period	$65,780	$106,033
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$4,877	$2,396
Income taxes	22	—

Supplemental disclosure of non-cash investing and financing activities:		
Net reclassification of loans to foreclosed loans/other real estate owned	40	—

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, as amended by our Form 10-K/A for the fiscal year ended December 31, 2017. 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 was consolidated into our financial statements. One Hawaii HomeLoans, LLC was terminated in 2017, and final payment of taxes and distributions to members were made in March 2018.

We have 50% ownership interests in three other mortgage loan origination and brokerage companies which are accounted for using the equity method and are included in investment in unconsolidated subsidiaries: Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC. We also had 50% ownership interest in one additional mortgage loan origination and brokerage company, Pacific Access Mortgage, LLC, which was also accounted for using the equity method and was included in investment in unconsolidated subsidiaries. Pacific Access Mortgage, LLC was terminated in 2017, and final payment of taxes and distributions to members were made in March 2018.

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

Our investments in unconsolidated subsidiaries accounted for under the equity and cost methods were $0.1 million and $6.3 million, respectively, at March 31, 2018 and $0.6 million and $6.5 million, respectively, at December 31, 2017. Our policy for determining impairment of these investments includes an evaluation of whether a loss in value of an investment is other than temporary. Evidence of a loss in value includes absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. We perform impairment tests whenever indicators of impairment are present. If the value of an investment declines and it is considered other than temporary, the investment is written down to its respective fair value in the period in which this determination is made.

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

Reclassifications

The Company's equity investment securities in the prior year have been reclassified from available-for-sale debt securities to conform to the current year's presentation. The reclassification had no impact on the Company's reported net income or shareholders' equity.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in 2018

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU replaces most existing revenue recognition guidance in GAAP. 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 (Topic 606): Deferral of the Effective Date" which deferred the effective date by one year. For financial reporting purposes, the standard allows for either a full retrospective or modified retrospective adoption. The FASB has also issued additional updates to provide further clarification to specific implementation issues associated with ASU 2014-09. These updates include ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations," ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," and ASU 2016-20 "Technical Corrections and Improvements to Topic 606." Our revenue is comprised of net interest income on financial assets and financial liabilities, which is our main source of income, and other operating income. The scope of ASU 2014-09 explicitly excludes net interest income, as well as other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives. With respect to other operating income, the Company conducted a comprehensive scoping exercise to determine the revenue streams that are in scope of the guidance. This included reviewing the contracts potentially impacted by the standard in revenue streams such as deposit-related fees, merchant fees, bank card fees, interchange fees, commissions income, trust and asset management fees, foreign exchange fees, and loan placement fees. We adopted ASU 2014-09 and all subsequent amendments to the standard beginning January 1, 2018 under the modified retrospective approach. Based on our analysis, the standard required us to change how we recognize certain recurring revenue streams on a gross versus net basis. This resulted in an increase in other service charges and fees totaling $0.1 million during the first quarter of 2018 and the resultant increase in other operating expense-other for the same amount. These changes did not have an impact to our net income; as such a cumulative effect adjustment to opening accumulated deficit was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be recorded in accordance with legacy GAAP. Refer to Note 12 - Revenue from Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of Accounting Standards Codification ("ASC") 606.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Liabilities." The amendments in ASU 2016-01 made targeted improvements to GAAP as follows: 1) required equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, 2) simplified the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, 3) eliminated the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, 4) eliminated the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, 5) required public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, 6) required an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, 7) required separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, and 8) clarified that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The Company adopted ASU 2016-01 beginning January 1, 2018, which resulted in a reclassification of the Company's equity investment securities portfolio of $0.8 million and $0.8 million as of March 31, 2018 and December 31, 2017, respectively, from available-for-sale debt securities to equity securities on the Company's consolidated balance sheets. Changes in fair value are recognized in net income. In addition, during the first quarter of 2018, the Company recorded a cumulative effect adjustment which increased opening retained earnings (or reduced opening accumulated deficit) and decreased accumulated other comprehensive income (loss) ("AOCI") by $0.1 million related to the unrealized gains on the equity investment securities portfolio and changes in the fair value of the equity investment securities portfolio were recognized in net income. The Company also engaged a third-party consultant, who used a refined calculation to determine the fair value of our loans held for investment portfolio using the exit price notion, which is included in our fair value disclosures in Note 18 - Fair Value of Financial Assets and Liabilities. The refined calculation did not have a material impact on our fair value disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provided guidance on eight statement of cash flow classification issues and was intended to reduce the current and future diversity in practice described in the amendments. Current GAAP is either unclear or does not include specific guidance on the eight statement of cash flow classification issues included in ASU 2016-15. The Company adopted ASU 2016-15 effective January 1, 2018. The amendments in ASU 2016-15 did not impact the Company's financial statements as our current practice was consistent with the update.

In March 2017, the FASB issued ASU 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost." ASU 2017-07 requires an entity to present the service cost component of the net periodic benefit cost in the same line item or items in the statement of income as other employee compensation costs arising from services rendered by the pertinent employees during the period. In addition, only the service cost component is eligible for capitalization. The other components of net benefit costs should be presented in the statement of income separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item is used to present the other components, that line item shall be described appropriately. The line items used in the income statement to present the components other than the service cost component shall be disclosed if a Company elects to not present them in a separate line item. The Company adopted ASU 2017-07 effective January 1, 2018. The amendments in ASU 2017-07 did not impact the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, "Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. ASU 2017-08 does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The Company adopted ASU 2017-08 effective January 1, 2018. The amendments in ASU 2017-08 did not impact the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification." ASU 2017-09 was issued to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modifications to terms and conditions that they consider substantive, but do not when they conclude that particular modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of a change in fair value, vesting, or classification may be used to evaluate whether a change is substantive. ASU 2017-09 includes guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The Company adopted ASU 2017-09 effective January 1, 2018. The amendments in ASU 2017-09 did not impact the Company's financial statements as the Company has not historically had any scope modifications and has no plans to do so in the near future.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 was issued to address certain stranded tax effects in AOCI as a result of H.R.1., commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform"). ASU 2018-02 provides companies the option to reclassify stranded tax effects within AOCI to retained earnings (or accumulated deficit) in each period in which the effect of the change from the newly enacted corporate tax rate is recorded. The amount of the reclassification is calculated on the basis of the difference between the historical and newly enacted tax rates for deferred tax assets and liabilities related to items within AOCI. ASU 2018-02 requires companies to disclose its accounting policy related to releasing income tax effects from accumulated other comprehensive income, whether it has elected to reclassify the stranded tax effects, and information about the other income tax effects that are reclassified. Although ASU 2018-02 was effective for the Company's reporting period beginning on January 1, 2019, the Company elected to early adopt the standard effective January 1, 2018. As a result, the Company recorded cumulative effect adjustments which increased opening retained earnings (or reduced opening accumulated deficit) and decreased AOCI for the stranded tax effects related to the Company's defined benefit pension and supplemental retirement plan obligations and the unrealized gain on the Company's investment securities portfolio by $1.4 million and $0.5 million, respectively.

3. INVESTMENT SECURITIES

A summary of our investment portfolio is as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Held-to-maturity:				
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities	$96,619	$ 29	$(3,510)	$93,138
Commercial - U.S. Government-sponsored entities	80,459	—	(2,198)	78,261
Total	$177,078	$ 29	$(5,708)	$171,399
Available-for-sale:				
Debt securities:				
States and political subdivisions	$177,766	$ 1,385	$(1,930)	$177,221
Corporate securities	68,433	51	(426)	68,058
U.S. Treasury obligations and direct obligations of U.S Government agencies	37,148	84	(79)	37,153
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities	831,728	493	(20,899)	811,322
Commercial - U.S. Government agencies and sponsored entities	54,628	—	(1,171)	53,457
Residential - Non-government agencies	44,667	396	(623)	44,440
Commercial - Non-government agencies	135,010	998	(1,567)	134,441
Total	$1,349,380	$ 3,407	$(26,695)	$1,326,092
Equity securities	$619	$ 134	$—	$753

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Held-to-maturity:				
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities	$100,279	$ 106	$(2,222)	$98,163
Commercial - U.S. Government-sponsored entities	91,474	—	(436)	91,038
Total	$191,753	$ 106	$(2,658)	$189,201
Available-for-sale:				
Debt securities:				
States and political subdivisions	$178,459	$ 2,041	$(719)	$179,781
Corporate securities	73,772	582	(76)	74,278
U.S. Treasury obligations and direct obligations of U.S Government agencies	25,519	60	(69)	25,510
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities	808,242	2,230	(9,789)	800,683
Commercial - U.S. Government agencies and sponsored entities	40,012	—	(287)	39,725
Residential - Non-government agencies	45,679	1,084	—	46,763
Commercial - Non-government agencies	135,058	2,461	(193)	137,326
Total	$1,306,741	$ 8,458	$(11,133)	$1,304,066
Equity securities	$686	$ 139	$—	$825

The amortized cost and estimated fair value of investment securities at March 31, 2018 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)	March 31, 2018 Amortized Cost	Fair Value
Held-to-maturity:		
Mortgage-backed securities:		
Residential - U.S. Government-sponsored entities	$96,619	$93,138
Commercial - U.S. Government-sponsored entities	80,459	78,261
Total	$177,078	$171,399
Available-for-sale:		
Due in one year or less	$13,691	$13,702
Due after one year through five years	156,766	156,598
Due after five years through ten years	49,619	49,279
Due after ten years	63,271	62,853
Mortgage-backed securities:		
Residential - U.S. Government-sponsored entities	831,728	811,322
Commercial - U.S. Government agencies and sponsored entities	54,628	53,457
Residential - Non-government agencies	44,667	44,440
Commercial - Non-government agencies	135,010	134,441
Total	$1,349,380	$1,326,092
Equity securities	$619	$753

We did not sell any available-for-sale securities during the three months ended March 31, 2018 and 2017.

Investment securities of $1.04 billion and $1.08 billion at March 31, 2018 and December 31, 2017, 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 335 and 223 investment securities which were in an unrealized or unrecognized loss position at March 31, 2018 and December 31, 2017, respectively, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position.

(dollars in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018						
Debt securities:						
States and political subdivisions	$81,236	$(1,043)	$14,893	$(887)	$96,129	$(1,930)
Corporate securities	44,658	(245)	5,177	(181)	49,835	(426)
U.S. Treasury obligations and direct obligations of U.S Government agencies	10,852	(79)	—	—	10,852	(79)
Mortgage-backed securities:						
Residential - U.S. Government-sponsored entities	550,723	(10,744)	321,774	(13,665)	872,497	(24,409)

Residential - Non-government agencies	26,466	(623)	—	—	26,466	(623)
Commercial - U.S. Government agencies and sponsored entities	131,718	(3,369)	—	—	131,718	(3,369)
Commercial - Non-government agencies	83,975	(1,567)	—	—	83,975	(1,567)
Total temporarily impaired securities	$929,628	$(17,670)	$341,844	$(14,733)	$1,271,472	$(32,403)

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

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)	March 31, 2018	December 31, 2017
Commercial, financial and agricultural	$516,160	$ 503,738
Real estate:		
Construction	62,046	64,525
Residential mortgage	1,347,555	1,337,193
Home equity	425,510	412,230
Commercial mortgage	1,007,296	979,239
Consumer	454,967	470,819
Leases	285	362
Gross loans and leases	3,813,819	3,768,106
Net deferred costs	2,327	2,509
Total loans and leases, net of deferred costs	$3,816,146	$ 3,770,615

During the three months ended March 31, 2018, we foreclosed on one loan totaling $40 thousand, which was sold at book value. During the three months ended March 31, 2017, we did not foreclose on any loans. During the three months ended March 31, 2018 and 2017, we did not transfer any loans to the held-for-sale category. We did not sell any portfolio loans during the three months ended March 31, 2018 and 2017.

During the three months ended March 31, 2018, we did not purchase any loan portfolios.

In March 2017, we purchased a direct auto loan portfolio totaling $24.1 million which included a $0.4 million premium over the $23.8 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 55 months and a weighted average yield, net of the premium paid and servicing costs, of 2.60%.

Impaired Loans

The following tables present by class, the balance in the allowance for loan and lease losses (the "Allowance") and the recorded investment in loans and leases based on the Company's impairment measurement method as of March 31, 2018 and December 31, 2017:

		Real Estate						
(dollars in thousands)	Comml, Fin & Ag	Constr	Resi Mortgage	Home Equity	Comml Mortgage	Consumer	Leases	Total
March 31, 2018								
Allowance:								
Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$ —	$—
Collectively evaluated for impairment	7,476	1,714	14,207	3,328	16,186	6,306	—	49,217
Total ending balance	$7,476	$1,714	$14,207	$3,328	$16,186	$6,306	$ —	$49,217
Loans and leases:								
	$457	$2,517	$13,626	$659	$3,704	$—	$ —	$20,963

Individually evaluated for impairment								
Collectively evaluated for impairment	515,703	59,529	1,333,929	424,851	1,003,592	454,967	285	3,792,856
Subtotal	516,160	62,046	1,347,555	425,510	1,007,296	454,967	285	3,813,819
Net deferred costs (income)	320	(393)	3,933	(1)	(1,468)	(64)	—	2,327
Total loans and leases, net of deferred costs (income)	$516,480	$61,653	$1,351,488	$425,509	$1,005,828	$454,903	$ 285	$3,816,146

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

There were no impaired loans with an allowance recorded as of March 31, 2018 and December 31, 2017. The following table presents by class, information related to impaired loans as of March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
	(dollars in thousands)					
Impaired loans with no related Allowance recorded:						
Commercial, financial & agricultural	$568	$ 457	$ —	$602	$ 491	$ —
Real estate:						
Construction	7,867	2,517	—	7,947	2,597	—
Residential mortgage	14,685	13,626	—	14,920	13,862	—
Home equity	659	659	—	416	416	—
Commercial mortgage	3,704	3,704	—	3,914	3,914	—
Total impaired loans	$27,483	$ 20,963	$ —	$27,799	$ 21,280	$ —

The following table presents by class, the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2018 and 2017:

	Three Months Ended			
	March 31, 2018		March 31, 2017	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial & agricultural	$483	$ 2	$1,873	$ —
Real estate:				
Construction	2,557	26	2,885	24

Residential mortgage	13,744	137	19,302	97
Home equity	567	—	1,181	—
Commercial mortgage	3,809	38	5,519	47
Total	$21,160	$ 203	$30,760	$ 168

Foreclosure Proceedings

The Company did not have any residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at March 31, 2018. The Company had $40 thousand of residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at December 31, 2017.

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 March 31, 2018 and December 31, 2017:

(dollars in thousands)	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
March 31, 2018							
Commercial, financial & agricultural	$ 1,076	$ 428	$ —	$ —	$ 1,504	$514,976	$516,480
Real estate:							
Construction	—	—	—	—	—	61,653	61,653
Residential mortgage	4,129	381	—	2,184	6,694	1,344,794	1,351,488
Home equity	49	175	—	659	883	424,626	425,509
Commercial mortgage	—	—	—	—	—	1,005,828	1,005,828
Consumer	2,149	839	417	—	3,405	451,498	454,903
Leases	—	—	—	—	—	285	285
Total	$ 7,403	$ 1,823	$ 417	$ 2,843	$ 12,486	$3,803,660	$3,816,146

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

Modifications

Troubled debt restructurings ("TDRs") included in nonperforming assets at March 31, 2018 consisted of six Hawaii residential mortgage loans with a combined principal balance of $0.6 million.

Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure, and we have no commitments to lend additional funds to any of these borrowers. There were $12.4 million of TDRs still accruing interest at March 31, 2018, none of which were more than 90 days delinquent. At December 31, 2017, there were $12.6 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 months ended March 31, 2018.

The following table presents by class, information related to loans modified in a TDR during the period presented. There were no loans modified in a TDR during the three months ended March 31, 2018.

(dollars in thousands)	Number of Contracts	Recorded Investment (as of Period End)	Increase in the Allowance
Three Months Ended March 31, 2017			
Commercial, financial & agricultural	1	$ 659	$ —
Total	1	$ 659	$ —

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended March 31, 2018 and 2017.

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 by 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 March 31, 2018 and December 31, 2017:

(dollars in thousands)	Pass	Special Mention	Substandard	Loss	Subtotal	Net Deferred Costs (Income)	Total
March 31, 2018							
Commercial, financial & agricultural	$488,490	$9,044	$ 18,626	$—	$516,160	$320	$516,480
Real estate:							
Construction	53,167	8,879	—	—	62,046	(393)	61,653
Residential mortgage	1,345,269	—	2,286	—	1,347,555	3,933	1,351,488
Home equity	424,851	—	659	—	425,510	(1)	425,509
Commercial mortgage	988,309	8,597	10,390	—	1,007,296	(1,468)	1,005,828
Consumer	454,549	—	191	227	454,967	(64)	454,903
Leases	285	—	—	—	285	—	285
Total	$3,754,920	$26,520	$ 32,152	$227	$3,813,819	$2,327	$3,816,146

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

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 March 31, 2018 and December 31, 2017, 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:

	Commercial, Financial & Agricultural	Real Estate Construction	Real Estate Residential Mortgage	Real Estate Home Equity	Real Estate Commercial Mortgage	Consumer	Leases	Total
(dollars in thousands)								
Three Months Ended March 31, 2018								
Beginning balance	$7,594	$1,835	$14,328	$3,317	$16,801	$6,126	$—	$50,001
Provision (credit) for loan and lease losses	236	(1,314)	(147)	8	(630)	1,636	—	(211)
	7,830	521	14,181	3,325	16,171	7,762	—	49,790
Charge-offs	498	—	—	—	—	1,933	—	2,431
Recoveries	144	1,193	26	3	15	477	—	1,858
Net charge-offs (recoveries)	354	(1,193)	(26)	(3)	(15)	1,456	—	573
Ending balance	$7,476	$1,714	$14,207	$3,328	$16,186	$6,306	$—	$49,217
Three Months Ended March 31, 2017								
Beginning balance	$8,637	$4,224	$15,055	$3,502	$19,104	$6,109	$—	$56,631
Provision (credit) for loan and lease losses	(66)	(527)	(259)	(79)	72	779	—	(80)
	8,571	3,697	14,796	3,423	19,176	6,888	—	56,551
Charge-offs	500	—	—	—	—	1,497	—	1,997
Recoveries	275	21	96	2	11	410	—	815
Net charge-offs (recoveries)	225	(21)	(96)	(2)	(11)	1,087	—	1,182
Ending balance	$8,346	$3,718	$14,892	$3,425	$19,187	$5,801	$—	$55,369

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

Our Provision was a credit of $0.2 million in the three months ended March 31, 2018, compared to a credit of $0.1 million in the three months ended March 31, 2017.

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 $1.3 million and $1.5 million at March 31, 2018 and December 31, 2017, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.1 million and $0.1 million on unsold mortgage-backed securities were recorded in AOCI at March 31, 2018 and December 31, 2017, respectively.

7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

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

(dollars in thousands)	March 31, 2018	December 31, 2017
Investments in low income housing tax credit partnerships	$3,494	$ 3,608
Trust preferred investments	2,792	2,792
Investments in affiliates	138	634
Other	54	54
Total	$6,478	$ 7,088

The Company had $2.6 million in unfunded low income housing commitments as of March 31, 2018 compared to $2.6 million at December 31, 2017. The Company expects to fund $1.9 million in 2018 and $0.7 million in 2019.

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 months ended March 31, 2018 and March 31, 2017:

(dollars in thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cost method:		
Amortization expense recognized in other operating expense	$ 114	$ 233
Tax credits recognized in income tax expense	152	266

8. CORE DEPOSIT PREMIUM AND MORTGAGE SERVICING RIGHTS

The following table presents changes in core deposit premium and mortgage servicing rights for the three months ended March 31, 2018:

(dollars in thousands)	Core Deposit Premium	Mortgage Servicing Rights	Total
Balance, beginning of period	$ 2,006	$ 15,843	$ 17,849
Additions	—	435	435
Amortization	(669)	(457)	(1,126)
Balance, end of period	$ 1,337	$ 15,821	$ 17,158

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.4 million for the three months ended March 31, 2018, compared to $0.6 million for the three months ended March 31, 2017.

Amortization of mortgage servicing rights was $0.5 million for the three months ended March 31, 2018, compared to $0.5 million for the three months ended March 31, 2017.

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

(dollars in thousands)	March 31, 2018	March 31, 2017
Fair market value, beginning of period	$ 17,161	$ 18,087
Fair market value, end of period	18,463	17,627
Weighted average discount rate	9.5 %	9.5 %
Forecasted constant prepayment rate assumption	14.2	15.0

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

	March 31, 2018			December 31, 2017		
(dollars in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit premium	$44,642	$ (43,305)	$1,337	$44,642	$ (42,636)	$2,006
Mortgage servicing rights	64,836	(49,015)	15,821	64,401	(48,558)	15,843
Total	$109,478	$ (92,320)	$17,158	$109,043	$ (91,194)	$17,849

Based on the core deposit premium and mortgage servicing rights held as of March 31, 2018, estimated amortization expense for the remainder of fiscal year 2018, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense		
(dollars in thousands)	Core Deposit Premium	Mortgage Servicing Rights	Total
2018 (remainder)	$ 1,337	$ 1,076	$ 2,413
2019	—	1,211	1,211
2020	—	1,017	1,017
2021	—	867	867
2022	—	733	733
2023	—	663	663
Thereafter	—	10,254	10,254
	$ 1,337	$ 15,821	$ 17,158

We perform an impairment assessment of our core deposit premium and mortgage servicing rights whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable.

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 March 31, 2018, we were not party to any derivatives designated as part of a fair value or cash flow hedge.

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 March 31, 2018, we were a party to interest rate lock and forward sale commitments on $3.1 million and $9.2 million of mortgage loans, respectively.

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

Derivatives Financial Instruments Not Designated as Hedging Instruments		Asset Derivatives Fair Value at	Liability Derivatives Fair Value at
(dollars in thousands)	Balance Sheet Location		

		March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Interest rate lock and forward sale commitments	Other assets / other liabilities	$ 28	$ 35	$ 21	$ 49

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

Derivatives Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives
Three Months Ended March 31, 2018		
Interest rate lock and forward sale commitments	Mortgage banking income	$ 21
Loans held for sale	Other income	(7)
Three Months Ended March 31, 2017		
Interest rate lock and forward sale commitments	Mortgage banking income	(207)

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 $1.59 billion line of credit as of March 31, 2018, compared to $1.50 billion at December 31, 2017. At March 31, 2018, $1.53 billion was undrawn under this arrangement, compared to $1.47 billion at December 31, 2017. Short-term borrowings under this arrangement totaled $56.0 million at March 31, 2018, compared to $32.0 million at December 31, 2017. There were no long-term borrowings under this arrangement at March 31, 2018 and December 31, 2017. FHLB advances available at March 31, 2018 were secured by certain real estate loans with a carrying value of $2.14 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB.

At March 31, 2018 and December 31, 2017, our bank had additional unused borrowings available at the Federal Reserve discount window of $72.3 million and $73.0 million, respectively. As of March 31, 2018 and December 31, 2017, certain commercial and commercial real estate loans with a carrying value totaling $127.1 million and $129.2 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

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 March 31, 2018, the bank had Statutory Retained Earnings of $86.9 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"), which superseded in its entirety the repurchase plan that was previously approved by the Board of Directors.

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

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

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

In the three months ended March 31, 2018, a total of 344,362 shares of common stock, at a cost of $10.1 million, were repurchased under the Repurchase Plan. A total of $43.4 million remained available for repurchase under the Repurchase Plan as of March 31, 2018.

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers", establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts to provide goods or services to its customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services. Revenue is recognized as performance obligations are satisfied.

The Company recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Our principal source of revenue is derived from interest income on financial instruments, such as our loan and investment securities portfolios, as well as revenue related to our mortgage banking activities. These revenue-generating transactions are out of scope of ASC 606, but are subject to other GAAP and discussed elsewhere within our disclosures.

We also generate other revenue in connection with our broad range of banking products and financial services. Descriptions of our other revenue-generating activities that are within the scope of ASC 606, which are presented in our consolidated statements of income as components of other operating income are as follows:

Service charges on deposit accounts

Revenue from service charges on deposit accounts includes general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as stop payment fees). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Other Service Charges and Fees

Revenue from other service charges and fees includes cards and payments income, safe deposit rental income and other service charges, commissions and fees.

Cards and payments income includes interchange fees from debit cards processed through card association networks, merchant services, and other card related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees are recognized as transactions occur. Interchange expenses related to cards and payments income are presented gross in other operating expense. Merchant services income represents account management fees and transaction fees charged to merchants for the processing of card association network transactions. Merchant services revenue is recognized as transactions occur, or as services are performed.

Other service charges, commissions and fees include automated teller machines ("ATM") surcharge and interchange fees, bill payment fees, cashier’s check and money order fees, wire transfer fees, loan brokerage fees, and commissions on sales of insurance, broker-dealer products, letters of credit, and travelers’ checks. Revenue from these fees and commissions is recorded in a manner that reflects the timing of when transactions occur, and as services are provided.

Based on the nature of the commission agreement with the broker-dealer and each insurance provider, we may recognize revenue from broker-dealer and insurance commissions over time or at a point-in-time as our performance obligation is satisfied.

Income from Fiduciary Activities

Income from fiduciary activities includes fees from wealth management, trust, custodial and escrow services provided to individual and institutional customers. Revenue is generally recognized monthly based on a minimum annual fee and/or the market value of assets in custody. Additional fees are recognized for transactional activity.

Revenue from trade execution and brokerage services is earned through commissions from trade execution on behalf of clients. Revenue from these transactions is recognized at the trade date. Any ongoing service fees are recognized on a monthly basis as services are performed.

Loan Placement Fees

Loan placement fees primarily represent revenues earned by the Company for loan placement and underwriting. Revenues for these services are recorded at a point-in-time, upon completion of a contractually identified transaction, or when an advisory opinion is provided.

The following presents the Company's other operating income, segregated by revenue streams that are in-scope and out-of-scope of ASC 606 for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Other operating income:		
In-scope of ASC 606		
Service charges on deposit accounts	$2,003	$2,036
Other service charges on deposit accounts	2,556	2,211
Income on fiduciary activities	956	864
Fees on foreign exchange	32	39
Loan placement fees	197	134
Net gain on sales of foreclosed assets	—	102
In-scope other operating income	5,744	5,284
Out-of-scope other operating income	3,210	4,730
Total other operating income	$8,954	$10,014

13. MORTGAGE BANKING INCOME

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

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Mortgage banking income:		
Loan servicing fees	$1,311	$1,358
Amortization of mortgage servicing rights	(457)	(520)
Gain on sale of residential mortgage loans	972	1,312
Unrealized gain (loss) on interest rate locks	21	(207)
Total mortgage banking income	$1,847	$1,943

14. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the three months ended March 31, 2018:

	Shares	Weighted Average Grant Date Fair Value
Non-vested restricted stock awards and units, beginning of period	397,551	$ 25.49
Changes during the period:		