

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

or

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

Commission file number: 001-31567

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

Hawaii
(State or other jurisdiction of incorporation or organization)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2021, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$717,451,000. As of January 31, 2022, the number of shares of common stock of the registrant outstanding was 27,675,971 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2022 annual meeting of shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent stated herein. The proxy statement will be filed within 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
Form 10-K

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PART I

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this annual report on Form 10-K that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in our future filings with the U.S. Securities and Exchange Commission ("SEC"), in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital position, net interest margin or other financial items; (ii) statements of plans, objectives and expectations of Central Pacific Financial Corp. or its management or Board of Directors, including those relating to business plans, use of capital resources, products or services and regulatory developments and regulatory actions; (iii) statements of future economic performance including anticipated performance results in light of the novel coronavirus disease ("COVID-19") pandemic and from our RISE2020 and Banking-as-a-Service ("BaaS") initiatives; and (iv) statements of assumptions underlying or relating to any of the foregoing. Words such as "believes," "plans," "anticipates," "expects," "intends," "forecasts," "hopes," "targeting," "continue," "remain," "will," "should," "estimates," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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

- the adverse effects of the COVID-19 pandemic virus (and ongoing pandemic variants) on local, national and international economies, including, but not limited to, the adverse impact on tourism and construction in the State of Hawaii, our borrowers, customers, third-party contractors, vendors and employees as well as the effects of government programs and initiatives in response to COVID-19;
- the impact of our participation in the Small Business Administration ("SBA") Paycheck Protection Program ("PPP") and fulfillment of government guarantees on our PPP loans;
- increase in inventory or adverse conditions in the real estate market and deterioration in the construction industry;
- adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, deterioration in asset quality and losses in our loan portfolio;
- our ability to successfully implement and achieve the objectives of our RISE2020 initiative;
- our ability to successfully implement and achieve the objectives of our BaaS initiatives;
- the impact of local, national, and international economies and events (including natural disasters such as wildfires, volcanic eruptions, hurricanes, tsunamis, storms, earthquakes and pandemic virus and disease, including COVID-19) on the Company's business and operations and on tourism, the military and other major industries operating within the Hawaii market and any other markets in which the Company does business;
- deterioration or malaise in domestic economic conditions, including any destabilization in the financial industry and deterioration of the real estate market, as well as the impact of declining levels of consumer and business confidence in the state of the economy in general and in financial institutions in particular;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), changes in capital standards, other regulatory reform and federal and state legislation, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau (the "CFPB"), government-sponsored enterprise reform, and any related rules and regulations which affect our business operations and competitiveness;

- the costs and effects of legal and regulatory developments, including legal proceedings or regulatory or other governmental inquiries and proceedings and the resolution thereof, the results of regulatory examinations or reviews and the effect of, and our ability to comply with, any regulatory orders or actions we are or may become subject to;
- 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 (the "FRB" or the "Federal Reserve");
- inflation, interest rate, securities market and monetary fluctuations, including the transition away from the London Interbank Offered Rate ("LIBOR") Index and the impact on our loans and debt which are tied to that index and uncertainties regarding potential alternative reference rates, including the Secured Overnight Financing Rate ("SOFR");
- 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;
- pandemic virus and disease, including COVID-19;
- changes in consumer spending, borrowings and savings habits;
- failure to maintain effective internal control over financial reporting or disclosure controls and procedures;
- cybersecurity and data privacy breaches and the consequences therefrom;
- the ability to address deficiencies in our internal controls over financial reporting or disclosure controls and procedures;
- technological changes and developments;
- 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 ("FASB") and other accounting standard setters and the cost and resources required to implement such changes;
- our ability to attract and retain key personnel;
- changes in our organization, compensation and benefit plans; and
- our success at managing any of the risks involved in the foregoing items.

For further information with respect to factors that could cause actual results to materially differ from the expectations or projections stated in the forward-looking statements, please see also "Risk Factors" under Part I, Item 1A of this report. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this Form 10-K. Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events except as required by law.

ITEM 1. BUSINESS

General

Central Pacific Financial Corp., a Hawaii corporation and bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), was organized on February 1, 1982. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank, which was incorporated in its present form in the state of Hawaii on

March 16, 1982 in connection with the holding company reorganization. Its predecessor entity was incorporated in the state of Hawaii on January 15, 1954. We provide financial results based on a fiscal year ending December 31 as a single reportable segment. As of December 31, 2021, we had total assets of \$7.42 billion, total loans of \$5.10 billion, total deposits of \$6.64 billion and shareholders' equity of \$558.2 million.

When we refer to "the Company," "we," "us" or "our," we mean Central Pacific Financial Corp. and its subsidiaries on a consolidated basis. When we refer to "Central Pacific Financial Corp.," "CPF" or to the holding company, we are referring to the parent company on a standalone basis. We refer to Central Pacific Bank herein as "our bank" or "the bank."

Through our bank and its subsidiaries, we offer full-service commercial banking with 30 bank branches and 69 ATMs located throughout the state of Hawaii. Our administrative and main offices are located in Honolulu and we have 22 branches on the island of Oahu. We operate four branches on the island of Maui, two branches on the island of Hawaii and two branches on the island of Kauai. At the end of 2021, the Company consolidated a traditional branch on Oahu with other existing nearby branches. With the continued successful customer migration to digital banking services, we plan to consolidate three additional branches in 2022. At the same time, we are continuing to invest in select strategic branch locations, including acquiring real estate and developing fully modernized branches utilizing the concepts we created in our RISE2020 headquarter building revitalization.

Central Pacific Bank is a full-service commercial bank offering a broad range of banking products and services, including accepting time and demand deposits and originating loans. Our bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The bank is not a member of the Federal Reserve System. Our loans include commercial loans, construction loans, commercial and residential mortgage loans and consumer loans.

We derive our income primarily from interest and fees on loans, interest on investment securities and fees received in connection with deposit and other services. Our major operating expenses are the interest paid by our bank on deposits and borrowings, salaries and employee benefits and general operating expenses. Our bank relies substantially on a foundation of locally generated deposits.

Our operations, like those of other financial institutions that operate in our market, are significantly influenced by economic conditions in Hawaii, including the strength of the real estate market and the tourism industry, as well as the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. See the "Supervision and Regulation" section below for other information about the regulation of our holding company and bank.

Our Services

We offer a full range of banking services and products to businesses, professionals and individuals. We provide our customers with an array of loan products, including residential mortgage loans, commercial and consumer loans and lines of credit, commercial real estate loans and construction loans.

Through our bank, we concentrate our lending activities in five principal areas:

- (1) *Residential Mortgage Lending.* Residential mortgage loans include fixed-rate and adjustable-rate loans primarily secured by single-family, owner-occupied residences in Hawaii and home equity lines of credit and loans. We typically require loan-to-value ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties have an average loan size of approximately \$0.5 million and marketable collateral. Changes in interest rates, the economic environment and other market factors have impacted, and future changes will likely continue to impact, the marketability and value of collateral and the financial condition of our borrowers and thus the level of credit risk inherent in the portfolio. A portion of our first residential mortgage loan originations are sold in the secondary market and a portion is put into our loan portfolio.
- (2) *Commercial, Financial and Agricultural Lending.* Loans in this category consist primarily of term loans and lines of credit to small and middle-market businesses and professionals in the state of Hawaii. The borrower's business is typically regarded as the principal source of repayment, although our underwriting policies and practices generally require additional sources of collateral, including real estate and other business assets, as well as personal guarantees where possible to mitigate risk and help to reduce credit losses.
- (3) *Commercial Mortgage Lending.* Loans in this category consist of loans secured by commercial real estate, including but not limited to, structures and facilities to support activities designated as multi-family residential properties, industrial, warehouse, general office, retail, health care and religious dwellings. Our underwriting policies and

practices generally requires net cash flow from the property to cover the debt service while maintaining an appropriate amount of reserves and permits consideration of liquidation of the collateral as a secondary source of repayment.

- (4) *Construction Lending.* Construction land development and other land loans encompasses the financing of residential and commercial construction projects.
- (5) *Consumer Lending.* Loans in this category are generally either unsecured or secured by personal assets, such as automobiles, and the average loan size is generally small.

Beyond the lending function described above, we also offer a full range of deposit products and services including checking, savings and time deposits, cash management and digital banking services, trust services and retail brokerage services.

Our Market Area and Competition

Based on deposit market share among FDIC-insured financial institutions in Hawaii, Central Pacific Bank was the fourth-largest depository institution in the state as of December 31, 2021.

The banking and financial services industry in the state of Hawaii generally, and particularly in our target market areas, is highly competitive. We compete for loans, deposits and customers with other commercial banks, savings banks, securities and brokerage companies, financial technology ("fintech") companies, mortgage companies, insurance companies, finance companies, credit unions and other non-bank financial service providers, including mortgage providers and brokers, operating via the internet and other technology platforms. Some of these competitors are much larger by total assets and capitalization, and have greater access to capital markets.

In order to compete with the other financial services providers in the state of Hawaii, we principally rely upon personal relationships between customers and our officers, directors and employees, and specialized services tailored to meet the needs of our customers and the communities we serve. We believe we remain competitive by offering flexibility and superior service levels to our customers, coupled with competitive interest rate pricing, strong digital technology and local promotional activities.

For further discussion of factors affecting our operations see, "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Business Concentrations

No individual or single group of related accounts is considered material in relation to the assets or deposits of our bank, or in relation to the overall business of the Company. However, approximately 76% of our loan portfolio at December 31, 2021 consisted of real estate-related loans, including residential mortgage loans, home equity loans, commercial mortgage loans and construction loans. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio."

Our business activities are focused primarily in Hawaii. Consequently, our results of operations and financial condition are impacted by the general economic trends in Hawaii, particularly in the commercial and residential real estate markets. During periods of economic strength, the real estate market and the real estate industry typically perform well; during periods of economic weakness, they typically are adversely affected.

Our Subsidiaries

Central Pacific Bank is the wholly-owned principal subsidiary of Central Pacific Financial Corp. As of December 31, 2021, other wholly-owned subsidiaries include CPB Capital Trust IV and CPB Statutory Trust V. CPB Capital Trust II and CPB Statutory Trust III were terminated in January 2019.

In January 2020, the bank acquired a 50% ownership interest in a mortgage loan origination and brokerage company, Oahu 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 also 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.

Central Pacific Bank also owns 50% of Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC, which are accounted for under the cost method and are included in unconsolidated entities.

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

Supervision and Regulation

General

The Company and the bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies for the protection of depositors and the FDIC deposit insurance fund, borrowers, and the stability of the United States of America ("U.S.") banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is also qualified in its entirety by reference to the statutes and regulations referred to in this discussion. We cannot predict whether or when new legislative initiatives may be proposed or enacted or new regulations or guidance may be promulgated nor the effect new laws, regulations and supervisory policies and practices may have on community banks generally or on our financial condition and results of operations. Such developments could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We also cannot predict whether or when regulatory requirements may be reduced or eliminated and the overall affect such reduction or elimination may have on the Company and the bank.

Regulatory Agencies

Central Pacific Financial Corp. is a legal entity separate and distinct from its subsidiaries. As the bank holding company for Central Pacific Bank, Central Pacific Financial Corp. is regulated under the BHC Act and is subject to inspection, examination and supervision by the FRB. It is also subject to Hawaii's Code of Financial Institutions and is subject to inspection, examination and supervision by the Hawaii Division of Financial Institutions ("DFI".)

The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as administered by the SEC. Our common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol "CPF," and we are subject to the rules of the NYSE for companies listed there. In addition to the powers of the bank regulatory agencies we are subject to, the SEC and the NYSE have the ability to take enforcement actions against us.

In addition, the Company is also subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and establishment and testing on internal control over financial reporting.

Central Pacific Bank, as a Hawaii state-chartered bank, is subject to primary supervision, periodic examination and regulation by the DFI and FDIC and is also subject to certain regulations promulgated by the Consumer Financial Protection Bureau ("CFPB"), Federal Trade Commission ("FTC"), and FRB. In periodic examinations, the DFI, FDIC, and FRB assesses our financial condition, capital resources, asset quality, management, earnings prospects, liquidity, market sensitivity and other aspects of our operations. These bodies also determine whether our management is effectively managing the bank and the holding company and whether we are in compliance with all applicable laws or regulations.

Legislative and Regulatory Developments

The federal banking agencies continue to implement the remaining requirements in the Dodd-Frank Act, as well as promulgating other regulations and guidelines intended to assure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. Following on the implementation of the new capital rules under Basel III ("Basel III Capital Rule") and the so-called Volcker Rule which restricts certain proprietary trading and investment activities, on February 3, 2017, Former President Trump issued an executive order identifying certain "core principles" for the administration's financial services regulatory policy and directing the Secretary of the Treasury, in consultation with the heads of other financial regulatory agencies, to evaluate how the current regulatory framework promotes or inhibits the principles and what actions have been, and are being, taken to promote the principles.

The scope and breadth of regulatory changes that will occur as a result of the election of President Biden have yet to be fully determined, though we believe there will be an increased focus on regulatory compliance, supervision and examination during President Biden's term.

Capital Adequacy Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal banking agencies. The Basel III Capital Rule, which initially became effective on January 1, 2015, has now been fully phased in. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

The Federal Reserve monitors our capital adequacy on a consolidated basis, and the FDIC and the DFI monitor the capital adequacy of our bank. The Company and the bank are required to maintain minimum risk-based and leverage capital ratios, as well as a Capital Conservation Buffer, pursuant to the Basel III Capital Rule.

These rules implement the Basel III international regulatory capital standards in the United States, as well as certain provisions of the Dodd-Frank Act. These quantitative calculations are minimums, and the Federal Reserve, FDIC or DFI may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner.

Under the Basel III Capital Rule, the Company's and the bank's assets, exposures and certain off-balance sheet items are subject to risk weights used to determine the institutions' risk-weighted assets. These risk-weighted assets are used to calculate the following minimum capital ratios for the Company and the bank:

- **Tier 1 Leverage Ratio**, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions).
- **Common Equity Tier 1 ("CET1") Risk-Based Capital Ratio**, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital primarily includes common stockholders' equity subject to certain regulatory adjustments and deductions, including with respect to goodwill, intangible assets and certain deferred tax assets. Certain of these adjustments and deductions were subject to phase-in periods that began on January 1, 2015 and ended on January 1, 2018. The last phase of the Basel III Capital Rule's transition provisions relating to capital deductions for mortgage servicing assets, certain deferred tax assets and investments in the capital instruments of unconsolidated financial institutions, and the recognition of minority interests in regulatory capital was delayed for certain bank holding companies and banks, including us and the bank, but a revised rule was finalized in July 2019 that was effective in April 2020. Hybrid securities, such as trust preferred securities, generally are excluded from being counted as Tier 1 capital. However, for bank holding companies like us that have less than \$15 billion in total consolidated assets, certain trust preferred securities were grandfathered in as a component of Tier 1 capital. In addition, because we are not an advanced approach banking organization, we were permitted to make a one-time permanent election to exclude accumulated other comprehensive income items from regulatory capital. We made this election in order to avoid significant variations in our levels of capital depending upon the impact of interest rate fluctuations on the fair value of our bank's available-for-sale securities portfolio.
- **Tier 1 Risk-Based Capital Ratio**, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is primarily comprised of CET1 capital, perpetual preferred stock and certain qualifying capital instruments.
- **Total Risk-Based Capital Ratio**, equal to the ratio of total capital, including CET1 capital, Tier 1 capital and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying allowance for credit losses. Tier 2 capital also includes, among other things, certain trust preferred securities.

The total minimum regulatory capital ratios and well-capitalized minimum ratios are reflected in the charts below. The Federal Reserve has not yet revised the well-capitalized standard for bank holding companies to reflect the higher capital requirements imposed under the Basel III Capital Rule. For purposes of the Federal Reserve's Regulation Y, including determining whether a

bank holding company meets the requirements to be a financial holding company, bank holding companies, such as the Company, must maintain a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Total Risk-Based Capital Ratio of 10.0% or greater. If the Federal Reserve were to apply the same or a very similar well-capitalized standard to bank holding companies as that applicable to the bank, the Company's capital ratios as of December 31, 2021 would exceed such revised well-capitalized standard. The Federal Reserve may require bank holding companies, including the Company, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Company's or the bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications.

In addition to meeting the minimum capital requirements, under the Basel III Capital Rule, the Company and the bank must also maintain the required Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The Capital Conservation Buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios. The Capital Conservation Buffer requirement was phased in over a three-year period that began on January 1, 2016. The phase-in period ended on January 1, 2019, and the Capital Conservation Buffer is now at its fully phased-in level of 2.5%.

The Tier 1 Leverage Ratio is not impacted by the Capital Conservation Buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the Capital Conservation Buffer.

The table below summarizes the capital requirements that the Company and the bank must satisfy to avoid limitations on capital distributions and certain discretionary bonus payments (i.e., the required minimum capital ratios plus the Capital Conservation Buffer):

	Minimum Basel III Regulatory Capital Ratio Plus Capital Conservation Buffer
CET1 risk-based capital ratio	7.0 %
Tier 1 risk-based capital ratio	8.5 %
Total risk-based capital ratio	10.5 %

As of December 31, 2021, the Company and the bank are well-capitalized for regulatory purposes. For a tabular presentation of the Company's and the bank's capital ratios as of December 31, 2021, see Note 26 - Parent Company and Regulatory Restrictions to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

If the Company were to cross the \$10 billion or more asset threshold, its compliance costs and regulatory requirements, would increase.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, as amended, these standards will generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company and the bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

Prompt Corrective Action Provisions

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank's capital ratios, the agencies' regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized. At each successive lower capital category, an insured bank is

subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or under-capitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were also changed as the Basel III Capital Rule ratios became effective. Under the new standards, in order to be considered well-capitalized, the bank will be required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The federal banking agencies also may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to certain restrictions on items such as brokered deposits.

The Coronavirus Aid, Relief, and Economic Security Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 to provide national emergency economic relief measures. Many of the CARES Act's programs are dependent upon the direct involvement of U.S. financial institutions, such as the Company and the bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve and other federal banking agencies, including those with direct supervisory jurisdiction over the Company and the bank. Furthermore, as the on-going COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19.

On December 21, 2020, Congress passed a \$900 billion aid package, or the Consolidated Appropriations Act, 2021, which extended certain relief provisions under the March 2020 CARES Act, provided additional funds for the Paycheck Protection Program ("PPP") and extended the time of the PPP to March 31, 2021. This legislation also permitted second PPP loans to certain entities which are subject to forgiveness subject to meeting certain required criteria. It is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

Paycheck Protection Program. The CARES Act amended the SBA's loan program, in which the bank participates, to create a guaranteed, unsecured loan program, the PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during COVID-19. In June 2020, the Paycheck Protection Program Flexibility Act was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. The bank issued approximately \$879.8 million in aggregate loans under the PPP in the two years ended December 31, 2020 and 2021, of which approximately \$784.9 million had been forgiven or repaid by December 31, 2021.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers. The CARES Act permits banks to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. Set to expire on December 31, 2020, the Consolidated Appropriations Act, 2021 extended this relief to the earlier of 60 days after the end of the COVID-19 emergency declaration or January 1, 2022. The Company is applying the guidance to qualifying loan modifications. See Note 4 - Loans to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further information about the COVID-19-related loan modifications completed by the Company.

Federal Reserve Programs and Other Recent Initiatives Related to COVID-19

Main Street Lending Program. The CARES Act encouraged the Federal Reserve, in coordination with the Secretary of the Treasury, to establish or implement various programs to help midsize businesses, nonprofits, and municipalities. On April 9, 2020, the Federal Reserve proposed the creation of the Main Street Lending Program ("MSLP") to implement certain of these

recommendations. On June 15, 2020, the Federal Reserve Bank of Boston opened the MSLP for lender registration. The MSLP supports lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic. The MSLP operates through five facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, the Main Street Expanded Loan Facility, the Nonprofit Organization New Loan Facility, and the Nonprofit Organization Expanded Loan Facility. The bank was a registered lender but did not originate any of these loans. The MSLP terminated on January 18, 2021. The bank continues to monitor developments related thereto.

Temporary Regulatory Capital Relief related to Impact of Current Expected Credit Losses ("CECL"). Concurrent with enactment of the CARES Act, federal banking agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provides banking organizations that implement CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The federal banking agencies have since issued a final rule that makes certain technical changes to the interim final rule. The changes in the final rule apply only to those banking organizations that elect the CECL transition relief provided under the rule. The Company elected this option.

Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." Notwithstanding these provisions, in July 2019, the federal bank regulatory agencies finalized a rule which provides that community banks with \$10 billion or less in total consolidated assets and total trading assets and liabilities of 5 percent or less of total consolidated assets, such as the bank, are excluded from the Volcker Rule.

Brokered Deposits

The FDIC limits the ability to accept brokered deposits to those insured depository institutions that are well-capitalized. Institutions that are less than well capitalized cannot accept, renew or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC. The FDIC has defined the "national rate" for all interest-bearing deposits held by less-than-well-capitalized institutions as "a simple average of rates paid by all insured depository institutions and branches for which data are available" and has stated that its presumption is that this national rate is the prevailing rate in any market. As such, institutions that are less than well capitalized that are permitted to accept, renew or rollover brokered deposits via FDIC waiver generally may not pay an interest rate in excess of the national rate plus 75 basis points on such brokered deposits. As of December 31, 2021, the bank did not have any deposit liabilities categorized as brokered deposits.

The FDIC has previously published industry guidance in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as brokered deposits. The FDIC published a proposed rule to modify the "national rate" definition that would apply to insured depository institutions that are less than well-capitalized in August 2019. In addition, in December 2019 and in connection with the Regulatory Relief Act, the FDIC published proposed revisions to its regulations relating to the brokered deposits restrictions. Specifically, the FDIC proposed to (i) revise the definition of the "facilitation" prong of the "deposit broker" definition; (ii) provide that a wholly-owned operating subsidiary be eligible for the insured depository institution exception to the deposit broker definition under certain circumstances; and (iii) amend the "primary purpose" exception. On December 15, 2020, the FDIC released a final rule, effective April 1, 2021, which may encourage the update of certain bank services. The changes introduced by the final rule include, among other things, (i) adding definitions of "engaged in the business of placing deposits" and "engaged in the business of facilitating the placement of deposits," (ii) establishing certain designated business exceptions that would automatically meet the "primary purpose" exception from the deposit broker definition (Designated Business Exceptions), and (iii) formalizing an application process for the "primary purpose" exception for parties that do not qualify for the Designated Business Exceptions. The final rule did not have a material effect on the Company's financial statements.

Bank Holding Company Regulation

As contained in both federal and state banking laws and regulations, a wide range of requirements and restrictions apply to bank holding companies and their subsidiaries which:

- require regular periodic reports and such additional reports of information as the Federal Reserve may require;

- require bank holding companies to meet or exceed minimum capital requirements (see the "Capital Adequacy Requirements" section above and the "Capital Resources" section in the MD&A);
- require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. The source-of-strength doctrine most directly affects bank holding companies where a bank holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take "prompt corrective action" (see the "Prompt Corrective Action Provisions" section above);
- limit dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks;
- require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- require the prior approval for changes in senior executive officers or directors and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination when a bank holding company is deemed to be in troubled condition;
- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations;
- require prior approval for the acquisition of 5% or more of the voting stock of a bank or bank holding company by bank holding companies or other acquisitions and mergers with other banks or bank holding companies and require the regulators to consider certain competitive, management, financial, and anti-money laundering compliance impact on the U.S.; and
- require prior notice and/or prior approval of the acquisition of control of a bank or a bank holding company by a shareholder or individuals acting in concert with ownership or control of 10% of the voting stock being a presumption of control.

Change in Bank Control

Federal law and regulation set forth the types of transactions that require prior notice under the Change in Bank Control Act ("CIBCA"). Pursuant to CIBCA and Regulation Y, any person (acting directly or indirectly) that seeks to acquire control of a bank or its holding company must provide prior notice to the Federal Reserve. A "person" includes an individual, bank, corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, or any other form of entity. A person acquires "control" of a banking organization whenever the person acquires ownership, control, or the power to vote 25 percent or more of any class of voting securities of the institution. The applicable regulations also provide for certain other "rebuttable" presumptions of control. In April 2020, the Federal Reserve adopted a final rule to revise its regulations related to determinations of whether a company has the ability to exercise a controlling influence over another company for purposes of the BHCA. The final rule expands and codifies the presumptions for use in such determinations. By codifying the presumptions, the final rule provides greater transparency on the types of relationships that the Federal Reserve generally views as supporting a facts and circumstances determination that one company controls another company. The Federal Reserve's final rule applies to questions of control under the BHCA, but does not extend to CIBCA or applicable provisions of Hawaii law.

Other Restrictions on the Company's Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that elect and retain "financial holding company" status pursuant to the Gramm-Leach-Bliley Act of 1999 ("GLBA") may engage in these non-banking activities and broader securities, insurance, merchant banking and other activities that are determined to be "financial in nature" or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to the GLBA and the Dodd-Frank Act, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of that bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act ("CRA"),

which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to the required divestiture of subsidiary banks or the termination of all activities that do not conform to those permissible for a bank holding company. The Company has not elected financial holding company status and neither the Company nor the bank has engaged in any activities determined by the Federal Reserve to be non-banking and financial in nature or incidental or complementary to activities that are financial in nature.

Dividends

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to their banking subsidiaries. The Federal Reserve has also discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. The Company is also subject to restrictions on dividends under applicable Hawaii law.

The bank is a legal entity that is separate and distinct from its holding company. CPF is dependent on the performance of the bank for funds which may be received as dividends from the bank for use in the operation of CPF and the ability of CPF to pay dividends to shareholders. Subject to regulatory and statutory restrictions, including restrictions under applicable Hawaii law and federal regulation, future cash dividends by the bank will depend upon management's assessment of future capital requirements, contractual restrictions and other factors.

Regulation of the Bank

As a Hawaii state-chartered bank whose deposits are insured by the FDIC, the bank is subject to regulation, supervision, and regular examination by the DFI, and by the FDIC, as the bank's primary Federal regulator. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of collateral for certain loans, servicing and foreclosing on loans, transactions with affiliates, officers, directors and other insiders, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions.

FDIC and DFI Enforcement Authority

The federal and Hawaii regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DFI or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, market sensitivity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, the DFI and the FDIC, and separately the FDIC as insurer of the bank's deposits, have residual authority to:

- require affirmative action to correct any conditions resulting from any violation or practice;
- direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- restrict the bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- enter into or issue informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;

- require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the bank or appoint the FDIC as receiver, which for a Hawaii state-chartered bank would result in a revocation of its charter.

Mergers and Acquisitions

On July 9, 2021, President Biden signed an “*Executive Order on Promoting Competition in the American Economy*”. Included within the order is a sweeping recommendation that the Attorney General, in consultation with the heads of the FRB, FDIC and Office of the Comptroller of the Currency (“OCC”) review current practices and adopt a plan within 180 days for the “revitalization” of bank merger oversight to provide more extensive scrutiny of mergers. We will continue to evaluate the impact of any changes to the regulations implementing this executive order and their impact to our financial condition, results of operations, and/or business strategies, which cannot be predicted at this time.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits through the Deposit Insurance Fund (the “DIF”) up to prescribed statutory limits of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The Dodd-Frank Act revised the FDIC’s DIF management authority by setting requirements for the Designated Reserve Ratio (the “DRR”, calculated as the DIF balance divided by estimated insured deposits) and redefining the assessment base which is used to calculate banks’ quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and its relative risk of default as measured by regulatory capital ratios and other supervisory factors. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. On September 30, 2018, the DRR reached 1.36%. Because the reserve ratio has exceeded 1.35%, two deposit insurance assessment changes occurred under the FDIC regulations: 1) Surcharges on large banks (total consolidated assets of \$10 billion or more) ended; the last surcharge on large banks was collected on December 28, 2018. and 2) Small banks (total consolidated assets of less than \$10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%. Credits will be applied until exhausted when the reserve ratio is at least 1.35%. The reserve ratio exceeded the minimum 1.35% on June 30, 2019, September 30, 2019, December 31, 2019 and March 31, 2020. Therefore, credits were applied on each invoice until exhausted on the June 30, 2020 invoice.

If there are additional bank or financial institution failures or if the FDIC otherwise determines or if our asset size or risk of default increases, we may be required to pay higher FDIC premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Incentive Compensation

Under regulatory guidance applicable to all banking organizations, incentive compensation policies must be consistent with safety and soundness principles. Under this guidance, financial institutions must review their compensation programs to ensure that they: (i) provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk, (ii) are compatible with effective controls and risk management, and (iii) are supported by strong corporate governance, including active and effective oversight by the banking organization’s board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation. During 2016, as required by the Dodd-Frank Act, the federal bank regulatory agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion of total assets. These proposed rules have not been finalized. In October 2021, the SEC reopened the comment period on its 2015 proposed rule to implement its provisions on incentive compensation which would require (i) national securities exchanges to establish listing standards that would require each issuer to develop and implement a policy providing for the recovery of incentive-based compensation based on financial information required to be reported under the securities laws that is received by current or former executive officers and (ii) disclosure of the policy.

Cybersecurity

Federal regulators have issued multiple statements regarding cybersecurity stating that financial institutions need to design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. In addition, a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s

operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. In November 2021, the federal banking agencies adopted a final rule, with compliance required by May 1, 2022, that requires banking organizations to notify their primary banking regulator within 36 hours of determining that a “computer-security incident” has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization’s ability to carry out banking operations or deliver banking products and services to a material portion of its customer base, its businesses and operations that would result in material loss, or its operations that would impact the stability of the United States. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations, including California and New York. Other states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity in those areas to continue, and are continually monitoring developments in the states in which our customers are located in or in which we conduct business.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet banking, mobile banking and other technology-based products and services by us and our customers. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity.

Office of Foreign Assets Control ("OFAC") Regulation

The U.S. Treasury Department’s Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious financial, legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Operations and Consumer Compliance Laws

The bank must comply with numerous federal and state anti-money laundering and consumer protection and privacy statutes and implementing regulations, including the USA Patriot Act of 2001, GLBA, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, and various federal and state privacy protection laws, including the Telephone Consumer Protection Act and the CAN-SPAM Act. Noncompliance with these laws could subject the bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Company and the bank are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting, and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages, and the loss of certain contractual rights.

The Anti-Money Laundering Act of 2020 (“AMLA”), which amends the Bank Secrecy Act of 1970 (“BSA”), was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; expands enforcement- and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

The Community Reinvestment Act (“CRA”) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low and moderate income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations. In December 2019, the FDIC and the OCC jointly proposed rules that would significantly change existing CRA regulations. The proposed rules are intended to increase bank activity in low- and moderate-income communities where there is significant need for credit, more responsible lending, greater access to banking services, and improvements to critical infrastructure. The proposals change four key areas: (i) clarifying what activities qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping, and reporting. However, the Federal Reserve Board did not join in that proposed rulemaking. In June 2020, the OCC issued its final CRA rule, effective October 1, 2020, while the FDIC did not finalize any revisions to its CRA rule. In September 2020, the Federal Reserve Board issued an Advance Notice of Proposed Rulemaking (“ANPR”) that invited public comment on an approach to modernize the regulations that implement the CRA by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR sought feedback on ways to evaluate how banks meet the needs of low- and moderate-income communities and address inequities in credit access. In December 2021, the OCC issued a final rule to rescind its June 2020 final rule in favor of working with other agencies to put forward a joint rule. We will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time. The bank received an "Outstanding" rating in the FDIC's 2019 Community Reinvestment Act performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

We will continue to evaluate the impact of any changes to bank and holding company regulations and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

Consumer Financial Protection Bureau ("CFPB")

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity with broad rule making, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home equity loans and credit cards. The CFPB’s functions include investigating consumer complaints, conducting market research, rule making, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all covered persons, and banks with \$10 billion or more in assets are subject to supervision including examination by the CFPB. Banks with less than \$10 billion in assets, including the bank, will continue to be examined for compliance by their primary federal banking agency.

The CFPB has finalized a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage loan. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. Among other things, the rules adopted by the CFPB require covered persons including banks making residential mortgage loans to: (i) develop and implement procedures to ensure compliance with an "ability-to-repay" test and identify whether a loan meets a new definition for a "qualified mortgage", in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the ability-to-repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time.

The review of products and practices to prevent unfair, deceptive or abusive acts or practices ("UDAAP") has been a focus of the CFPB, and of banking regulators more broadly. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require

reimbursements and other payments to customers for alleged violations of UDAAP and other legal requirements and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the bank's business, financial condition or results of operations.

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions.

Interchange fees, or "swipe" fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Currently, we qualify for the small issuer exemption from the interchange fee cap, which applies to any debit card issuer that, together with its affiliates, has total assets of less than \$10 billion as of the end of the previous calendar year. We will become subject to the interchange fee cap beginning July 1 of the year following the time when our total assets reaches or exceeds \$10 billion. Reliance on the small issuer exemption does not exempt us from federal regulations prohibiting network exclusivity arrangements or from routing restrictions.

Commercial Real Estate Concentration Limits

In December 2006, the federal banking regulators issued guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" to address increased concentrations in commercial real estate and construction, or "CRE", loans. In addition, in December 2015, the federal bank agencies issued additional guidance entitled "Statement on Prudent Risk Management for Commercial Real Estate Lending." Together, these guidelines describe the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution's capital, or (iv) total CRE loans representing 300% or more of the institution's capital, and the outstanding balance of the institutions CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. As of December 31, 2021, the bank's construction, land development, and other land and total CRE loans represented 22.0% and 240.6% of its capital, respectively.

Future Legislation and Regulation

Congress may enact, modify or repeal legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact, modify or repeal legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of proposed legislation (or modification or repeal of existing legislation) could impact the regulatory structure under which the Company and bank operate and may significantly increase its costs, impede the efficiency of its internal business processes, require the bank to increase its regulatory capital and modify its business strategy, and limit its ability to pursue business opportunities in an efficient manner. Under these circumstances, the Company's business, financial condition, results of operations or prospects may be adversely affected, perhaps materially.

Employees and Human Capital

We believe that the success of our business is largely due to the quality of our employees, the development of each employee's full potential, and our ability to provide timely and satisfying rewards. At December 31, 2021, we employed 820 persons, 760 on a full-time basis and 60 on a part-time basis. We are not a party to any collective bargaining agreement.

We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Continual learning and career development are advanced through ongoing development conversations and annual performance reviews with employees, internally developed training programs, conferences, and other training events that employees are encouraged to attend in connection with their job duties. Additionally, we invest in continual learning and development through tuition reimbursement for courses, degree programs and fees paid for certifications.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regards to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and staff, we were able to transition during the peak of the pandemic, over a short period of time, to a work schedule allowing employees to effectively work from home and ensure a socially-distanced working environment for employees performing customer-facing activities at branches, and employees working at our operations centers. All employees are asked not to come to work when they experience signs or symptoms of a possible COVID-19 illness or if they have come into contact with the possible illness. On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance, offering flexible work schedules, keeping the employee portion of health care premiums to a minimum and sponsoring various wellness programs.

Employee retention helps us operate efficiently and achieve one of our business objectives, which is being an exceptional service provider. We believe our commitment to living out our core values, actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our top-performing employees. In addition, nearly all of our employees have the opportunity to become stockholders of the Company through a restricted stock grant issued to nearly all employees in 2020 and/or other restricted stock grants issued under our stock compensation plan, which aligns employees and stockholder interests by providing stock ownership on a tax-deferred basis at no investment cost to our employees. At December 31, 2021, the average employee has 10 years of service and 36% of our current staff had been with us for ten years or more.

Available Information

Our internet website can be found at www.cpb.bank. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be found on our internet website as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Copies of the Company's filings with the SEC may also be obtained directly from the SEC's website at www.sec.gov. These documents may also be obtained in print upon request to our Investor Relations Department.

Also posted on our website and available in print upon request to our Investor Relations Department, are the charters for our Audit Committee, Compensation Committee and Corporate Governance Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics. Within the time period required by the SEC and NYSE, we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our senior financial officers, as defined by the SEC, and our executive officers or directors. In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

ITEM 1A. RISK FACTORS

Our business faces significant risks, including credit, market/liquidity, operational, legal/regulatory and strategic/reputation risks. The factors described below may not be the only risks we face and are not intended to serve as a comprehensive listing or be applicable only to the category of risk under which they are disclosed. The risks described below are generally applicable to more than one of the following categories of risks. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following factors actually occurs, our business, financial condition and/or results of operations could be materially and adversely affected.

Economic Risks

The COVID-19 pandemic has significantly impacted the State of Hawaii and our business. The ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

Our operations, like those of other financial institutions that operate in our market, are significantly influenced by economic conditions in Hawaii, including the strength of the real estate market and the tourism industry. The COVID-19 pandemic resulted in an extreme decline in tourism to the state of Hawaii in 2020. In 2021, we experienced a rebound in tourism, but not to the full extent of pre-pandemic levels. Should economic conditions in the state of Hawaii deteriorate again due to actual or perceived increase in COVID-19 risk, including further spread and new variants, it can negatively impact our results of operations, including our net income. In addition, material adverse effects on our business may include all or a combination of valuation impairments on our investments, loans, mortgage servicing rights, deferred tax assets or counter-party risk derivatives.

Furthermore, a prolonged or worsening pandemic could influence the recognition of credit losses in our loan portfolios and increase our allowance for credit losses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize an allowance for credit losses in future periods on the securities we hold as well as reductions in other comprehensive income.

While most of our temporarily closed branches and offices have reopened, there is potential that our business operations may be disrupted if our workforce is unable to work effectively, including because of illness, quarantines, government actions, or other restrictions.

The extent to which the COVID-19 pandemic continues to impact our business, results of operations, and financial condition, as well as our results of operations and our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

Difficult economic and market conditions in Hawaii would result in significant adverse effects on us because of the geographic concentration of our business.

Unlike larger national or other regional banks that are more geographically diversified, our business and operations are closely tied to the Hawaii market. The Hawaii economy relies on tourism, real estate, government and other service-based industries. Declines in tourism, increases in energy costs, the availability of affordable air transportation, adverse weather and natural disasters, and local budget issues impact consumer and corporate spending. As a result, such events may contribute to the deterioration in Hawaii's general economic condition, which could adversely impact us and our borrowers.

In addition, the high concentration of Hawaii real estate loans in our portfolio, combined with the deterioration in these sectors caused by an economic downturn, previously had and could have in the future a significantly more adverse impact on our operating results than many other banks across the nation. If our borrowers experience financial difficulty, or if property values securing our real estate loans decline, we will incur elevated credit costs due to the composition and concentration of our loan portfolio, which will have an adverse effect on our financial condition and results of operations.

Our real estate loan operations have a considerable effect on our results of operations.

The performance of our real estate loans depends on a number of factors, including the continued strength of the real estate markets in which we operate. As we have previously seen in the Hawaii and U.S. Mainland construction and real estate

markets, the strength of the real estate market and the results of our operations could be negatively affected by an economic downturn.

In addition, declines in the market for commercial property could cause some of our borrowers to suffer losses on their projects, which would negatively affect our financial condition, results of operations and prospects. Declines in housing prices and the supply of existing houses for sale could cause residential developers who are our borrowers to suffer losses on their projects and encounter difficulty in repaying their loans. We cannot assure you that we will have an adequate allowance for credit losses to cover future losses. If we suffer greater losses than we are projecting, our financial condition and results of operations would be adversely affected.

Our ability to maintain adequate sources of funding and liquidity and required capital levels may be negatively impacted by uncertainty in the economic environment which may, among other things, impact our ability to satisfy our obligations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of investments or loans, and other sources would have a substantial negative effect on our liquidity which could affect or limit our ability to satisfy our obligations and our ability to grow profitability at the same rate. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically, the financial services industry, or the economy in general. Factors that could detrimentally impact our access to liquidity sources include concerns regarding deterioration in our financial condition, increased regulatory actions against us and a decrease in the level of our business activity as a result of a downturn in the markets in which our loans or deposits are concentrated. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial industry in light of the past turmoil faced by banking organizations and the credit markets. In addition, our financial flexibility could be constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates, including in the current rising interest rate environment.

The management of liquidity risk is critical to the management of our business and our ability to service our customer base. In managing our balance sheet, our primary source of funding is customer deposits. Our ability to continue to attract these deposits and other funding sources is subject to variability based upon a number of factors including volume and volatility in the securities' markets, our financial condition, our credit rating and the relative interest rates that we are prepared to pay for these liabilities. The availability and level of deposits and other funding sources is highly dependent upon the perception of the liquidity and creditworthiness of the financial institution, and perception can change quickly in response to market conditions or circumstances unique to a particular company. Concerns about our past and future financial condition or concerns about our credit exposure to other parties could adversely impact our sources of liquidity, financial position, including regulatory capital ratios, results of operations and our business prospects.

If our level of deposits were to materially decrease, we would need to raise additional funds by increasing the interest that we pay on certificates of deposits or other depository accounts, seek other debt or equity financing or draw upon our available lines of credit. We rely on commercial and retail deposits, and to a lesser extent, advances from the Federal Home Loan Bank of Des Moines ("FHLB") and the Federal Reserve discount window, to fund our operations. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of the FHLB or market conditions were to change.

During 2020 and 2021, our level of deposits increased materially, which was largely driven by customer response to the pandemic including market instability and deposits of PPP funds and government assistance. We cannot assure you that the bank will retain these deposits.

Our line of credit with the FHLB serves as a primary outside source of liquidity. The Federal Reserve discount window also serves as an additional outside source of liquidity. Borrowings under this arrangement are through the Federal Reserve's primary facility under the borrower-in-custody program. The duration of borrowings from the Federal Reserve discount window are generally for a very short period, usually overnight. In the event that these outside sources of liquidity become unavailable to us, we will need to seek additional sources of liquidity, including selling assets. We cannot assure you that we will be able to sell assets at a level to allow us to repay borrowings or meet our liquidity needs.

We constantly monitor our activities with respect to liquidity and evaluate closely our utilization of our cash assets; however, there can be no assurance that our liquidity or the cost of funds to us may not be materially and adversely impacted as a result of economic, market, or operational considerations that we may not be able to control.

The fiscal, monetary and regulatory policies of the federal government and its agencies could have a material adverse effect on our results of operations.

The FRB regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. It also can materially decrease the value of financial assets we hold, such as debt securities.

Our net interest income and net interest margin may be negatively impacted by a prolonged low interest rate environment as it may result in us holding lower yielding loans and securities on our balance sheet, particularly if we are unable to replace the maturing higher yielding assets with similar higher yielding assets. Changes in the slope of the yield curve, which represents the spread between short-term and long-term interest rates, could also reduce our net interest income and net interest margin. Historically, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. When the yield curve flattens, our net interest income and net interest margin could decrease as our cost of funds increases relative to the yield we can earn on our assets.

In a rising interest rate environment, as we are currently experiencing, there is potential for decreased demand for our loan products, an increase in our cost of funds, and the curtailment of economic recovery.

Changes in FRB policies and our regulatory environment are beyond our control, and we are unable to predict what changes may occur or the manner in which any future changes may affect our business, financial condition and results of operation.

Negative developments in the global and U.S. economies could have an adverse effect on us.

Our business and operations are sensitive to business and economic conditions globally and domestically. Adverse economic and business conditions in the U.S. generally, and in our market areas, in particular, could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. Other economic conditions that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation (which we are currently experiencing) and price levels (particularly for real estate), monetary policy, unemployment and the strength of the domestic economy as a whole. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for credit losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Credit Risks

Our Banking-as-a-Service ("BaaS") collaboration agreements may expose us to credit risk.

Our collaboration with Swell Financial, Inc. ("Swell") and Elevate Credit, Inc. ("Elevate") provides that the bank has entered into an agreement with Swell pursuant to which Swell will market bank consumer checking and consumer line of credit ("LOC") accounts using the Swell brand and Swell's digital platform. A subsidiary of Elevate will be providing the underwriting model for the LOC accounts. Another subsidiary of Elevate will cover any losses on the LOC accounts, and in addition will provide cash collateral to the bank to secure payment of such losses. Further, Elevate will be a partial guarantor of losses on the LOC accounts. While the bank believes the Elevate subsidiary's cash collateral on deposit at the bank will be sufficient to cover any foreseeable losses on the LOC accounts, in the event the cash collateral amount is not adequately maintained or the cash collateral amount is insufficient to cover the losses on the LOC accounts and the Elevate subsidiary does not or cannot otherwise meet its obligations under its agreement with the bank and Elevate does not or cannot meet its obligations under its partial guaranty, the bank may incur losses on the LOC accounts. Losses associated with the LOC accounts (or the portfolios of other third parties with whom we enter into comparable BaaS relationships) in such circumstances could have a material adverse effect on our net income, results of operations and financial condition.

A large percentage of our loans are collateralized by real estate and any deterioration in the real estate market may result in additional losses and adversely affect our financial results.

Our results of operations have been, and in future periods, will continue to be significantly impacted by the economy in Hawaii, and to a lesser extent, other markets we are exposed to including California. Approximately 76% of our loan portfolio as of

December 31, 2021 was comprised of loans primarily collateralized by real estate, with the significant majority of these loans concentrated in Hawaii.

Deterioration of the economic environment in Hawaii, California or other markets we are exposed to, domestic or foreign, including a decline in the real estate market and single-family home resales or a material external shock, may significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. In the event of a default with respect to any of these loans, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest on the loan.

Our allowance for credit loss methodology resulted in a credit to our provision for credit losses but the credit provision may not continue.

In 2021, we recorded a credit to the provision for credit losses. Although other factors of our overall risk profile have improved in recent years and general economic trends and market conditions have stabilized, concerns over the global and U.S. economies still remain. Accordingly, it is possible that the real estate markets we participate in could deteriorate as it did from the latter part of 2007 through 2010. If this occurs, it may result in an increase in loan delinquencies, loan charge-offs, and our allowance for loan and lease losses. Even if economic conditions improve or stay the same, it is possible that we may experience material credit losses and in turn, increases to our allowance for credit losses, due to any number of factors, including but not limited to, the elevated risk still inherent in our existing loan portfolio resulting from our high concentration of loans collateralized by real estate. If that were to occur, we may have to record a provision for loan and lease losses which would have an adverse impact on our net income. Under typical stable portfolio and market conditions, we would generally record a provision for credit losses when there is growth in our loan portfolio.

Our allowance for credit losses may not be sufficient to cover actual credit losses, which could adversely affect our results of operations. Additional credit losses may occur in the future and may occur at a rate greater than we have experienced to date.

As a lender, we are exposed to the risk that our loan customers may not repay their loans according to their terms and that the collateral or guarantees securing these loans may be insufficient to assure repayment. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for credit losses to provide for loan defaults and non-performance, which also includes increases for new loan growth. While we believe that our allowance for credit losses is appropriate to cover expected losses, we cannot assure you that we will not increase the allowance for credit losses further or that regulators will not require us to increase the allowance for credit losses which could have a material adverse effect on our net income and financial condition.

Management makes various assumptions and judgments about the collectability of our loan portfolio, which are regularly reevaluated and are based in part on:

- current economic conditions and their estimated effects on specific borrowers;
- an evaluation of the existing relationships among loans, potential credit losses and the present level of the allowance for credit losses;
- results of examinations of our loan portfolios by regulatory agencies; and
- management's internal review of the loan portfolio.

In determining the size of the allowance for credit loss, we rely on an analysis of our loan portfolio, our experience and a third-party economic forecast. If our assumptions prove to be incorrect, our current allowance for credit losses may not be sufficient to cover the losses.

In addition, third parties, including our federal and state regulators, periodically evaluate the adequacy of our allowance for credit losses and may communicate with us concerning the methodology or judgments that we have raised in determining the allowance for credit losses. As a result of this input, we may be required to assign different grades to specific credits, increase our provision for credit losses, and/or recognize further loan charge offs which could have a material adverse effect on our net income and financial condition. See Note 1 - Summary of Significant Accounting Policies to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

Our commercial, financial and agricultural loan and commercial real estate loan portfolios expose us to risks that may be greater than the risks related to our other loans.

Our loan portfolio includes commercial, financial and agricultural loans and commercial real estate loans, which are secured by commercial real estate, including but not limited to, structures and facilities to support activities designated as multi-family residential properties, industrial, warehouse, general office, retail, health care and religious dwellings. Commercial, financial and agricultural and commercial real estate loans carry more risk as compared to other types of lending, because they typically involve larger loan balances often concentrated with a single borrower or groups of related borrowers.

Accordingly, charge-offs on commercial, financial and agricultural and commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. In addition, these loans expose a lender to greater credit risk than loans secured by residential real estate. The payment experience on commercial real estate loans that are secured by income producing properties are typically dependent on the successful operation of the related real estate property and thus, may subject us to adverse conditions in the real estate market or to the general economy. The collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than residential properties because there are fewer potential purchasers of the collateral.

Unexpected deterioration in the credit quality of our commercial or commercial real estate loan portfolios would require us to increase our provision for credit losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations and prospects.

In addition, federal and state banking regulators may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for credit losses and capital levels as a result of commercial real estate lending growth and exposures.

We may incur future losses in connection with certain representations and warranties we have made with respect to mortgages that we have sold in the secondary market.

In connection with the sale of mortgage loans into the secondary market, we make representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect to such loans. A substantial decline in residential real estate values in the markets in which we originated such loans could increase the risk of such consequences. While we currently believe our repurchase risk is low, it is possible that requests to repurchase loans could occur in the future and such requests may have a material adverse effect on our financial condition and results of operations.

Interest Rate and Liquidity Risks

Our business is subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.

The majority of our assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and profitability depend significantly on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. If market interest rates should move contrary to our position, this "gap" will work against us and our earnings may be negatively affected. In light of our current volume and mix of interest-earning assets and interest-bearing liabilities, our net interest margin could be expected to increase modestly during periods of rising interest rates, and to decline slightly during periods of falling interest rates. We are unable to predict or control fluctuations of market interest rates, which are affected by many factors, including the following:

- inflation;
- recession;
- market conditions;
- changes in unemployment;

- the money supply;
- international disorder and instability in domestic and foreign financial markets; and
- governmental actions.

Our asset/liability management strategy may not be able to control our risk from changes in market interest rates and it may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. From time to time, we may reposition our assets and liabilities to reduce our net interest income volatility. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

If we are unable to effectively manage the composition and risk of our investment securities portfolio, which we expect will continue to comprise a significant portion of our earning assets, our net interest income and net interest margin could be adversely affected.

Our primary sources of interest income include interest on loans, as well as interest earned on investment securities. Interest earned on investment securities represented 11.2% of our interest income in the year ended December 31, 2021, as compared to 12.1% of our interest income in the year ended December 31, 2020. Accordingly, effectively managing our investment securities portfolio to generate interest income while managing the composition and risks (including credit, interest rate and liquidity) associated with that portfolio, including the mix of government agency and non-agency securities, remains important. If we are unable to effectively manage our investment securities portfolio or if the interest income generated by our investment securities portfolio declines, our net interest income and net interest margin could be adversely affected.

We may be adversely impacted by the transition from LIBOR as a reference rate

In 2017, the United Kingdom Financial Conduct Authority ("FCA") announced that after 2021 it would no longer compel banks to submit the rates required to calculate the LIBOR. In March 2021, the FCA and Intercontinental Exchange (ICE) Benchmark Administration (IBA) announced that the publication of the most commonly used U.S. dollar LIBOR settings would be extended through June 30, 2023 and cease publishing other LIBOR settings after December 31, 2021. Subsequently, federal financial institution regulatory agencies in conjunction with state bank and credit union regulators issued a joint statement stressing their expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR. It is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark (until cessation), what rate or rates may become accepted alternatives, (including uncertainties regarding Secured Overnight Financing Rate ("SOFR"), or what the effect of any such changes in views or alternative may be on the markets for LIBOR-indexed financial instruments. We have a cross-functional committee to lead the transition from LIBOR to a planned adoption of reference rates which could include SOFR, Prime Rate or others.

We have loans, derivatives and debt with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition may change our market risk profile, and require changes to risk and pricing models, valuation tools, product design and hedging strategies. Although we are unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition, and results of operations.

We rely on the mortgage secondary market for some of our liquidity.

We originate and sell mortgage loans. We rely on Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and other purchasers to purchase first mortgage loans in order to reduce our credit risk and interest rate risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to Fannie Mae and Freddie Mac, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of Fannie Mae and Freddie Mac. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to Fannie Mae or Freddie Mac. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting, documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market, our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.

We are required to act as a source of financial and managerial strength for our bank.

We are required to act as a source of financial and managerial strength to the bank. We may be required to commit additional resources to the bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our shareholders' best interests to do so. Providing such support is more likely during times of financial stress for us and the bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to the bank are subordinate in right of payment to depositors and to certain other indebtedness of the bank.

We rely on dividends from our subsidiary for most of our revenue.

Because we are a holding company with no significant operations other than our bank, we depend upon dividends from our bank for a substantial portion of our revenues and our liquidity.

Hawaii law only permits the bank to pay dividends out of retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of December 31, 2021, the bank had Statutory Retained Earnings of \$114.0 million. In addition, regulatory authorities could limit the ability of the bank to pay dividends to CPF. The inability to receive dividends from the bank could have a material adverse effect on our financial condition, results of operations and prospects.

Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures and subordinated notes. We cannot provide any assurance that we will continue to pay dividends.

Operational Risks

Our RISE2020 initiative may not be successful.

During the second half of 2019 and throughout 2020, we invested an aggregate of approximately \$40 million to upgrade our branch spaces, digital banking platforms and ATM network through an initiative we called RISE2020. RISE2020 was intended to enhance customer experience, drive stronger long-term growth and profitability, improve shareholder returns and lower our efficiency ratio. Our RISE2020 initiative was completed in early 2021, however, the COVID-19 pandemic resulted in some revisions to our original initiatives, plans and timelines. Following the completion, we continue to monitor and further enhance our facilities, platforms and processes that were part of the RISE2020 initiative. While the investments we made in RISE2020 are projected to result in increased revenue and growth, the increases are forecasted to occur over a period of time and are heavily dependent upon our ability to continue to execute on our business and strategic objectives. We cannot provide any assurance that RISE2020 will achieve any of our objectives or will achieve our objectives to the extent we have forecasted. In particular, we may not be able to attract new business from existing customers; new customers may not be attracted to our platform despite the amount of expense we incur; and continued enhancements of RISE2020 initiatives may disrupt our operations. If our RISE2020 initiative is not successful, our overall noninterest expense will have increased without a corresponding increase in revenue and growth which could have a material adverse effect on our business, financial condition or results of operations.

Our agreements with BaaS partners may produce limited revenue and may expose us to liability for compliance violations by BaaS partners.

We recently announced the launch of a new BaaS initiative with the goal of expanding our services in Hawaii and on the U.S. Mainland by collaborating with and investing in fintech companies. In conjunction with that initiative, we intend to collaborate with Elevate Credit, Inc. and Swell Financial, Inc. where the bank will serve as the bank sponsor for a new consumer banking application. We may enter into agreements with other BaaS partners pursuant to which we will provide certain banking services for the BaaS partner customers. Our agreements with our partners will have varying terms and may be terminated by the parties under certain circumstances. If our BaaS partners are not successful in achieving customer acceptance of their programs or terminate the agreements before the end of their respective terms, our revenue under the various agreements may be limited or may cease altogether. In addition, our bank regulators may hold us responsible for the activities of our bank partners with respect to the marketing or administration of their programs, which may result in increased compliance costs for us or potentially compliance violations as a result of BaaS partner activities, any of which could have a material adverse effect on our financial condition or results of operations.

Our strategy of offering BaaS has been adopted by other institutions with which we compete.

Other online banking operations as well as the online banking programs of other banks have instituted BaaS strategies similar to ours. As a consequence, we anticipate that we will encounter competition in this area currently and in the future. This competition may increase our costs, reduce our revenues or revenue growth or make it difficult for us to compete effectively in obtaining these relationships.

Managing reputational risk is important to attracting and maintaining customers, investors and employees

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee mistakes, misconduct or fraud, failure to deliver minimum standards of service or quality, failure of any product or service offered by us to meet our customers' expectations, compliance deficiencies, government investigations, litigation, and questionable, unlawful or fraudulent activities of our partners, contract counterparties, employees or customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective to address reputational threats in all circumstances. Negative publicity regarding our business, employees, partners, contracting counterparties, employees or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental scrutiny and regulation.

The ongoing design and maintenance of data and related internal controls over financial reporting related to Current Expected Credit Losses ("CECL") will require a significant amount of time and resources which may have a material impact on our results of operations.

CECL has increased the amount of data and assumptions we need to collect and review to determine the appropriate level of the allowance for credit losses. A significant amount of time and resources has been spent and will continue to be spent in order to implement and maintain CECL effectively, including the design and implementation of related adequate internal controls, which may adversely affect our results of operations. If we are unable to maintain effective internal control over financial reporting relating to CECL, our ability to report our financial condition and results of operations accurately and on a timely basis could also be adversely affected.

Consumer protection initiatives related to the foreclosure process could materially affect our ability as a creditor to obtain remedies.

In 2011, Hawaii revised its rules for nonjudicial, or out-of-court, foreclosures. Prior to the revision, most lenders used the nonjudicial foreclosure method to handle foreclosures in Hawaii, as the process was less expensive and quicker than going through the court foreclosure process. After the revised rules went into effect, many lenders ended up forgoing nonjudicial foreclosures entirely and filing all foreclosures in court, which has created a backlog and slowed the judicial foreclosure process. Many lenders continue to exclusively use the judicial foreclosure process, making the foreclosure process very lengthy. Additionally, the joint federal-state settlement with several mortgage servicers over abuse of foreclosure practices creates further uncertainty for us and the mortgage servicing industry in general with respect to implementation of mortgage loan modifications and loss mitigation practices going forward. The manner in which these issues are ultimately resolved could impact our foreclosure procedures, which in turn could adversely affect our business, financial condition or results of operations.

Our deposit customers may pursue alternatives to deposits at our bank or seek higher yielding deposits causing us to incur increased funding costs.

Checking and savings account balances and other forms of deposits can decrease when our deposit customers perceive alternative investments, such as the stock market or other non-depository investments, as providing superior expected returns or seek to spread their deposits over several banks to maximize FDIC insurance coverage. Furthermore, technology and other changes have made it more convenient for the bank's customers to transfer funds into alternative investments including products offered by other financial institutions or non-bank service providers. Increases in short-term interest rates could increase transfers of deposits to higher yielding deposits. Efforts and initiatives we undertake to retain and increase deposits, including deposit pricing, can increase our costs. When the bank's customers move money out of bank deposits in favor of alternative investments or into higher yielding deposits, or spread their accounts over several banks, we can lose a relatively inexpensive source of funds, thus increasing our funding costs.

The occurrence of fraudulent activity, data privacy breaches, failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us, our customers or our business partners (including by our own employees and consultants), which may result in financial losses or increased costs to us or, our customers or our business partners, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us, our vendors, or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on the networks and systems of us, our clients and certain of our third-party partners, such as our online banking or reporting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients' confidence. Breaches of information security also may occur, and in infrequent cases have occurred, through intentional or unintentional acts by those having access to our systems or our clients' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent data security breaches and cyber-attacks and periodically test our security, we may fail to anticipate or adequately mitigate breaches of security or experience data privacy breaches that could result in: losses to us or our clients; our loss of business and/or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties, including resulting violations of law (whether federal or one or more various states); or our exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, publicized information concerning security and cyber-related problems and other data privacy breaches could inhibit the use or growth of digital or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be materially adversely affected.

Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis.

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements. Frequent or rapid changes in procedures, methodologies, systems, personnel and technology exacerbate the challenge of developing and maintaining a system of internal controls and can increase the cost and level of effort to develop and maintain such systems.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

Periodically the Financial Accounting Standards Board ("FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we have previously used in preparing our financial statements, which could adversely affect our business, financial condition and results of operations. See Note 1 - Summary of Significant Accounting Policies to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We operate in a highly competitive industry and market area.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional and community banks within the various markets we operate. Additionally, various out of state banks conduct business in the market areas in which we currently operate. We also face competition from many other types of financial institutions, including, without limitation, savings banks, credit unions, finance companies, financial service providers, including mortgage providers and brokers, operating via the internet and other technology platforms, brokerage firms, insurance companies, factoring companies and other financial intermediaries.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

In addition, the soundness of our financial condition may also affect our competitiveness. Customers may decide not to do business with the bank due to its financial condition.

We are subject to environmental liability risk associated with our bank branches and any real estate collateral we acquire upon foreclosure.

During the ordinary course of business, we may foreclose on and take title to properties securing certain loans that we have originated or acquired. We also own several of our branch locations. For any real property that we may possess, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage and costs of complying with applicable environmental regulatory requirements. Failure to comply with such requirements can result in penalties. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use, sell or lease the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations.

Our business could be adversely affected by unfavorable actions from rating agencies.

Ratings assigned by ratings agencies to us, our affiliates or our securities may impact the decision of certain customers, in particular, institutions, to do business with us. A rating downgrade or a negative rating could adversely affect our deposits, our ability to access the capital markets on favorable terms and our business relationships.

Risks Related to Legal, Compliance and Regulatory Matters

Governmental regulation and regulatory actions against us may impair our operations or restrict our growth.

As a regulated financial institution, we are subject to significant governmental supervision and regulation. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Statutes and regulations affecting our business may be changed at any time and the interpretation of these statutes and regulations by examining authorities may also change. In addition, regulations may be adopted which increase expenses associated with running our business and adversely affect our earnings.

There can be no assurance that such statutes and regulations, any changes thereto or to their interpretation will not adversely affect our business. In particular, these statutes and regulations, and any changes thereto, could subject us to additional costs (including legal and compliance costs), limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. In addition to governmental supervision and regulation, we are subject to changes in other federal and state laws, including changes in tax laws, which could materially affect us and the banking industry generally. We are subject to the rules and regulations of the FRB, the FDIC and the DFI, and certain rules and regulations promulgated by the CFPB. In addition, we are subject to the rules and regulation of the NYSE and the SEC and are subject to enforcement actions and other punitive actions by these agencies. If we fail to comply with federal and state regulations, the regulators may limit our activities or growth, impose fines on us or in the case of our bank regulators, ultimately require our bank to cease its operations. Bank regulations can hinder our ability to compete with financial services companies that are not regulated in the same manner or are less regulated. Federal and state bank regulatory agencies regulate many aspects of our operations. These areas include:

- the capital that must be maintained;
- the kinds of activities that can be engaged in;
- the kinds and amounts of investments that can be made;
- the locations of offices;
- insurance of deposits and the premiums that we must pay for this insurance;
- procedures and policies we must adopt;
- conditions and restrictions on our executive compensation; and
- how much cash we must set aside as reserves for deposits.

In addition, bank regulatory authorities may bring enforcement actions against banks and bank holding companies, including CPF and the bank, for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation. Enforcement actions against us, including any condition imposed in writing by the appropriate bank regulatory agency or any written agreement with the authority, could include a federal conservatorship or receivership for the bank, the issuance of additional orders that could be judicially enforced, the imposition of civil monetary penalties, the issuance of directives to enter into a strategic transaction, whether by merger or otherwise, with a third-party, the termination of insurance of deposits, the issuance of removal and prohibition orders against institution-affiliated parties, and the enforcement of such actions through injunctions or restraining orders. In addition, if we were to grow beyond \$10 billion in assets, we would be subject to enhanced CFPB examination and our compliance costs would increase.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

Regulatory capital standards impose enhanced capital adequacy requirements on us.

Increased regulatory capital requirements (and the associated compliance costs), which have been adopted by federal banking regulators, impose additional capital requirements on our business. The administration of existing capital adequacy laws as well as adoption of new laws and regulations relating to capital adequacy, or more expansive or aggressive interpretations of existing laws and regulations, could have a material adverse effect on our business, liquidity, financial condition and results of operations and could substantially restrict our ability to pay dividends, repurchase any of our capital stock, or pay executive bonuses. In addition, increased regulatory capital requirements as well as our financial condition could require us to raise additional capital which would dilute our existing shareholders at the time of such capital issuance.

We are subject to various legal claims and litigation.

From time to time, customers, employees and others whom we do business with, or are regulated by, as well as our shareholders, can make claims and take legal action against us. Regardless of whether these claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for our products and services. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. Even if these claims and legal actions do not result in a financial liability or reputational damage, defending these claims and actions have resulted in, and will continue to result in, increased legal and professional services costs, which adds to our noninterest expense and negatively impacts our operating results.

Risks Related to an Investment in the Company's Securities

The market price of our common stock could decline.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- failure to comply with all of the requirements of any governmental orders or agreements we may become subject to and the possibility of resulting action by the regulators;

- deterioration of asset quality;
- the incurrence of losses;
- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings/losses estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings/losses estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as mergers, acquisitions, restructurings, changes in products or markets, or public offerings;
- additions or departures of key personnel;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- future sales of other equity or debt securities, including our common stock;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- breaches in our security systems and loss of customer data;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market generally may experience significant volatility. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. Accordingly, the common stock that you purchase may trade at a price lower than that at which they were purchased. Volatility in the market price of our common stock may prevent individual shareholders from being able to sell their shares when they want or at prices they find attractive.

A significant decline in our stock price could result in substantial losses for shareholders and could lead to costly and disruptive securities litigation.

Anti-takeover provisions in our restated articles of incorporation and bylaws and applicable federal and state law may limit the ability of another party to acquire us or a significant block of common stock, which could cause our stock price to decline.

Various provisions of our restated articles of incorporation and bylaws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. These include, among other things, the authorization to issue "blank check" preferred stock by action of the Board of Directors acting alone, thus without obtaining shareholder approval. In addition, applicable provisions of federal and state law require regulatory approval in connection with certain acquisitions of our common stock and super-majority voting provisions in connection with certain transactions. In particular, both federal and state law limit the acquisition of ownership of certain percentage thresholds of our common stock without providing prior notice to the regulatory agencies and obtaining prior regulatory approval or non-objection or being able to rely on an exemption from such acquisition. See the "Supervision and Regulation" section. We are also subject to the provisions of the Hawaii Control Share Acquisitions Act which prohibits the consummation of a "control share acquisition" (with threshold ranges starting at 10% and set at 10% intervals up to a majority) unless approved by our shareholders or otherwise exempt. Unless approved or otherwise exempt, for a period of one year after acquisition, the shares

acquired by a person in a control share acquisition will be (i) denied voting rights, (ii) be nontransferable, and (iii) be subject to redemption at our option. Collectively, these provisions of our restated articles of incorporation and bylaws and applicable federal and state law may prevent a merger or acquisition that would be attractive to shareholders, limit the ability of another party to acquire a significant block of our common stock, and could limit the price investors would be willing to pay in the future for our common stock.

Our common stock is equity and therefore is subordinate to our subsidiaries' indebtedness and preferred stock.

Our common stock constitutes equity interests and does not constitute indebtedness. As such, common stock will rank junior to all current and future indebtedness and other non-equity claims on us with respect to assets available to satisfy claims against us, including in the event of our liquidation. We may, and the bank and our other subsidiaries may also, incur additional indebtedness from time to time and may increase our aggregate level of outstanding indebtedness. As of December 31, 2021, we had (i) \$50.0 million in face amount of trust preferred securities outstanding and accrued and unpaid dividends thereon of \$0.1 million and (ii) \$55.0 million in principal amount of subordinated notes outstanding and accrued and unpaid interest thereon of \$0.4 million. Additionally, holders of common stock are subject to the prior dividend and liquidation rights of any holders of our preferred stock that may be outstanding from time to time. The Board of Directors is authorized to cause us to issue additional classes or series of preferred stock without any action on the part of our stockholders. If we issue preferred shares in the future that have a preference over our common stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, then the rights of holders of our common stock or the market price of our common stock could be adversely affected.

There is a limited trading market for our common stock and as a result, you may not be able to resell your shares at or above the price you pay for them at the time you otherwise may desire.

Although our common stock is listed for trading on the NYSE, the volume of trading in our common shares is lower than many other companies listed on the NYSE. A public trading market with depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. As a result, you may not be able to resell your common stock at or above the price you pay or at the time(s) you otherwise may desire.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Our common stock is not insured and you could lose the value of your entire investment.

An investment in our common stock is not a deposit and is not insured against loss by the government or any governmental agency.

Risks Related to Technology

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, there are a limited number of qualified persons in our local marketplace with the knowledge and experience required to effectively maintain our information technology systems and implement our technology initiatives. Failure to successfully attract and retain qualified personnel, or keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

General Risk Factors

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there is a limited number of qualified persons with knowledge of, and experience in, the regional banking industry, especially in the Hawaii market. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing, and technical personnel, and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our Chairman and Chief Executive Officer, our Executive Vice Chair, our President and Chief Operating Officer, our Senior Executive Vice President and Chief Financial Officer, and our other executive officers and certain other employees.

Natural disasters and other external events (including pandemic viruses or disease) could have a material adverse effect on our financial condition and results of operations.

Our branch offices as well as a substantial majority of our loan portfolio is in the state of Hawaii. As a result, natural disasters and other severe weather occurrences such as tsunamis, volcanic eruptions (such as the recent eruption of Mount Kilauea), hurricanes and earthquakes and other adverse external events, including the effects of any pandemic viruses or diseases (such as the current COVID-19 pandemic), could have a significant effect on our ability to conduct our business and adversely affect the tourism and visitor industry in the state of Hawaii. Such events could affect the ability of our borrowers to repay their outstanding loans, impair the value of collateral securing our loans, cause significant property damage, result in loss of revenue, adversely impact our deposit base and/or cause us to incur additional expenses. Accordingly, the occurrence of any such natural disasters, severe weather events, or other occurrences over which we have no control could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We hold title to the land and building in which our Main branch office and headquarters, Hilo branch office, Kailua-Kona branch office, Pearl City branch office, Kaneohe branch office and certain operations offices are located. We also hold title to a portion of the land on which our operations center is located. The remaining portion of the land where our operations center is located is leased, as are all remaining branch and support office facilities. We also own four floors of a commercial office condominium in downtown Honolulu where certain bank training classes are held and residential mortgage sales and operations are located. In 2021, we acquired title to land in Kahului, Maui where the Company intends to build its new branch and regional office.

We occupy or hold leases for approximately 40 other properties including office space for our remaining branches. These leases expire on various dates through 2045 and generally contain renewal options for periods ranging from 5 to 15 years. For additional information relating to lease rental expense and commitments as of December 31, 2021, see Note 19 - Operating Leases to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

ITEM 3. LEGAL PROCEEDINGS

Certain claims and lawsuits have been filed or are pending against us arising in the ordinary course of business. In the opinion of management, all such matters are of a nature that, if disposed of unfavorably, would not have a material adverse effect on our consolidated results of operations or financial position. See Note 23 - Contingent Liabilities and Other Commitments to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

ITEM 4. MINE SAFETY DISCLOSURES

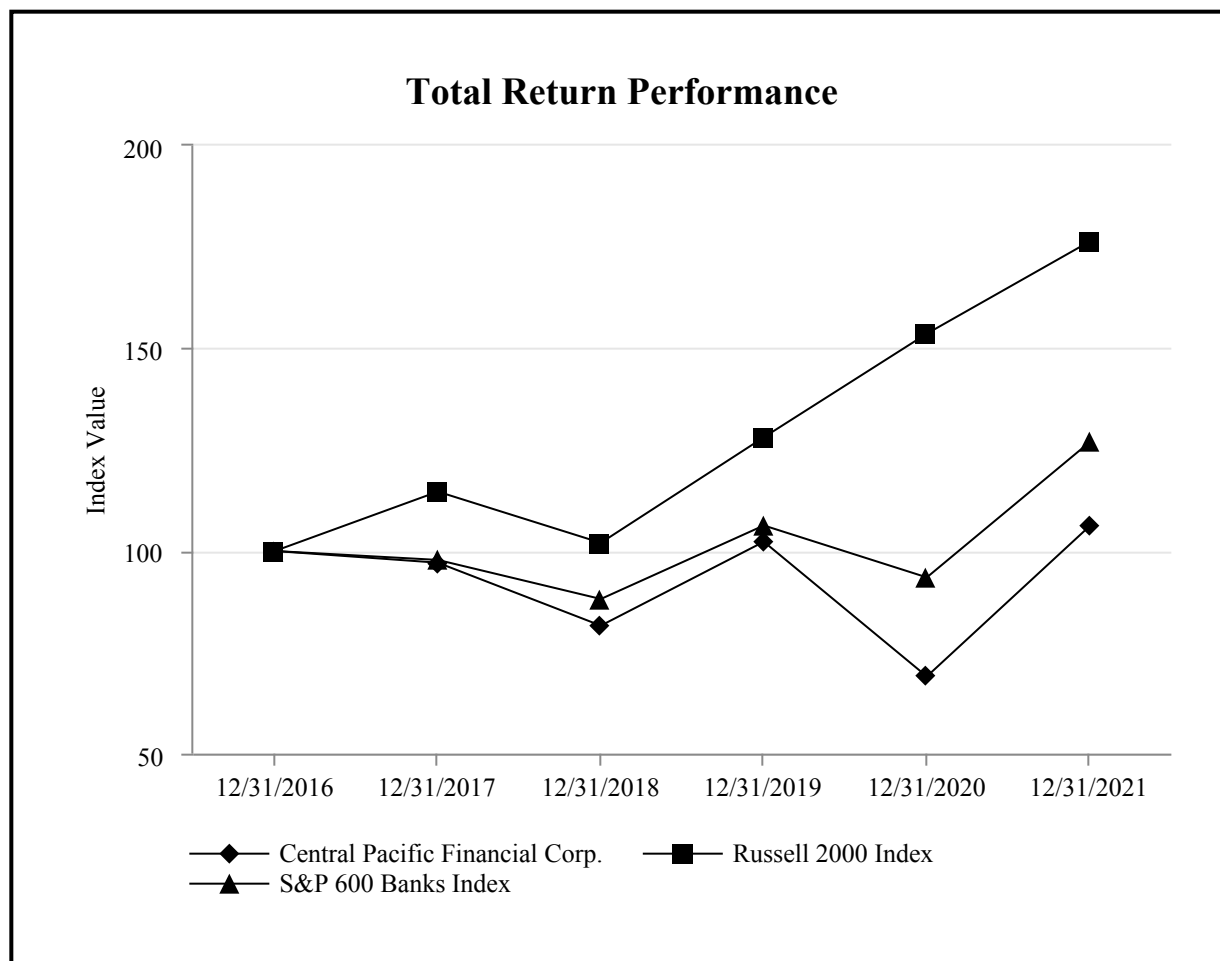
Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the ticker symbol "CPF." Set forth below is a line graph comparing the cumulative total stockholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the Russell 2000 Index and the Standard and Poor's ("S&P") SmallCap 600 Commercial Bank Index for the five year period commencing December 31, 2016 and ending December 31, 2021. The graph assumes the investment of \$100 on December 31, 2016.

Indexed Total Annual Return
(as of **December 31, 2021**)



Index	December 31,					
	2016	2017	2018	2019	2020	2021
Central Pacific Financial Corp.	\$ 100.00	\$ 97.12	\$ 81.59	\$ 102.29	\$ 69.05	\$ 106.19
Russell 2000 Index	100.00	114.65	102.02	128.06	153.62	176.39
S&P 600 Banks Index	100.00	97.80	88.16	106.30	93.49	126.90

As of February 5, 2022, there were 3,089 shareholders of record, excluding individuals and institutions for which shares were held in the names of nominees and brokerage firms.

Dividends

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 trust preferred securities and subordinated notes.

Under the terms of our trust preferred securities and subordinated notes, our ability to pay dividends with respect to common stock would be restricted if our obligations under our trust preferred securities and subordinated notes were not current. Our obligations on our outstanding trust preferred securities and subordinated notes are current as of December 31, 2021.

Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. 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 December 31, 2021, the bank had Statutory Retained Earnings of \$114.0 million. In addition, the bank's regulators could impose limitations or conditions on the bank's ability to pay dividends to the Company.

See "Part I, Item 1. Business — Supervision and Regulation — Regulatory Actions" for a discussion on regulatory restrictions.

Issuer Purchases of Equity Securities

In March 2020, the Company decided to suspend its share repurchase program due to the economic uncertainty in the wake of the COVID-19 pandemic. On January 26, 2021, the Company's Board of Directors approved a new share repurchase authorization of up to \$25 million of its common stock (the "2021 Repurchase Plan"). The Company resumed repurchases during the second quarter of 2021. During the second and third quarters of 2021, the Company repurchased 391,300 shares of common stock at a cost of \$10.2 million. During the fourth quarter of 2021, we repurchased 305,594 shares of common stock at a cost of \$8.4 million. A total of \$6.3 million remained available for repurchase under the 2021 Repurchase Plan at December 31, 2021. In January 2021, we announced a new \$30 million repurchase program which replaces the 2021 Repurchase Plan.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program	Dollar Value of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
October 1-31	47,800	\$ 26.29	47,800	—	\$ 1,256,800	\$ 13,521,540
November 1-30	154,694	28.15	154,694	—	4,355,047	9,166,493
December 1-31	103,100	27.50	103,100	—	2,835,526	6,330,967
Total	<u>305,594</u>	27.64	<u>305,594</u>	—	<u>\$ 8,447,373</u>	6,330,967

Information relating to compensation plans under which equity securities of the Registrant are authorized for issuance is set forth under "Part III, Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. RESERVED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are a bank holding company that, through our banking subsidiary, Central Pacific Bank, offers full service commercial banking in the state of Hawaii.

We strive to provide exceptional customer service and products that meet our customers' needs. Our products and services consist primarily of the following:

- *Loans:* Our loans consist of commercial, financial and agricultural, commercial mortgage, and construction loans to small and medium-sized companies, business professionals, and real estate investors and developers, as well as residential mortgage, home equity and consumer loans to local homeowners and individuals. Our lending activities contribute to a key component of our revenues reported in interest income.
- *Deposits:* We offer a full range of deposit products and services including checking, savings and time deposits, cash management, and digital banking services. We also maintain a broad branch and ATM network in the state of Hawaii. The interest paid on such deposits has a significant impact on our interest expense, an important factor in determining our earnings. In addition, fees and service charges on deposit accounts contribute to our revenues.

Additionally, we offer wealth management products and services, such as non-deposit investment products, annuities, insurance, investment management, asset custody and general consultation and planning services.

Executive Overview

In 2021, we believe we delivered strong financial performance for the Company despite the pandemic environment.

- We recorded net income of \$79.9 million, or \$2.83 per diluted common share in 2021, compared to \$37.3 million, or \$1.32 per diluted common share in 2020.
- We recorded return on average assets ("ROA") and return on average shareholders' equity ("ROE") ratios of 1.13% and 14.38%, respectively, in 2021, compared to ROA and ROE ratios of 0.58% and 6.85%, respectively, in 2020.
- Asset quality remains strong as our nonperforming assets totaled \$5.9 million, or 0.08% of total assets at December 31, 2021, compared to \$6.2 million, or 0.09% of total assets at December 31, 2020.
- We realized strong core loan growth of \$462.6 million, or 10.2% (excluding Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans), or total loan growth of \$137.5 million, or 2.8% (including PPP loans), as well as strong core deposit growth of \$1.02 billion, or 19.9% in 2021.
- Our capital position and consistent profitability allowed us to increase our regular cash dividends paid from \$0.92 per share in 2020 to \$0.96 per share in 2021. In addition, we repurchased 696,894 shares of common stock under our share repurchase program for \$18.7 million, or an average of \$26.79 per share.

RISE2020

Commencing in the second quarter of 2019, the Company launched RISE2020, a multifaceted initiative intended to enhance customer experience, drive stronger long-term growth and profitability, improve shareholder returns and lower our efficiency ratio. RISE2020 included initiatives in the following key areas of opportunity: Digital Banking, Revenue Enhancements, Branch Transformation and Operational Excellence. RISE2020 was intended to provide Central Pacific Bank with premier products and services in several strategic areas.

During 2019, the outsourcing of the Company's residential mortgage loan servicing, the launch of its new website under the cpb.bank domain name and the implementation of its end-to-end commercial loan origination system was completed. During the first quarter of 2020, the Company opened its concept branch, providing its customers a glimpse into the future of Central Pacific Bank. After significant development, the Company's new online and mobile banking platforms for its retail customers launched in August 2020. The rollout of newly upgraded ATMs was completed in the fourth quarter of 2020. Despite several

challenges resulting from the impact of the COVID-19 pandemic, the Company completed its RISE2020 initiative culminating with the grand opening of the fully renovated Central Pacific Plaza headquarters building and flagship main branch, and the launch of a new brand design in early January 2021. Following the completion, we continue to monitor and further enhance our facilities, platforms and processes that were part of the RISE2020 initiative.

Banking-as-a-Service ("BaaS") Initiative

In January 2022, the Company announced the launch of a new BaaS initiative with the goal of expanding the Company both in and beyond Hawaii by investing in or collaborating with leading fintech companies. The BaaS initiative is being developed based on the successful product development and launch strategies used in the Company's new Shaka digital product. Shaka, Hawaii's first all-digital checking account, was launched with a VIP waitlist campaign and a large social media influencer campaign. As of February 18, 2022, over 3,500 Shaka accounts have been opened since the product launch on November 8, 2021.

Beginning in the first quarter of 2022, the Company will continue its BaaS initiatives with an equity investment in Swell Financial, Inc. ("Swell"), a new fintech company. Swell plans to launch a consumer banking app that combines checking, credit and more into one integrated account, and Central Pacific Bank will serve as the bank sponsor. There will also be a collaboration between the Company, Swell and Elevate Credit, Inc. (NYSE:ELVT), a leading provider of digital lending solutions. Swell is scheduled to launch its first product in mid-2022, which is all-digital and available for consumers across most of the U.S. Mainland.

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 II, Item 8. Financial Statements and Supplementary Data."

COVID-19 Pandemic

The ongoing novel coronavirus disease ("COVID-19") pandemic caused significant disruption in the local, national and global economies and financial markets in 2020. While the economy now appears to be on a track for recovery and most COVID-19 related restrictions have been lifted, continuation and worsening of COVID-19 could cause reductions in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability.

In response to the anticipated economic effects of COVID-19, the Board of Governors of the Federal Reserve System (the "FRB") has taken a number of actions that have significantly affected the financial markets in the United States, including actions intended to result in substantial decreases in market interest rates. While interest rates have remained low, inflation has significantly increased. We expect future increases in interest rates to moderate inflation which in effect may adversely impact the Company's loan origination and sales and pressure funding costs. Changes in market interest rates, which we do not control or have little to no influence over, affect our net interest income, margins and profitability. Therefore, we control the composition of our financial assets and liabilities with asset repricing options and maintain models that monitor those positions and sensitivity of our interest rate risk to best mitigate the adverse effects of the changing interest rate environment.

Our operations, like those of other financial institutions that operate in our market, are significantly influenced by economic conditions in Hawaii, including the strength of the real estate market and the tourism industry. Hawaii's economy which was significantly impacted by COVID-19, appears to be on track for recovery. Most of the government imposed restrictions have been loosened, and the tourism industry has started to rebound. While like the rest of the nation, the state of Hawaii experienced a rise in COVID-19 cases related to the Delta and Omicron variants, the recent cases have been less severe. Large scale shutdowns like those that occurred in 2020 are unlikely as the majority of the population is now vaccinated and it is anticipated that we will shift from a pandemic to an endemic as society learns to live with the virus. As of February 2, 2022 the Centers for Disease Control and Prevention reported there were 224,257 cumulative cases (7-day moving average of 1,463 new infections and 10.3% positivity rate) and 1,204 COVID-19-related deaths in Hawaii. As of February 2, 2022, 75.0% of Hawaii's population has been fully vaccinated.

The state of Hawaii has successfully run its 'Safe Travels' program since July 2021, which allows travelers who were fully vaccinated in the United States or its territories to enter Hawaii on domestic flights without pretravel testing/quarantine starting the 15th day after the completion of their vaccination. Visitor arrivals greatly increased in the summer of 2021 with the daily average exceeding 30,000 per day in July 2021, or approximately 90% of pre-pandemic levels. However, in August 2021, similar to many other states, Hawaii experienced a spike in COVID-19 cases due to the Delta variant. To mitigate further spread and due to concerns over hospital capacity, Governor Ige asked that only essential travel to Hawaii occur which resulted in a decline to approximately 20,000 per day in September 2021. Governor Ige welcomed back vaccinated visitors in November

2021. Travel picked up during the holidays in December 2021 and visitors averaged approximately 27,000 per day. In January 2022, visitors were approximately 23,000 per day. In response to the Omicron variant, certain foreign travel restrictions have been imposed which will delay the return of international visitors, and the full impacts in Hawaii remain uncertain.

Hawaii's unemployment rate decreased to 5.7% during the month of December 2021 and is significantly down from its peak of 21.9% in April and May of 2020.

Financial position and results of operations

Through guidance from regulatory agencies, the Company prudently worked with its borrowers impacted by COVID-19 to defer payments, interest, and fees. Loans on active payment forbearance or deferrals granted to borrowers impacted by the COVID-19 pandemic peaked at \$605 million in May 2020. Since then nearly all borrowers who received payment forbearance or deferral have resumed payments. As of December 31, 2021, \$0.4 million, or 0.01% of the total loan portfolio, remained on payment deferral.

During the third quarter of 2020, the Company recorded a reserve on the accrued interest receivable for loans on active forbearance or deferral totaling \$0.2 million. Due to the significant decline in loans on active forbearance or deferral, the Company reversed the \$0.2 million reserve during the second quarter of 2021 and no longer has a reserve on accrued interest receivable as of December 31, 2021.

To support our customers during the onset of the pandemic, the Company temporarily waived non-CPB ATM fees and early withdrawal fees on our time deposits and granted temporary increases on debit card and mobile deposit transaction limits throughout the second quarter of 2020. Beginning July 1, 2020, we reinstated these fees that were waived throughout the previous quarter, but the temporary increases on debit card and mobile deposit transaction limits remain in place.

Liquidity and capital

Through our past experience during the Great Recession in the late 2000s, we believe we have developed robust liquidity and capital stress tests and comprehensive liquidity and capital contingency plans. We further believe our liquidity and capital positions are strong. The Company maintains access to multiple sources of liquidity and wholesale funding markets have remained open. During 2020 and 2021, we experienced a significant inflow of deposits due to government stimulus and general market uncertainty; however, this may not continue.

To further strengthen its capital position, the Company issued \$55.0 million in subordinated debt in October 2020 which is classified as tier 2 capital for regulatory purposes, and down-streamed \$46.8 million of the net proceeds from our offering to the bank, which qualifies as tier 1 capital for regulatory purchases for the bank.

In March 2020, we decided to suspend our share repurchase program in light of the pandemic. In January 2021, our Board of Directors approved a new authorization to repurchase up to \$25 million in common stock. In 2021, the Company repurchased 696,894 shares of common stock under our share repurchase program for \$18.7 million, or an average of \$26.79 per share.

During the second and third quarters of 2021, the Company repurchased 391,300 shares of common stock for \$10.2 million and recorded \$6.5 million against common stock and \$3.7 million against retained earnings. During the fourth quarter of 2021, the Company elected to apply the total cost of all shares repurchased in 2021 and going forward as a reduction to common stock. This resulted in a \$3.7 million reclassification adjustment to increase retained earnings and a corresponding \$3.7 million decrease in common stock during the fourth quarter of 2021 related to the repurchases completed in the second and third quarters of 2021. This reclassification adjustment did not impact net income, our consolidated statements of income, comprehensive income and cash flows, or any of the Company's financial ratios.

Asset valuation

COVID-19 has not affected the Company's ability to account timely for the assets on its balance sheet. The Company has also not made significant changes in the methodology used to determine the fair value of assets measured in accordance with GAAP, except for updating certain valuation assumptions to account for pandemic-related circumstances such as widening credit spreads.

The Company has a significant real estate loan portfolio. Thus far, Hawaii real estate market continues to be extremely strong and real estate collateral values have remained relatively stable, but we cannot be assured this will continue.

Processes, controls and business continuity plan

The Company's Business Continuity Plan includes a Pandemic Preparedness Plan which it successfully activated in early March 2020. The Company's remote workforce plan has been rolled out with an overall smooth transition. The Company already had Virtual Private Network ("VPN") technology capability, and during the first quarter of 2020, expanded VPN access to over 70% of its employees. In addition to VPN, the Company believes it is well-setup with the latest technologies that enable our operations to continue efficiently. The Company is using collaboration tools and several other cloud-based software programs. For its customers, during the third quarter of 2020 the Company launched its premier digital banking platform which is one of the key initiatives and milestones in its RISE2020 initiative.

The Company deployed a remote workforce plan at the onset of the pandemic in 2020 and has been able to continue operations without disruption as well as maintain its systems and internal controls in light of the measures the Company has taken to prevent the spread of COVID-19. The Company is developing a gradual, phased-in return-to-office plan that includes a portion of the workforce continuing with flexible, remote work schedules. In September 2021, the Company implemented required weekly COVID testing for the small portion of its workforce that remained unvaccinated. Over 95% of the Company's employees are fully vaccinated as of December 31, 2021.

Lending operations and accommodations to borrowers

To support its customers during the onset of the pandemic in 2020, the Company moved quickly to put in place a number of COVID-19 relief programs for its consumer and business customers affected by the pandemic. For its customers, the Company offered an employment disruption loan as well as consumer, commercial, commercial mortgage, and residential mortgage payment deferral programs. In addition, we waived non-CPB ATM fees and early withdrawal fees on our time deposits throughout the second quarter of 2020 and increased spending cap limits on debit cards and mobile deposit limits to \$10,000 daily. Beginning July 1, 2020, the previously waived fees were reinstated but the increased spending cap limits will remain in place temporarily.

The bank is a SBA approved lender and actively participated in assisting customers with loan applications for the SBA's Paycheck Protection Program, or PPP, which was part of the CARES Act. PPP loans have a two or five-year term and earn interest at 1%. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan, which the Company is recognizing over the life of the loan. The Company saw tremendous interest in the PPP. With the significant increase in volume of PPP loan requests, the Company redeployed staff to handle and assist with loan processing. Additionally, the Company brought on some outside resources to assist with the PPP.

The SBA began accepting submissions for the initial round of PPP loans on April 3, 2020. In April 2020, the Paycheck Protection Program and Health Care Enhancement Act added an additional round of funding for the PPP. In June 2020, the Paycheck Protection Program Flexibility Act of 2020 was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Through the end of the second round in August 2020, the Company funded over 7,200 PPP loans totaling \$558.9 million and received gross processing fees of \$21.2 million.

In December 2020, the Consolidated Appropriations Act, 2021 was passed which among other things, included a third round of funding and a new simplified forgiveness procedure for PPP loans of \$150,000 or less. During 2021, the Company funded over 4,600 loans totaling \$320.9 million in the third round, which ended on May 31, 2021, and received additional gross processing fees of \$18.4 million.

The Company has developed a PPP forgiveness portal and, with assistance from a third party vendor, has assisted its customers with applying for forgiveness from the SBA. We have received forgiveness payments and repayments from borrowers totaling \$784.9 million as of December 31, 2021. A total outstanding balance of \$94.9 million and net deferred fees of \$3.5 million remain as of December 31, 2021. Although the Company believes that the majority of the remaining loans will ultimately be forgiven by the SBA in accordance with the terms of the program, there could be risks and liabilities by the Company that cannot be determined at this time.

The Company had previously become aware of two PPP loans that it originated for \$10.0 million and \$3.0 million, in which they were under investigation for borrower fraud and/or misrepresentations. The \$10.0 million PPP loan was fully repaid for all principal and interest outstanding by the SBA in the third quarter of 2021 under their 100% guarantee. The \$3.0 million loan was partially forgiven by the SBA, and the remaining principal balance on the loan totaled \$0.3 million at December 31, 2021.

The Company provided initial three-month principal and interest payment forbearance for our residential mortgage customers, and three-month principal and interest payment deferrals for our consumer customers. Both residential mortgage and consumer customers were granted extensions to their forbearance or deferral, if needed. The Company was deferring either the full loan

payment or the principal component of the loan payment for generally three to six months for its commercial real estate and commercial and industrial loan customers on a case-by-case basis depending on need. Nearly all of loans that were granted forbearance or deferral have returned to payment. As of December 31, 2021, the Company had loan payment forbearance or deferrals on outstanding balances of \$0.4 million, or 0.01% of total loans.

In accordance with the revised interagency guidance issued in April 2020 and Section 4013 of the CARES Act, banks are provided an option to elect to not account for certain loan modifications related to COVID-19 as TDRs as long as the borrowers were not more than 30 days past due as of February 29, 2020 (time of modification program implementation) and December 31, 2019, respectively. As of December 31, 2021, there were no loans with modifications that did not meet the criteria under Section 4013 of CARES Act or the "*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)*".

During the third quarter of 2020, the Company recorded a reserve on the accrued interest receivable of loans on active forbearance or deferral totaling \$0.2 million, with the offset recorded to provision for credit losses. This reserve balance was reversed during the second quarter of 2021 due to the significant decline in loans on active forbearance or deferral. The Company no longer has a reserve on accrued interest receivable as of December 31, 2021.

Credit

In March 2020, the Company reviewed its entire commercial loan portfolio and actively reached out to its customers to determine the initial impact, if any, of COVID-19 on their businesses. The review continued throughout the remainder of 2020. The Company proactively worked with many of its customers in providing loan payment deferrals as well as assisted in the application and approval of PPP loans.

The volume of loan payment deferrals granted peaked in May 2020 at approximately \$605 million in total loan balances, and has since declined to \$0.4 million, or 0.01% of total loans, at December 31, 2021. Most borrowers have resumed payments with the total count on active deferral dropping from a peak of 467 at May 31, 2020 to 36 at December 31, 2021. The Company is providing alternative payment plans on a limited basis following the end of the payment deferral period. Our consumer loan payment deferrals totaled \$0.4 million at December 31, 2021, compared to \$2.3 million at December 31, 2020. There were no residential mortgage loans on active payment forbearance at December 31, 2021, compared to \$70.4 million at December 31, 2020. There were no commercial, commercial real estate and construction loan portfolio loans on active payment deferral at December 31, 2021, compared to \$47.5 million at December 31, 2020.

Criticized loans at December 31, 2021 decreased by \$116.3 million from the previous year to \$76.0 million, or 1.5% of the total loan portfolio excluding PPP loans. Special mention loans decreased by \$110.8 million to \$31.7 million, or 0.6% of the total loan portfolio excluding PPP loans. Classified loans decreased by \$5.5 million to \$44.3 million, or 0.9% of the total loan portfolio excluding PPP loans.

The Company believes that the residential, home equity and commercial real estate and construction loan portfolios are lower risk. These loans comprise of \$3.86 billion or 77.0% of our total loan portfolio, net of PPP loans. Overall, the Company's loan portfolio remains well diversified.

Business Environment

The majority of our operations are concentrated in the state of Hawaii. As a result, our performance is significantly influenced by strength of the real estate markets, the tourism industry 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.

Following the solid performances of our leading economic indicators in 2019, Hawaii's economy was greatly impacted by the COVID-19 pandemic in 2020. Hawaii's visitor industry continued to be impacted by the COVID-19 pandemic in 2021, however the state is making progress towards economic recovery as travel restrictions have started to loosen. Starting July 2021, passengers arriving from out-of-state could bypass the State's mandatory 10-day self-quarantine if they were fully vaccinated in the United States or with a valid negative COVID-19 NAAT test result from a Trusted Testing Partner prior to their departure through the Safe Travels program.

According to preliminary year-end statistics from the Hawaii Tourism Authority ("HTA"), approximately 6.8 million total visitors arrived in the state in the year ended December 31, 2021. This was an increase approximately 150.3% from the 2.7 million visitor arrivals in the year ended December 31, 2020, but a decline of approximately 34.7% from the pre-pandemic and record year in 2019. The HTA also reported that total spending by visitors was \$13.0 billion in the year ended December 31,

2021 (total spending statistics for 2020 were not available), which declined by approximately 26.6% from the pre-pandemic and record year in 2019. According to a recent report by The Economic Research Organization at the University of Hawaii ("UHERO"), total visitor arrivals is expected to increase to approximately 8.3 million in 2022 and visitor spending is expected to increase to approximately \$16.5 billion in 2022.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate 5.7% in the month of December 2021, The unemployment rate of 5.7% in December 2021 continues to decline from the high of 21.9% in the months of April and May 2020, but remains above the national seasonally adjusted unemployment rate of 3.9%. UHERO projects Hawaii's seasonally adjusted annual unemployment rate to be around 5.4% in 2022.

Hawaii's economy is measured by the growth of real personal income and real gross state product. The State of Hawaii's Department of Business, Economic Development and Tourism ("DBEDT") is expected to report real personal income grew by approximately 0.1% and real gross state product grew by approximately 3.9% for 2021. DBEDT projects real personal income to decline by 3.2% and real gross state product to increase by 3.0% for 2022.

Real estate lending is a primary focus for us, including residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii's real estate market. 2021 was a record year for the Oahu real estate market. According to the Honolulu Board of Realtors, the median resale price for a single-family on Oahu exceeded \$1 million during the months of August to December 2021. For the year ended December 31, 2021, the median price for a single-family home on Oahu was \$990,000, representing an increase of 19.3% from the median resale price of \$830,000 for the year ended December 31, 2020. The median resale price for condominiums on Oahu was \$475,000 for the year ended December 31, 2021, representing an increase of 9.2% from the median resale price of \$435,000 for the year ended December 31, 2020. Oahu unit sales volume increased by 17.9% for single-family homes, and increased by 53.1% for condominiums in 2021 from 2020.

As we have seen in the past, our operating results are significantly impacted by the economy in Hawaii and the composition of our loan portfolio. Loan demand, deposit growth, provision for credit losses, 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 our results of operations would be negatively impacted. See the "Overview of Results of Operations—Concentrations of Credit Risk" section for a further discussion on how a deteriorating real estate market, combined with the elevated concentration risk within our portfolio, could have a significant negative impact on our asset quality and credit losses.

In an attempt to help the overall economy, the FRB has kept interest rates low through its targeted Fed Funds rate. On March 3, 2020, the Federal Reserve reduced the Federal Funds range by 50 basis points to 1.00% to 1.25%. On March 15, 2020, the Federal Reserve further reduced the Federal Funds range by 100 basis points to 0% to 0.25% and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by COVID-19. During the remainder of 2020 and all of 2021, the Federal Reserve elected to hold the Federal Funds rate at 0% to 0.25%. Officials expect rates to increase beginning in 2022 due to increased inflation risks.

Changes in monetary policy, including changes in interest rates, could influence, among other things, (i) the amount of interest we receive on loans and securities, (ii) the amount of interest we pay on deposits and borrowings, (iii) our ability to originate loans and obtain deposits, and (iv) the fair value of our assets and liabilities.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires that management make a number of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense in the financial statements and the related disclosures made. Various elements of our accounting policies, by their nature, involve the application of highly sensitive and judgmental estimates and assumptions. Some of these policies and estimates relate to matters that are highly complex and contain substantial inherent uncertainties. Actual amounts and values as of the balance sheet dates may be materially different than the amounts and values reported due to the inherent uncertainty in the estimation process. Also, future amounts and values could differ materially from those estimates due to changes in values and circumstances after the balance sheet date.

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 policy and estimates noted below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the accompanying disclosures.

The Company identified a significant accounting policy which involves a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. At December 31, 2021, the significant accounting policy which we believed to be the most critical in preparing our consolidated financial statements is the determination of the allowance for credit losses. This is further described in Note 1 - Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements in this report.

On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," which created material changes to the Company's existing critical accounting policy that existed at December 31, 2019. Effective January 1, 2020 through December 31, 2021, the significant accounting policy which we believe to be the most critical in preparing our consolidated financial statements is the determination of the allowance for credit losses on loans.

Allowance for Credit Losses on Loans

Management considers the policies related to the allowance for credit losses ("ACL") on loans as the most critical to the financial statement presentation. The total ACL on loans includes activity related to allowances calculated in accordance with Accounting Standards Codification ("ASC") 326, "*Financial Instruments – Credit Losses*". The ACL is established through provisioning of current expected credit losses as a charge to current earnings. Loan losses are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed while allowance is credited if subsequent recoveries are made. The amount maintained in the ACL reflects management's continuing evaluation of the estimated credit losses expected to be recognized over the life of the loans in our loan portfolio at the balance sheet date. Allowance for credit losses is measured on a collective basis when similar risk characteristics exist. We stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and calculate the net amount expected to be collected over the life of the loans to estimate the expected credit losses in the loan portfolio. The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. Refer to Note 1 - Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements in this report for further discussion of the risk factors considered by management in establishing the ACL.

Overview of Results of Operations

2021 vs. 2020 Comparison

In 2021, we recognized net income of \$79.9 million, or fully diluted earnings per common share ("EPS") of \$2.83, compared to net income of \$37.3 million, or EPS of \$1.32, in 2020. Our ROA and ROE for 2021 was 1.13% and 14.38%, respectively, compared to 0.58% and 6.85%, respectively, in 2020.

We recorded a credit to the provision for credit losses of \$14.6 million in 2021, compared to a debit to the provision of \$42.1 million in 2020. The credit to the provision for credit losses was driven by the improved economic forecast assumptions used in our credit reserve modeling, improvements in the loan portfolio and lower net charge-offs in 2021.

Net interest income increased by \$13.4 million from 2020 to 2021, primarily driven by higher net interest income and fees on PPP loans, combined with lower deposit and borrowing costs due to the historically low interest rate environment, partially offset by lower yields earned on the loans and investment securities portfolios.

Other operating income decreased by \$2.1 million from 2020 to 2021. The decrease in other operating income was primarily due to lower mortgage banking income, partially offset by higher ATM fees included in other service charges and fees. See Table 3 - Components of Other Operating Income for more information.

Other operating expense increased by \$11.3 million from 2020 to 2021. The increase was primarily due to higher salaries and employee benefits, higher legal and professional services, higher advertising expense, and higher directors' deferred compensation plan expense. The higher salaries and employee benefits in 2021 is primarily attributable to strategic hirings for the Company's RISE2020 and BaaS initiatives, higher incentive compensation due to stronger Company performance, and non-recurring severance costs. See Table 4 - Components of Other Operating Expense for more information.

2020 vs. 2019 Comparison

In 2020, we recognized net income of \$37.3 million, or EPS of \$1.32, compared to net income of \$58.3 million, or EPS of \$2.03, in 2019. Our ROA and ROE for 2020 was 0.58% and 6.85%, respectively, compared to 0.99% and 11.36%, respectively, in 2019.

We recorded a provision for credit losses of \$42.1 million in 2020, compared to a credit of \$6.3 million in 2019. The higher provision for credit losses was driven by the economic forecast which captured the effect of the COVID-19 pandemic and led to the decline in net income, EPS, ROA and ROE in 2020 compared to 2019.

Net interest income increased by \$13.6 million from 2019 to 2020, primarily driven by lower deposit and borrowing costs due to the historically low interest rate environment due to the pandemic environment, combined with net interest income and fees on PPP loans, partially offset by lower yields earned on the loans and investment securities portfolios.

Other operating income increased by \$3.4 million from 2019 to 2020. The increase in other operating income was primarily due to higher mortgage banking income, partially offset by lower service charges on deposit accounts. In addition, the Company recorded a gain of \$2.6 million during the first quarter of 2019 from the conversion of MasterCard Class B common stock received during their initial public offering to Class A common stock and immediate sale of the converted shares. See Table 3 - Components of Other Operating Income for more information.

Other operating expense increased by \$10.1 million from 2019 to 2020. The increase in other operating expense was primarily due to higher salaries and employee benefits, higher computer software expenses, higher legal and professional expenses, branch consolidation costs, and higher advertising expense, partially offset by lower director deferred compensation plan expense and lower entertainment and promotions expense. See Table 4 - Components of Other Operating Expense for more information.

Net Interest Income

The following table sets forth information concerning average interest-earning assets and interest-bearing liabilities and the yields and rates thereon. Net interest income, when 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 a federal statutory tax rate of 21%. Table 2 presents an analysis of changes in components of net interest income between years. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in volume and (ii) changes in rates. The change in volume is calculated as change in average balance, multiplied by prior period average yield/rate. The change in rate is calculated as change in average yield/rate, multiplied by current period volume. The change in interest income not solely due to change in volume or change in rate has been allocated proportionately to change in volume and change in average yield/rate.

Table 1. Average Balances, Interest Income and Expense, Yields, and Rates (Taxable-Equivalent)

(Dollars in thousands)	2021			2020			2019		
	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest
Assets									
Interest-earning assets:									
Interest-bearing deposits in other financial institutions	\$ 191,967	0.14 %	\$ 262	\$ 13,980	0.33 %	\$ 46	\$ 9,842	2.04 %	\$ 201
Investment securities, excluding valuation allowance:									
Taxable (1)	1,269,900	1.77	22,505	1,037,209	2.25	23,371	1,120,711	2.63	29,517
Tax-exempt (1)	101,877	2.45	2,496	96,217	3.15	3,028	130,411	2.95	3,853
Total investment securities	1,371,777	1.82	25,001	1,133,426	2.33	26,399	1,251,122	2.67	33,370
Loans, incl. loans-held-for-sale (2)	5,071,516	3.82	193,778	4,855,169	3.83	186,129	4,241,308	4.31	182,657
Federal Home Loan Bank ("FHLB") stock	7,933	3.09	245	12,591	3.81	480	16,369	5.89	964
Total interest-earning assets	6,643,193	3.30	219,286	6,015,166	3.54	213,054	5,518,641	3.94	217,192
Noninterest-earning assets	434,832			403,495			369,974		
Total assets	<u>\$ 7,078,025</u>			<u>\$ 6,418,661</u>			<u>\$ 5,888,615</u>		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	\$ 1,300,022	0.03 %	\$ 384	\$ 1,078,589	0.05 %	\$ 510	\$ 984,298	0.08 %	\$ 800
Savings and money market deposits	2,099,388	0.06	1,240	1,830,972	0.13	2,416	1,556,766	0.33	5,100
Time deposits up to \$250,000	230,705	0.34	795	257,708	0.75	1,921	276,241	0.88	2,417
Time deposits over \$250,000	551,831	0.22	1,197	696,650	0.80	5,568	792,493	1.97	15,627
Total interest-bearing deposits	4,181,946	0.09	3,616	3,863,919	0.27	10,415	3,609,798	0.66	23,944
FHLB advances and other short-term borrowings	607	0.30	2	89,904	0.80	718	185,909	2.31	4,285
Long-term debt	105,488	3.88	4,097	117,100	3.08	3,602	101,547	4.02	4,080
Total interest-bearing liabilities	4,288,041	0.18	7,715	4,070,923	0.36	14,735	3,897,254	0.83	32,309
Noninterest-bearing deposits	2,117,423			1,691,958			1,375,903		
Other liabilities	116,936			111,859			101,848		
Total liabilities	6,522,400			5,874,740			5,375,005		
Shareholders' equity	555,600			543,919			513,610		
Non-controlling interest	25			2			—		
Total equity	555,625			543,921			513,610		
Total liabilities and equity	<u>\$ 7,078,025</u>			<u>\$ 6,418,661</u>			<u>\$ 5,888,615</u>		
Net interest income			<u>\$ 211,571</u>			<u>\$ 198,319</u>			<u>\$ 184,883</u>
Interest rate spread		<u>3.12 %</u>			<u>3.18 %</u>			<u>3.11 %</u>	
Net interest margin		<u>3.18 %</u>			<u>3.30 %</u>			<u>3.35 %</u>	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Table 2. Analysis of Changes in Net Interest Income (Taxable-Equivalent)

(Dollars in thousands)	2021 Compared to 2020			2020 Compared to 2019		
	Increase (Decrease) Due to Change In:		Net Change	Increase (Decrease) Due to Change In:		Net Change
	Volume	Rate		Volume	Rate	
Interest-earning assets						
Interest-bearing deposits in other financial institutions	\$ 583	\$ (367)	\$ 216	\$ 84	\$ (239)	\$ (155)
Investment securities, excluding valuation allowance:						
Taxable	5,233	(6,099)	(866)	(2,199)	(3,947)	(6,146)
Tax-exempt	179	(711)	(532)	(1,016)	191	(825)
Total investment securities	5,412	(6,810)	(1,398)	(3,215)	(3,756)	(6,971)
Loans, incl. loans-held-for-sale	8,163	(514)	7,649	26,627	(23,155)	3,472
FHLB stock	(178)	(57)	(235)	(223)	(261)	(484)
Total interest-earning assets	13,980	(7,748)	6,232	23,273	(27,411)	(4,138)
Interest-bearing liabilities						
Interest-bearing demand deposits	118	(244)	(126)	67	(357)	(290)
Savings and money market deposits	338	(1,514)	(1,176)	919	(3,603)	(2,684)
Time deposits up to \$250,000	(199)	(927)	(1,126)	(162)	(334)	(496)
Time deposits over \$250,000	(1,162)	(3,209)	(4,371)	(1,892)	(8,167)	(10,059)
Total interest-bearing deposits	(905)	(5,894)	(6,799)	(1,068)	(12,461)	(13,529)
FHLB advances and other short-term borrowings	(713)	(3)	(716)	(2,212)	(1,355)	(3,567)
Long-term debt	(355)	850	495	624	(1,102)	(478)
Total interest-bearing liabilities	(1,973)	(5,047)	(7,020)	(2,656)	(14,918)	(17,574)
Net interest income	\$ 15,953	\$ (2,701)	\$ 13,252	\$ 25,929	\$ (12,493)	\$ 13,436

The banking and financial services industry in the state of Hawaii generally, and particularly in our target market areas, is highly competitive. Net interest income is our primary source of earnings and is derived primarily from the difference between the interest we earn on loans and investments versus the interest we pay on deposits and borrowings. Net interest income (expressed on a taxable-equivalent basis) totaled \$211.6 million in 2021, which increased by \$13.3 million, or 6.7%, from \$198.3 million in 2020, which increased by \$13.4 million, or 7.3%, from net interest income of \$184.9 million recognized in 2019. The increase in net interest income for 2021 was primarily the result of higher net interest income and fees on PPP loans, combined with lower deposit and borrowing costs due to the historically low interest rate environment during the pandemic environment, partially offset by lower yields earned on the loans and investment securities portfolios. In 2021, the Company recognized net interest income and fees on PPP loans of \$26.4 million, compared to \$12.2 million in 2020.

Average yields earned on our interest-earning assets declined by 24 bp in the year ended December 31, 2021, from the year ended December 31, 2020. The decline in average yields earned on interest-earning assets in 2021 was primarily attributable to the 51 bp decrease in average yields earned on investment securities and the 1 bp decrease in average yields earned on loans. Excluding net interest income and fee on PPP loans, the normalized average yield on loans in 2021 was 3.58%, compared to the normalized average yield on loans in 2020 of 3.87%

Average rates paid on our interest-bearing liabilities in the year ended December 31, 2021 declined by 18 bp from the year ended December 31, 2020. The decline in average rates paid on our interest-bearing liabilities in 2021 was primarily attributable to the 58 bp decrease in average rates paid on our time deposits over \$250,000, the 41 bp decrease in average rates paid on our time deposits up to \$250,000, the 7 bp decrease in average rates paid on our savings and money market deposits and the 50 bp decrease in average rates paid on our FHLB advances and other short-term borrowings.

In the third quarter of 2021, \$104.4 million in available-for-sale securities were sold as part of an investment portfolio rebalancing strategy due to faster than expected prepayments. We received \$104.5 million in gross proceeds and reinvested the

proceeds in \$98.8 million in higher yield investment securities with an average yield of 1.55% and a weighted average life of 6.1 years. The investment securities sold had an average yield of 1.13% and a weighted average life of 2.6 years. Gross realized gains and losses on the sale of the investment securities were \$1.1 million and \$1.0 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the second quarter of 2021, \$175.0 million in available-for-sale were sold as part of an investment portfolio rebalancing strategy due to faster than expected prepayments. We received \$175.0 million in gross proceeds and reinvested the proceeds in \$186.1 million in higher yield investment securities with an average yield of 1.70% and a weighted average life of 6.9 years. The investment securities sold had an average yield of -0.11% and a weighted average life of 1.6 years. Gross realized losses and gains on the sale of the investment securities were \$2.2 million and \$2.2 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the fourth quarter of 2020, \$89.9 million in available-for-sale securities were sold as part of an investment portfolio rebalancing strategy due to the large downward shift in interest rates and the change in expected prepayments. We received \$90.1 million in gross proceeds and reinvested the proceeds in \$105.1 million in higher yield, longer duration investment securities with an average yield of 1.27% and a weighted-average life of 4.6 years. The investment securities sold had an average yield of 0.28% and a weighted-average life of 1.2 years. Gross realized losses and gains on the sale of the investment securities were \$0.3 million and \$0.5 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the third quarter of 2020, \$90.4 million in available-for-sale non-agency commercial mortgage-backed securities with retail mall exposure were sold to mitigate credit risk during the pandemic. The investment securities sold had an average yield of 3.44% and a weighted-average life of 14.03 years. Gross realized gains and losses on the sale of the investment securities were \$0.2 million and \$0.6 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

Interest Income

Our primary sources of interest income include interest on loans, which represented 88.4%, 87.4%, and 84.1% of taxable-equivalent interest income in 2021, 2020 and 2019, respectively, as well as interest earned on investment securities, which represented 11.4%, 12.4% and 15.4% of taxable-equivalent interest income, respectively. Interest income expressed on a taxable-equivalent basis of \$219.3 million in 2021 increased by \$6.2 million, or 2.9%, from the \$213.1 million earned in 2020, which decreased by \$4.1 million, or 1.9%, from the \$217.2 million earned in 2019.

The increase in interest income in 2021 from 2020 was primarily due to higher net interest income and fees on PPP loans of \$14.2 million due to higher forgiveness and payoffs, combined with the \$238.4 million increase in average investment securities which contributed to an increase of \$5.4 million in current year interest income. These increases were partially offset by a decline in average yields earned on the investment securities portfolio of 51 bp, which contributed to decline in current year interest income of \$6.8 million. In addition, the normalized average yield on core loans (or total loans excluding PPP loans) declined by 29 bp.

The decrease in interest income in 2020 from 2019 was primarily due to the decline in average yields earned on the loans and investment securities portfolios of 48 bp and 34 bp, respectively, which contributed to decreases in 2020 interest income of \$23.2 million and \$3.8 million, respectively, from 2019. The \$117.7 million decline in average investment securities also contributed to a decrease of \$3.2 million in 2020 interest income from 2019. These decreases were partially offset by a \$613.9 million increase in average loans, which contributed to an increase of \$26.6 million in 2020 interest income from 2019. The increase in average loans was largely attributable to a \$358.3 million average PPP loan portfolio, which contributed to an increase of \$12.2 million in 2020 net interest income and an average yield of 3.41%.

Interest Expense

In 2021, interest expense was \$7.7 million which represented a decrease of \$7.0 million, or 47.6%, compared to interest expense of \$14.7 million in 2020, which was a decrease of \$17.6 million, or 54.4%, compared to \$32.3 million in 2019.

In 2021, the decreases in the average rates paid on savings and money market deposits of 7 bp, time deposits up to \$250,000 of 41 bp, and time deposits of over \$250,000 of 58 bp, contributed to the decrease in interest expense in 2021 from 2020 of \$1.5 million, \$0.9 million, and \$3.2 million, respectively. In addition, the decrease in average time deposits over \$250,000 and the decrease in average FHLB advances and other short-term borrowings contributed to the decrease in current year interest expense of \$1.2 million and \$0.7 million, respectively.

In 2020, the decreases in the average rates paid on savings and money market deposits of 20 bp, time deposits of over \$250,000 of 117 bp, FHLB advances and other short-term borrowings of 151 bp, and long-term debt of 94 bp, contributed to the decrease in interest expense in 2021 from 2020 of \$3.6 million, \$8.2 million, \$1.4 million, and \$1.1 million, respectively. In addition, the decreases in average time deposits of \$250,000 and over and FHLB advances and other short-term borrowings contributed to the decrease in 2020 interest expense of \$1.2 million and \$0.7 million, respectively.

Net Interest Margin

Our net interest margin was 3.18%, 3.30% and 3.35% in 2021, 2020 and 2019, respectively. The decrease in our net interest margin in 2021 from 2020 was primarily due to lower yields on our interest-earning assets due to the historically low interest rate environment we are currently operating in due to the pandemic environment. Average yields earned on interest-earning assets declined by 24 bp, led by declines in average yields earned on investment securities of 51 bp. Excluding net interest income and fees on PPP loans, our normalized average yield on loans declined by 29 bp. These decreases were partially offset by a 18 bp decrease in average rates paid on interest-bearing liabilities.

The decrease in our net interest margin in 2020 from 2019 was primarily due to lower yields on our interest-earning assets. Average yields earned on interest-earning assets declined by 40 bp, led by declines in average yields earned on loans and investment securities of 48 bp and 34 bp, respectively. These decreases were partially offset by a 47 bp decrease in average rates paid on interest-bearing liabilities.

During 2021, the Federal Reserve maintained its Federal Funds range at 0% to 0.25%. Federal Reserve officials have stated they expect to raise interest rates beginning in 2022 due to inflation concerns.

Other Operating Income

The following table sets forth components of other operating income and the total as a percentage of average assets for the periods indicated.

Table 3. Components of Other Operating Income

(Dollars in thousands)	Year Ended December 31,			Dollar Change		Percent Change	
	2021	2020	2019	2021	2020	2021	2020
				to 2020	to 2019	to 2020	to 2019
Mortgage banking income:							
Net loan servicing fees	\$ 2,733	\$ 2,754	\$ 4,252	\$ (21)	\$ (1,498)	(0.8)%	(35.2)%
Amortization of mortgage servicing rights	(3,468)	(6,167)	(2,460)	2,699	(3,707)	(43.8)	150.7
Net gain on sale of residential mortgage loans	6,376	16,043	4,128	(9,667)	11,915	(60.3)	288.6
Unrealized gain (loss) on interest rate locks	98	(76)	63	174	(139)	(228.9)	(220.6)
Loan placement fees	1,993	1,128	702	865	426	76.7	60.7
Service charges on deposit accounts	6,358	6,234	8,406	124	(2,172)	2.0	(25.8)
Other service charges and fees	18,367	14,867	15,113	3,500	(246)	23.5	(1.6)
Income from fiduciary activities	5,075	4,829	4,395	246	434	5.1	9.9
Income from bank-owned life insurance	3,493	3,803	3,105	(310)	698	(8.2)	22.5
Net gains (losses) on sales of investment securities	150	(201)	36	351	(237)	(174.6)	(658.3)
Other:							
Equity in earnings of unconsolidated entities	364	415	257	(51)	158	(12.3)	61.5
Net loss on sales of foreclosed assets	—	(15)	(145)	15	130	(100.0)	(89.7)
Income recovered on nonaccrual loans previously charged-off	261	180	320	81	(140)	45.0	(43.8)
Other recoveries	81	126	130	(45)	(4)	(35.7)	(3.1)
Commissions on sale of checks	307	279	309	28	(30)	10.0	(9.7)
Gain on sale of MasterCard stock	—	—	2,555	—	(2,555)	N.M.	(100.0) *
Other	872	999	635	(127)	364	(12.7)	57.3
Total other operating income	<u>\$43,060</u>	<u>\$45,198</u>	<u>\$41,801</u>	<u>\$ (2,138)</u>	<u>\$ 3,397</u>	(4.7)	8.1
Total other operating income as a percentage of average assets	<u>0.61 %</u>	<u>0.70 %</u>	<u>0.71 %</u>				

* Not meaningful ("N.M.")

Note: Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation.

Total other operating income of \$43.1 million in 2021 decreased by \$2.1 million, or 4.7%, from the \$45.2 million earned in 2020, which increased by \$3.4 million, or 8.1%, from the \$41.8 million earned in 2019.

The decrease in other operating income in 2021 from 2020 was primarily due to lower mortgage banking income of \$6.0 million and lower bank-owned life insurance of \$0.3 million, partially offset by higher other service charges and fees of \$3.5 million. The lower mortgage banking income was primarily attributable to fewer loans sold as more loans were placed in our residential mortgage loan portfolio in 2021 compared to 2020, combined with thinner gain on sale margins. The Company's Home Loans division had another impressive year with \$1.18 billion in loan originations in 2021, down just slightly from the record \$1.20 billion in loan originations in 2020. The lower amortization of mortgage servicing rights (included in mortgage banking income) was primarily attributable to the increase in market interest rates. These decreases were partially offset by higher other service charges and fees, primarily attributable to higher ATM and debit card fees. During the second quarter of 2020, certain service charges were suspended to support our customers through the pandemic. In addition, there were less transactional activity due to the pandemic resulting in lower service charges on deposit accounts and other service charges and fees during 2020.

The increase in other operating income in 2020 from 2019 was primarily due to higher mortgage banking income of \$7.0 million and higher bank-owned life insurance of \$0.7 million. The higher mortgage banking income was attributable to a

Company record \$1.20 billion in loan originations by the Company's Home Loan division in 2020. The higher amortization of mortgage servicing rights (included in mortgage banking income) was primarily attributable to the decline in market interest rates. The higher income from bank-owned life insurance was primarily attributable to volatility in the equity markets. These increases were partially offset by lower service charges on deposit accounts of \$2.2 million and a one-time gain of \$2.6 million from the conversion of MasterCard Class B common stock received during their initial public offering to Class A common stock and immediate sale of the converted shares in the first quarter of 2019.

Other Operating Expense

The following table sets forth components of other operating expense and the total as a percentage of average assets for the periods indicated.

Table 4. Components of Other Operating Expense

(Dollars in thousands)	Year Ended December 31,			Dollar Change		Percent Change	
	2021	2020	2019	2021 to 2020	2020 to 2019	2021 to 2020	2020 to 2019
Salaries and employee benefits	\$ 90,213	\$ 83,848	\$ 80,877	\$ 6,365	\$ 2,971	7.6 %	3.7 %
Net occupancy	16,133	15,162	14,299	971	863	6.4	6.0
Legal and professional services	10,452	9,035	7,354	1,417	1,681	15.7	22.9
Computer software expense	13,304	12,717	10,812	587	1,905	4.6	17.6
Communication expense	3,271	3,225	3,551	46	(326)	1.4	(9.2)
Equipment	4,344	4,531	4,353	(187)	178	(4.1)	4.1
Advertising expense	5,495	3,791	2,661	1,704	1,130	44.9	42.5
Other:							
Pension plan and SERP expense	1,254	1,253	1,413	1	(160)	0.1	(11.3)
Foreclosed asset expense	3	71	251	(68)	(180)	(95.8)	(71.7)
Charitable contributions	179	272	681	(93)	(409)	(34.2)	(60.1)
FDIC insurance assessment	2,197	1,857	868	340	989	18.3	113.9
Miscellaneous loan expenses	1,657	1,708	1,246	(51)	462	(3.0)	37.1
ATM and debit card expenses	3,149	2,289	2,602	860	(313)	37.6	(12.0)
Armored car expenses	891	966	815	(75)	151	(7.8)	18.5
Entertainment and promotions	1,289	797	2,071	492	(1,274)	61.7	(61.5)
Stationery and supplies	903	890	1,049	13	(159)	1.5	(15.2)
Directors' fees and expenses	876	863	968	13	(105)	1.5	(10.8)
Directors' deferred compensation plan expense	1,292	(911)	561	2,203	(1,472)	(241.8)	(262.4)
Provision (credit) for residential mortgage loan repurchase losses	—	—	(403)	—	403	N.M.	(100.0)
Branch consolidation costs	436	1,631	—	(1,195)	1,631	(73.3)	N.M. *
Litigation settlement	—	750	—	(750)	750	(100.0)	N.M. *
FHLB advance prepayment fee	—	747	—	(747)	747	(100.0)	N.M. *
Gain (loss) on disposal of fixed assets	101	552	(3)	(451)	555	(81.7)	(18,500.0)
Other	5,607	5,693	5,576	(86)	117	(1.5)	2.1
Total other operating expense	<u>\$163,046</u>	<u>\$151,737</u>	<u>\$141,602</u>	<u>\$ 11,309</u>	<u>\$ 10,135</u>	7.5	7.2
Total other operating expense as a percentage of average assets	<u>2.30 %</u>	<u>2.36 %</u>	<u>2.40 %</u>				

* Not meaningful ("N.M.")

Note: Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation.

Total other operating expense of \$163.0 million in 2021 increased by \$11.3 million, or 7.5%, from total operating expense of \$151.7 million in 2020, which increased by \$10.1 million, or 7.2%, compared to 2019.

The increase in total other operating expense in 2021, compared to 2020, was primarily due to higher salaries and employee benefits of \$6.4 million, higher net occupancy expense of \$1.0 million, higher legal and professional services of \$1.4 million, higher advertising expense of \$1.7 million, and higher directors' deferred compensation plan expenses of \$2.2 million. The increase in salaries and employee benefits is primarily due to strategic hiring for our RISE2020 and BaaS initiatives, higher incentive compensation due to improved Company performance and nonrecurring severance payments. The higher advertising expense is primarily due to the Company's new branding along with marketing expenses for our new Shaka product. Fluctuations in the directors' deferred compensation expense are primarily due to volatility in the equity markets. These increases were partially offset by several nonrecurring expenses in late 2020 which included: \$1.6 million in branch consolidation costs related to the consolidation of three in-store branches and one traditional branch in 2020 compared to \$0.4 million in branch consolidation costs related to the consolidation of one traditional branch in 2021, \$0.8 million in settlements of legal proceedings, a \$0.7 million FHLB advance prepayment fee, and \$0.6 million in losses on disposal of fixed assets in 2020, compared to \$0.1 million in losses in 2021.

The increase in total other operating expense in 2020, compared to 2019, was primarily due to a higher salaries and employee benefits of \$3.0 million, higher computer software expense of \$1.9 million, higher legal and professional services of \$1.7 million, higher advertising expense of \$1.1 million, and higher FDIC insurance assessment of \$1.0 million. The increase in the FDIC insurance assessment is primarily due to the increase in deposits, combined with the Small Bank Assessment Credits which were used up during the second quarter of 2020. In addition, the Company recognized several nonrecurring expenses in late 2020 totaling \$5.9 million which included: \$2.0 million in employee incentives and other benefits, \$1.6 million in branch consolidation costs related to the closure of three in-store branches and one traditional branch in 2020, \$0.8 million in settlements of legal proceedings, a \$0.7 million FHLB advance prepayment fee, \$0.6 million in losses on disposal of fixed assets and \$0.5 million in other nonrecurring expenses (included in other). These increases were partially offset by lower directors' deferred compensation expense of \$1.5 million and lower entertainment and promotions expense of \$1.3 million.

A key measure of operating efficiency tracked by management is the efficiency ratio, which is calculated by dividing total other operating expenses by total pre-provision revenue (net interest income plus other operating income). Management believes that the efficiency ratio provides useful supplemental information that is important to a proper understanding of the company's core business results by investors. Our efficiency ratio should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to the efficiency ratio presented by other companies. Our efficiency ratio increased to 64.16% in 2021, compared to 62.47% in 2020 and 62.69% in 2019. The increase in our efficiency ratio in 2021 was primarily driven by the aforementioned increases in other operating expenses, partially offset by increases in net interest income.

In 2021, the provision for off-balance sheet credit exposures was reclassified from other operating expense and is now included in the provision for credit losses in the consolidated statements of income. The efficiency ratio in prior periods has been adjusted retrospectively to reflect this change.

The following table sets forth a reconciliation to our efficiency ratio for each of the dates indicated and the impact of the reclassification of the provision for credit losses in the consolidated statements of income:

Table 5. Reconciliation of Efficiency Ratio

(Dollars in thousands)	Year Ended December 31, 2021		
	2021	2020	2019
As Reclassified:			
Total other operating expenses	\$ 163,046	\$ 151,737	\$ 141,602
Net interest income	211,047	197,683	184,074
Total other operating income	43,060	45,198	41,801
Total revenue	\$ 254,107	\$ 242,881	\$ 225,875
Efficiency ratio	64.16 %	62.47 %	62.69 %
Unadjusted:			
Total other operating expenses	\$ 163,046	\$ 154,731	\$ 141,631
Net interest income	\$ 211,047	\$ 197,683	\$ 184,074
Total other operating income	43,060	45,198	41,801
Total revenue	\$ 254,107	\$ 242,881	\$ 225,875
Efficiency ratio	64.16 %	63.71 %	62.70 %
Impact of Change:			
Total operating expenses	\$ —	\$ (2,994)	\$ (29)
Net interest income	—	—	—
Total other operating income	—	—	—
Total revenue	\$ —	\$ —	\$ —
Efficiency ratio	— %	(1.24)%	(0.01)%

Income Taxes

In 2021, the Company recorded income tax expense of \$25.8 million, compared to \$11.8 million in 2020, and \$19.6 million in 2019. Our effective tax rate was 24.4% in 2021 compared to 24.0% in 2020 and 25.2% in 2019.

The increase in income tax expense and the effective tax rate in 2021 from 2020 was primarily attributable to higher pre-tax income, combined with lower tax-exempt income, decreasing the impact of net favorable permanent differences, primarily due to a credit to the provision for credit losses.

The decrease in income tax expense and the effective tax rate in 2020 from 2019 was primarily attributable to lower pre-tax income, increasing the impact of net favorable permanent differences, primarily due to a higher provision for credit losses.

As of December 31, 2021, the valuation allowance on our net deferred tax assets ("DTA") totaled \$3.4 million, of which \$3.2 million related to our DTA from net apportioned net operating loss ("NOL") carryforwards for California state income tax purposes as we do not expect to generate sufficient income in California to utilize the DTA. The remaining \$0.2 million relates to a valuation allowance on the Hawaii capital loss carryforward balance that we do not expect to be able to utilize. Net of this valuation allowance, the Company's net DTA totaled \$25.8 million as of December 31, 2021, compared to a net DTA of \$26.4 million as of December 31, 2020, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets of \$7.42 billion at December 31, 2021 increased by \$824.5 million, or 12.5%, from the \$6.59 billion at December 31, 2020, and total liabilities of \$6.86 billion at December 31, 2021 increased by \$813.0 million, or 13.4%, from the \$6.05 billion at December 31, 2020. The increase in total assets and total liabilities in 2021 was primarily due to our strong loan and deposit growth.

Loan Portfolio

Our lending activities are focused on commercial, financial and agricultural loans, commercial mortgages, and construction loans to small and medium-sized companies, business professionals, and real estate investors and developers, as well as residential mortgages, home equity and consumer loans to local home-buyers and individuals. Our strategy for generating commercial loans has traditionally relied upon teams of commercial real estate and commercial banking officers organized by geographical and industry lines who are responsible for client prospecting and business development.

To manage credit risk (i.e., the ability of borrowers to repay their loan obligations), management analyzes the borrower's financial condition, repayment source, collateral and other factors that could impact credit quality, such as national and local economic conditions and industry conditions related to respective borrowers. The general underwriting guidelines require analysis and documentation to include among other things, overall credit worthiness of borrower, guarantor support, use of funds, loan term, minimum equity, loan-to-value standards, repayment terms, sources of repayment, covenants, pricing, collateral, insurance, and documentation standards. All loan requests considered by us should be for a clearly defined legitimate purpose with a determinable primary source, as well as alternate sources of repayment. All loans should be supported by appropriate documentation including, current financial statements, credit reports, collateral information, asset verification, tax returns, title reports, and appraisals (where appropriate).

We score consumer and small business loans using underwriting matrices ("Scorecards") developed based on the results of an analysis from a reputable national credit scoring company commissioned by our bank. The Scorecards use the attributes that were determined to most highly correlate with probability of repayment. Those attributes include, but are not limited to the following: (i) credit score, (ii) credit limit amount, and (iii) debt-to-income ratio.

Loans totaled \$5.10 billion at December 31, 2021, which increased by \$137.5 million, or 2.8%, from the \$4.96 billion at December 31, 2020, which increased by \$514.6 million, or 11.6%, from the \$4.45 billion held at December 31, 2019. Core loans, or total loans excluding PPP loans, increased by \$462.6 million, or 10.2%, in 2021. The increase in our loan portfolio in 2021 was largely due to strong residential mortgage demand from new and existing customers. The increase in total loans included net increases in the following loan portfolios: residential mortgage of \$185.8 million, or 11.0%, consumer of \$144.5 million, or 30.1%, home equity of \$86.0 million, or 15.6%, and commercial mortgage of \$63.9 million, or 5.5%. These increases were partially offset by net decreases in the following loan portfolios: PPP of \$325.0 million, other commercial, financial, and agricultural of \$15.0 million, or 2.7%, and construction of \$2.5 million, or 2.0%. In 2021, we did not foreclose on any loans. In addition, we recorded loan charge-offs of \$6.1 million.

The following table sets forth information regarding outstanding loans, net of deferred (fees) costs, by category as of the dates indicated.

Table 6. Loans by Categories

(Dollars in thousands)	December 31,	
	2021	2020
Commercial, financial and agricultural:		
SBA PPP	\$ 91,327	\$ 416,375
Other	530,121	545,091
Real estate:		
Construction	122,867	125,407
Residential mortgage	1,875,980	1,690,212
Home equity	637,249	551,266
Commercial mortgage	1,220,204	1,156,328
Consumer	623,901	479,434
Total loans	5,101,649	4,964,113
Allowance for credit losses	(68,097)	(83,269)
Net loans	\$ 5,033,552	\$ 4,880,844

The following table sets forth the geographic distribution of our loan portfolio, net of deferred (fees) costs, and related ACL as of the dates indicated.

Table 7. Geographic Distribution

(Dollars in thousands)	December 31, 2021			December 31, 2020		
	Hawaii	U.S. Mainland	Total	Hawaii	U.S. Mainland	Total
Commercial, financial and agricultural:						
SBA PPP	\$ 87,459	\$ 3,868	\$ 91,327	\$ 375,879	\$ 40,496	\$ 416,375
Other	422,388	107,733	530,121	426,670	118,421	545,091
Real estate:						
Construction	122,867	—	122,867	125,407	—	125,407
Residential mortgage	1,875,980	—	1,875,980	1,690,212	—	1,690,212
Home equity	637,249	—	637,249	551,266	—	551,266
Commercial mortgage	922,146	298,058	1,220,204	898,055	258,273	1,156,328
Consumer	333,843	290,058	623,901	332,430	147,004	479,434
Total loans	4,401,932	699,717	5,101,649	4,399,919	564,194	4,964,113
Allowance for credit losses	(55,808)	(12,289)	(68,097)	(73,152)	(10,117)	(83,269)
Net loans	\$ 4,346,124	\$ 687,428	\$ 5,033,552	\$ 4,326,767	\$ 554,077	\$ 4,880,844

Commercial, Financial and Agricultural - Small Business Administration Payroll Protection Program

The bank is a SBA approved lender and actively participated in assisting customers with loan applications for the SBA's Paycheck Protection Program, or PPP, which was part of the CARES Act. PPP loans have a two or five-year term and earn interest at 1%. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan, which the Company is recognizing over the life of the loan. The Company saw tremendous interest in the PPP. The SBA began accepting submissions for the initial round of PPP loans on April 3, 2020. In April 2020, the Paycheck Protection Program and Health Care Enhancement Act added an additional round of funding for the PPP. In June 2020, the Paycheck Protection Program Flexibility Act of 2020 was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Through the end of the second round in August 2020, the Company funded over 7,200 PPP loans totaling \$558.9 million and received gross processing fees of \$21.2 million. In December 2020, the Consolidated Appropriations Act, 2021 was passed which among other things, included a third round of funding and a new simplified forgiveness procedure for PPP loans of \$150,000 or less. During 2021, the Company funded over 4,600 loans totaling \$320.9 million in the third round,

which ended on May 31, 2021, and received additional gross processing fees of \$18.4 million. The Company developed a PPP forgiveness portal and with assistance from a third party vendor has assisted its customers with applying for forgiveness from the SBA. We have received forgiveness payments and repayments from borrowers totaling over \$784.9 million as of December 31, 2021. A total outstanding balance of \$94.9 million and net deferred fees of \$3.5 million remain as of December 31, 2021.

Commercial, Financial and Agricultural - Other

Loans in this category consist primarily of term loans and lines of credit to small and middle-market businesses and professionals. The borrower's business is typically regarded as the principal source of repayment, although our underwriting policy and practice generally requires additional sources of collateral, including real estate and other business assets, as well as personal guarantees where possible to mitigate risk. Risk of credit losses could be greater in this loan category relative to secured loans where a greater percentage of the loan amount is usually covered by collateral. Nonetheless, any collateral or personal guarantees obtained on commercial loans can mitigate the increased risk and help to reduce credit losses.

Our historical approach to commercial lending involves teams of lending and cash management personnel who focus on relationship development including loans, deposits and other bank services to new and existing commercial clients.

In 2021, our commercial, financial, and agricultural loan portfolio, excluding PPP loans, decreased by \$15.0 million. The decrease in 2021 was attributable to runoff in the U.S. Mainland and Hawaii portfolios of \$10.7 million and \$4.3 million, respectively. Our commercial, financial, and agricultural loan portfolio, excluding PPP loans, decreased by \$25.2 million in 2020.

Real Estate—Construction

Construction loans include both residential and commercial development projects. Each construction project is evaluated for economic viability. Construction loans pose higher credit risks than typical secured loans. In addition to the financial strength of the borrower, construction loans have the added element of completion risk, which is the risk that the project will not be completed on time and within budget, resulting in additional costs that could affect the economic viability of the project and market risk at the time construction is complete.

In 2021, our construction loan portfolio decreased by \$2.5 million. Our construction loan portfolio increased by \$29.6 million in 2020. These fluctuations are driven by the start and completion of construction projects and are consistent with a normal construction cycle.

Interest Reserves

Our policies require interest reserves for construction loans, including loans to build commercial buildings, residential developments (both large tract projects and individual houses), and multi-family projects.

The outstanding principal balance of loans with interest reserves was \$51.3 million at December 31, 2021, compared to \$59.0 million in the prior year, while remaining interest reserves was \$5.2 million, or 10.1% of the outstanding principal balance of loans with interest reserves at December 31, 2021, compared to \$5.3 million, or 8.9% of the outstanding principal balance of loans with interest reserves at December 31, 2020.

Interest reserves allow the Company to advance funds to borrowers to make scheduled payments during the construction period. These advances typically are capitalized and added to the borrower's outstanding loan balance, although we have the right to demand payment under certain circumstances. Our policy is to determine if interest reserve amounts are appropriately included in each project's construction budget and are adequate to cover the expected duration of the construction period.

The amount, terms, and conditions of the interest reserve are established when a loan is originated, although we generally have the option to demand payment if the credit profile of the borrower changes. We evaluate the viability and appropriateness of the construction project based on the project's complexity and feasibility, the timeline, as well as the creditworthiness of the borrowers, sponsors and/or guarantors, and the value of the collateral.

In the event that unfavorable circumstances alter the original project schedule (e.g., cost overruns, project delays, etc.), our policy is to evaluate whether or not it is appropriate to maintain interest capitalization or demand payment of interest in cash and we will work with the borrower to explore various restructuring options, which may include obtaining additional equity and/or requiring additional collateral. We may also require borrowers to directly pay scheduled interest payments.

Our process for determining that construction projects are moving as planned are detailed in our lending policies and guidelines. Prior to approving a loan, the Company and borrower generally agree on a construction budget, a proforma monthly disbursement schedule, and sales/leaseback assumptions. As each project progresses, the projections are measured against actual disbursements and sales/lease results to determine if the project is on schedule and performing as planned.

The specific monitoring requirements for each loan vary depending on the size and complexity of the project and the experience and financial strength of the borrower, sponsor and/or guarantor. At a minimum, to ensure that loan proceeds are properly disbursed and to assess whether it is appropriate to capitalize interest or demand cash payment of interest, our monitoring process generally includes:

- Physical inspection of the project to ensure work has progressed to the stage for which payment is being requested;
- Verification that the work completed is in conformance with plans and specifications and items for which disbursement is requested are within budget; and
- Determination that there continues to be satisfactory project progress.

In certain rare circumstances, we may decide to extend, renew, and/or restructure the terms of a construction loan. Reasons for the restructure can range from cost overruns to project delays and the restructuring can result in additional funds being advanced or an extension of the maturity date of the loan. Prior to the loan being restructured, our policy is to perform a detailed analysis to ensure that the economics of the project remain feasible and that the risks to the Company are within acceptable lending guidelines.

Real Estate—Mortgage

The following table sets forth information with respect to the composition of the Real Estate—Mortgage loan portfolio as of the dates indicated.

Table 8. Mortgage Loan Portfolio Composition

(Dollars in thousands)	December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
Residential:				
Closed-end loans	\$ 1,875,980	50.2 %	\$ 1,690,212	49.8 %
Home equity line-of-credit ("HELOC")	637,249	17.1	551,266	16.2
Subtotal	<u>2,513,229</u>	<u>67.3</u>	<u>2,241,478</u>	<u>66.0</u>
Commercial mortgage	1,220,204	32.7	1,156,328	34.0
Total mortgage loans	<u>\$ 3,733,433</u>	<u>100.0 %</u>	<u>\$ 3,397,806</u>	<u>100.0 %</u>

Residential

Residential mortgage loans include fixed-rate and adjustable-rate loans primarily secured by single-family owner-occupied primary residences in Hawaii. Maximum loan-to-value ratios of 80% are typically required for fixed-rate and adjustable-rate loans secured by single-family owner-occupied residences, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk. With an average loan size of approximately \$0.5 million, marketable collateral and a stable Hawaii residential real estate market, credit losses on residential mortgage loans have been minimal during the past several years. However, economic conditions including unemployment levels, future changes in interest rates and other market factors can impact the marketability and value of collateral and thus the level of credit risk inherent in the portfolio.

Closed-end residential mortgage loan balances as of December 31, 2021 totaled \$1.88 billion, increasing by \$185.8 million, or 11.0%, from the \$1.69 billion held at year-end 2020, which increased by \$90.4 million, or 5.7%, from the \$1.60 billion held at year-end 2019. The increase in closed-end residential mortgage loan balances in 2021 was primarily due to increased demand from both new and existing customers.

Residential mortgage loans held for sale at December 31, 2021 totaled \$3.5 million, a decrease of \$13.2 million, or 78.8%, from the December 31, 2020 balance of \$16.7 million, which increased by \$7.6 million, or 83.7%, from the December 31, 2019 balance of \$9.1 million. We did not securitize any residential mortgage loans in 2021, 2020 and 2019.

Home Equity

Home equity lines of credit ("HELOCs"), which typically carry floating or fixed interest rates, are underwritten according to policy and guidelines reviewed and approved by the Board of Directors. All HELOCs originated since early 2011 have a ten-year draw period followed by a 20-year repayment period during which the principal balance will be fully amortized. HELOCs are underwritten using a qualifying payment which assumes the line is fully drawn and is amortizing as if it was in the repayment period. Underwriting criteria include a minimum FICO score, maximum debt-to-income ratio ("DTI"), and maximum combined loan-to-value ratio ("CLTV"). HELOCs are monitored based on default, delinquency, end of draw period, and maturity.

HELOC balances as of December 31, 2021 totaled \$637.2 million, increasing by \$86.0 million, or 15.6%, from the \$551.3 million held at December 31, 2020, which increased by \$60.5 million, or 12.3%, from the \$490.7 million held at December 31, 2019.

Commercial Mortgage

Real estate mortgage loans secured by commercial properties continue to represent a sizable portion of our loan portfolio. Our policy with respect to commercial mortgages is that loans be made for sound purposes, have a definite source and/or plan of repayment established at inception, and be backed up by reliable secondary sources of repayment and satisfactory collateral with good marketability. Loans secured by commercial property carry a greater risk than loans secured by residential property due to operating income risk. Operating income risk is the risk that the borrower will be unable to generate sufficient cash flow from the operation of the property. The commercial real estate market and interest rate conditions through economic cycles will impact risk levels.

Commercial mortgage balances as of December 31, 2021 totaled \$1.22 billion, increasing by \$63.9 million, or 5.5%, from the \$1.16 billion held at December 31, 2020, which increased by \$32.9 million, or 2.9%, from the \$1.12 billion held at December 31, 2019. The increase in commercial mortgage balances in 2021 was primarily due to increased demand from both new and existing customers.

Consumer Loans

The following table sets forth the major components of our consumer loan portfolio as of the dates indicated.

Table 9. Consumer Loan Portfolio Composition

	December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Automobile	\$ 298,415	47.8 %	\$ 250,715	52.3 %
Purchased unsecured consumer	205,599	33.0	97,170	20.3
Other revolving credit plans	78,673	12.6	75,004	15.6
Student loans	1,862	0.3	3,029	0.6
Other	39,352	6.3	53,516	11.2
Total consumer	<u>\$ 623,901</u>	<u>100.0 %</u>	<u>\$ 479,434</u>	<u>100.0 %</u>

For consumer loans, credit risk is managed on a pooled basis. Considerations include an evaluation of the quality, character and inherent risks in the loan portfolio, current and projected economic conditions and past loan loss experience. Consumer loans represent a moderate credit risk. Loans in this category are generally either unsecured or secured by personal assets such as automobiles. The average loan size is generally small and risk is diversified among many borrowers. Our policy is to utilize credit-scoring systems for most of our consumer loans, which offer the ability to modify credit exposure based on our risk tolerance and loss experience. From time to time, we will tactically deploy funds, which are not utilized in our current short-term core lending markets, by purchasing certain consumer loan portfolios.

Consumer loans totaled \$623.9 million at December 31, 2021, increasing by \$144.5 million, or 30.1%, from December 31, 2020 of \$479.4 million, which decreased by \$90.0 million, or 15.8%, compared to the \$569.4 million held at December 31, 2019.

At December 31, 2021, automobile loans, primarily indirect dealer loans, comprised 47.8% of consumer loans outstanding. Total automobile loans of \$298.4 million at December 31, 2021 increased by \$47.7 million, or 19.0%, from December 31, 2020 of \$250.7 million, which decreased by \$46.5 million, or 15.6%, from \$297.2 million at December 31, 2019.

In 2021, we purchased \$76.5 million in U.S. Mainland automobile portfolios, which included a \$5.1 million premium over the \$71.4 million outstanding balance. We did not purchase any U.S. Mainland automobile loan portfolios in 2020. In 2019, we purchased a U.S. Mainland automobile loan portfolio totaling \$30.2 million, which included a \$0.6 million premium over the \$29.6 million outstanding balance.

Purchased unsecured consumer loans of \$205.6 million at December 31, 2021 increased by \$108.4 million, or 111.6%, from December 31, 2020 of \$97.2 million, which decreased by \$12.9 million, or 11.7%, from \$110.1 million at December 31, 2019.

In 2021, we purchased \$190.2 million in U.S. Mainland unsecured consumer loans under forward flow purchase agreements with outstanding balances totaling \$199.8 million, reflecting a net discount of \$-9.6 million. In 2020, we purchased U.S. Mainland unsecured consumer loans under forward flow purchase agreements with outstanding balances totaling \$54.8 million for \$53.2 million, reflecting a net discount of \$1.6 million.

Other revolving credit plans loans include extensions of credit to individuals and totaled \$78.7 million at December 31, 2021, which increased by \$3.7 million, or 4.9%, from December 31, 2020 of \$75.0 million, which decreased by \$7.1 million, or 8.6%, from \$82.1 million at December 31, 2019.

Total student loans of \$1.9 million at December 31, 2021 decreased by \$1.2 million, or 38.5%, from December 31, 2020 of \$3.0 million, which decreased by \$2.2 million, or 41.6%, from \$5.2 million at December 31, 2019, primarily due to run-off.

Other consumer loans of \$39.4 million at December 31, 2021 decreased by \$14.2 million, or 26.5%, from December 31, 2020 of \$53.5 million, which decreased by \$21.4 million, or 28.5%, from \$74.9 million at December 31, 2019.

Concentrations of Credit Risk

As of December 31, 2021, approximately \$3.86 billion, or 75.6% of loans outstanding were real estate-related, including construction loans, residential mortgage loans, home equity loans, and commercial mortgage loans. As of December 31, 2020, approximately \$3.52 billion, or 71.0% of loans outstanding were real estate-related, including construction loans, residential mortgage loans, home equity loans, and commercial mortgage loans.

The majority of our loans are made to companies and individuals with headquarters in, or residing in, the state of Hawaii. Consistent with our focus of being a Hawaii-based bank, 86.3% of our loan portfolio was concentrated in the Hawaii market while 13.7% was concentrated in the U.S. Mainland as of December 31, 2021. As of December 31, 2020, 88.6% and 11.4% were concentrated in the Hawaii market and U.S. Mainland, respectively.

Our foreign credit exposure as of December 31, 2021 and December 31, 2020 was minimal and did not exceed 1% of total assets.

Maturities and Sensitivities of Loans to Changes in Interest Rates

At December 31, 2021, all PPP loans were fixed-rate. Commercial, financial and agricultural loans, excluding PPP loans, were 56.5% fixed-rate and 43.5% variable-rate. Real estate construction loans were 40.5% fixed-rate and 59.5% variable-rate. Residential mortgage loans were 86.3% fixed-rate and 13.7% variable-rate. Home equity lines and loans were 9.5% fixed-rate and 90.5% variable-rate. Commercial mortgage loans were 51.5% fixed-rate and 48.5% variable-rate. Consumer loans were 74.9% fixed-rate and 25.1% variable-rate.

Commercial loans and commercial mortgage loans with variable interest rates are underwritten at the current market rate of interest. For commercial loans and commercial real estate loans with a fixed-rate period that are not fully amortizing, the loans are underwritten at the current market rate of interest. At the expiration of the fixed-rate period and/or maturity, the projected loan balance at that time is underwritten at an interest rate based on the current interest rate plus two percent per annum (2%).

Qualifying payments for our variable-rate residential mortgage loans with initial fixed-rate periods of five years or less are calculated using the greater of the note rate plus 2% per annum or the fully indexed rate. Payments for our variable-rate loans with a fixed-rate period of greater than five years are calculated using the greater of the note rate or the fully indexed rate. The qualifying payment for our HELOCs is based on the fully indexed rate plus the required principal plus interest payment due during the repayment period assuming the line was fully drawn. Our consumer lines of credit use a qualifying payment based on a percentage of the credit limit that exceeds the actual required fully indexed interest rate payment calculation.

The following table sets forth the maturity distribution and sensitivities of the loan portfolio to changes in interest rates at December 31, 2021. Maturities are based on contractual maturity dates and do not factor in principal amortization. This differs from the assumptions used in Table 20 - Interest Rate Sensitivity.

Table 10. Maturity Distribution and Sensitivities of Loans to Changes in Interest Rates

	Maturing				Total
	One Year or Less	Over One Through Five Years	Over Five Through Fifteen Years	Over Fifteen Years	
(Dollars in thousands)					
Commercial, financial and agricultural - PPP					
With fixed interest rates	\$ 6,522	\$ 88,328	\$ —	\$ —	\$ 94,850
With variable interest rates	—	—	—	—	—
Total commercial, financial and agricultural	<u>6,522</u>	<u>88,328</u>	<u>—</u>	<u>—</u>	<u>94,850</u>
Commercial, financial and agricultural - Other					
With fixed interest rates	44,833	123,834	130,776	10	299,453
With variable interest rates	27,058	111,911	42,639	49,322	230,930
Total commercial, financial and agricultural	<u>71,891</u>	<u>235,745</u>	<u>173,415</u>	<u>49,332</u>	<u>530,383</u>
Construction					
With fixed interest rates	918	7,305	40,561	1,143	49,927
With variable interest rates	29,589	27,303	5,510	11,022	73,424
Total construction	<u>30,507</u>	<u>34,608</u>	<u>46,071</u>	<u>12,165</u>	<u>123,351</u>
Residential mortgage					
With fixed interest rates	536	15,106	215,900	1,387,447	1,618,989
With variable interest rates	18	4,635	18,198	233,360	256,211
Total residential mortgage	<u>554</u>	<u>19,741</u>	<u>234,098</u>	<u>1,620,807</u>	<u>1,875,200</u>
Home equity					
With fixed interest rates	416	5,363	29,280	25,314	60,373
With variable interest rates	3,820	11,261	8,481	551,786	575,348
Total home equity	<u>4,236</u>	<u>16,624</u>	<u>37,761</u>	<u>577,100</u>	<u>635,721</u>
Commercial mortgage					
With fixed interest rates	11,808	158,710	459,122	—	629,640
With variable interest rates	70,665	220,528	301,305	—	592,498
Total commercial mortgage	<u>82,473</u>	<u>379,238</u>	<u>760,427</u>	<u>—</u>	<u>1,222,138</u>
Consumer					
With fixed interest rates	8,594	373,919	84,534	344	467,391
With variable interest rates	10,458	121,137	1,361	23,768	156,724
Total consumer	<u>19,052</u>	<u>495,056</u>	<u>85,895</u>	<u>24,112</u>	<u>624,115</u>
Total loans	<u>\$ 215,235</u>	<u>\$ 1,269,340</u>	<u>\$ 1,337,667</u>	<u>\$ 2,283,516</u>	<u>\$ 5,105,758</u>
All loans					
With fixed interest rates	\$ 73,627	\$ 772,565	\$ 960,173	\$ 1,414,258	\$ 3,220,623
With variable interest rates	141,608	496,775	377,494	869,258	1,885,135
Total loans	<u>\$ 215,235</u>	<u>\$ 1,269,340</u>	<u>\$ 1,337,667</u>	<u>\$ 2,283,516</u>	<u>\$ 5,105,758</u>

Provision and Allowance for Credit Losses

As described above under the "Critical Accounting Policies and Use of Estimates" section, the Provision is determined by management's ongoing evaluation of the loan portfolio and our assessment of the ability of the ACL to cover expected credit losses. Our methodology for determining the adequacy of the ACL and Provision takes into account many factors, including the level and trend of nonperforming and potential problem loans, net charge-off experience, current repayment by borrowers, fair value of collateral securing specific loans, changes in lending and underwriting standards and general economic factors, nationally and in the markets we serve.

The Company maintains its ACL at an appropriate level as of a given balance sheet date to absorb management's best estimate of expected credit losses in its loan portfolios that will likely be realized over the expected life of our loan portfolio. This is based upon management's comprehensive analysis of the risk profiles particular to the respective loan portfolios. Analysis of ACL appropriateness is performed quarterly to coincide with financial disclosure to the public and to the regulatory agencies and is governed by a Board-approved policy and methodology.

The following table sets forth certain information with respect to the ACL as of the dates or for the periods indicated.

Table 11. Allowance for Credit Losses

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Allowance for Credit Losses ("ACL")			
ACL at beginning of period	\$ 83,269	\$ 47,971	\$ 47,916
Adoption of ASU 2016-13	—	3,566	—
Adjusted ACL at beginning of period	83,269	51,537	47,916
Charge-offs:			
Commercial, financial and agricultural - Other	1,723	3,026	2,478
Real estate:			
Residential mortgage	—	63	—
Home equity	—	—	5
Commercial mortgage	—	75	—
Consumer	4,402	8,191	8,265
Total	6,125	11,355	10,748
Recoveries:			
Commercial, financial and agricultural - Other	1,004	1,157	1,174
Real estate:			
Construction	1,159	131	610
Residential mortgage	358	229	524
Home equity	9	33	42
Commercial mortgage	73	16	25
Consumer	2,673	2,591	2,111
Total	5,276	4,157	4,486
Net loan charge-offs	849	7,198	6,262
(Credit) provision for credit losses on loans [1]	(14,323)	38,930	6,317
ACL at end of period	\$ 68,097	\$ 83,269	\$ 47,971
Average loans outstanding	\$ 5,071,516	\$ 4,855,169	\$ 4,241,308
Ratios:			
ACL to total loans	1.33 %	1.68 %	1.08 %
ACL to core loans (or total loans excluding PPP loans)	1.36 %	1.83 %	1.08 %
ACL to nonaccrual loans	1,157.92 %	1,344.78 %	3,084.95 %
Net loan charge-offs to average loans outstanding	0.02 %	0.15 %	0.15 %

[1] In 2020, the Company recorded a reserve on accrued interest receivable ("AIR") of \$0.2 million for loans on active payment forbearance or deferral, which were granted to borrowers impacted by the COVID-19 pandemic. This reserve was recorded as a contra-asset against AIR with the offset to provision for credit losses. This reserve balance of \$0.2 million was reversed during the second quarter of 2021 due to the significant decline in loans on active forbearance or deferral and the Company no longer has a reserve on accrued interest receivable as of December 31, 2021. The provision for credit losses presented in this table excludes the provision (credit) for credit losses on AIR.

Our ACL at December 31, 2021 totaled \$68.1 million, which decreased by \$15.2 million, or 18.2%, from December 31, 2020. When expressed as a percentage of total loans, our ACL decreased to 1.33% at December 31, 2021, from 1.68% at December 31, 2020. Excluding the PPP loan portfolio, our ratio of ACL to core loans was 1.36% at December 31, 2021.

On January 1, 2020, the Company adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The Company recorded increases of \$3.6 million to the ACL for loans

and \$0.7 million to the reserve for off-balance sheet credit exposures, included in other liabilities, offset by a net decrease to retained earnings (or a net increase to accumulated deficit) of \$3.2 million and a \$1.1 million increase to other assets for the related impact to net deferred tax assets as of January 1, 2020 for the cumulative effect of adopting ASU 2016-13.

During the year, we recognized a credit to the Provision of \$14.6 million, or \$14.3 million excluding the provision for off-balance sheet credit exposures and provision on accrued interest receivable. The credit to the Provision was primarily due to continued improvement in the economic forecast used in our credit loss modeling, combined with improvement in our loan portfolio and lower net charge-offs. We recognized \$0.8 million in net charge-offs during the year.

The credit to the Provision and the decrease in our ACL as a percentage of total loans from December 31, 2020 to December 31, 2021 reflects continued improvements in credit quality and the economic forecast used in our credit loss modeling.

Our ACL as a percentage of our nonaccrual loans decreased from 1,344.78% at December 31, 2020 to 1,157.92% at December 31, 2021.

This trend was consistent with the Company's strong credit quality as represented by nonperforming assets of \$5.9 million, \$6.2 million, and \$1.7 million at December 31, 2021, 2020 and 2019, respectively. Net charge-offs were \$0.8 million, \$7.2 million, and \$6.3 million, respectively, for the years ended December 31, 2021, 2020 and 2019.

The following table sets forth the allocation of the ACL by loan category as of the dates indicated. Our practice is to make specific allocations on impaired loans and general allocations to each loan category based on management's risk assessment and estimated loss rate.

Table 12. Allocation of Allowance for Credit Losses

(Dollars in thousands)	December 31,			
	2021		2020	
	ACL	Loan Category as a % of Total Loans	ACL	Loan Category as a % of Total Loans
Commercial, financial and agricultural:				
PPP	\$ 77	1.8 %	\$ 304	8.4 %
Other	10,314	10.4	18,717	11.0
Real estate:				
Construction	3,908	2.4	4,277	2.5
Residential mortgage	12,463	36.8	16,484	34.0
Home equity	4,509	12.5	5,449	11.1
Commercial mortgage	18,411	23.9	22,163	23.3
Consumer	18,415	12.2	15,875	9.7
Total	<u>\$ 68,097</u>	<u>100.0 %</u>	<u>\$ 83,269</u>	<u>100.0 %</u>

The ACL allocated to PPP loans totaled \$0.1 million, or 0.1%, of total PPP loans at December 31, 2021, compared to \$0.3 million, or 0.1% of related loans outstanding at December 31, 2020.

The ACL allocated to other commercial, financial and agricultural loans totaled \$10.3 million, or 1.9%, of total other commercial, financial and agricultural loans at December 31, 2021, compared to \$18.7 million, or 3.4%, of related loans outstanding at December 31, 2020.

The ACL allocated to construction loans totaled \$3.9 million, or 3.2%, of total construction loans at December 31, 2021, compared to \$4.3 million, or 3.4%, of related loans outstanding at December 31, 2020.

The ACL allocated to our residential mortgage loans totaled \$12.5 million, or 0.7%, of total residential mortgage loans at December 31, 2021, compared to \$16.5 million, or 1.0%, of related loans outstanding at December 31, 2020.

The ACL allocated to our home equity loans totaled \$4.5 million, or 0.7%, of total home equity loans at December 31, 2021, compared to \$5.4 million, or 1.0%, of related loans outstanding at December 31, 2020.

The ACL allocated to commercial mortgage loans totaled \$18.4 million, or 1.5%, of total commercial mortgage loans at December 31, 2021, compared to \$22.2 million, or 1.9%, of related loans outstanding at December 31, 2020.

The ACL allocated to consumer loans totaled \$18.4 million, or 3.0% of total consumer loans at December 31, 2021, compared to \$15.9 million, or 3.3% of related loans outstanding at December 31, 2020.

The decreases in the ending ACL amount and the ACL as a percentage loans across all loan categories is primarily due to the continued improvement in credit quality and the economic forecast used in our credit loss modeling.

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

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

The following table sets forth nonperforming assets ("NPAs"), accruing loans delinquent for 90 days or more and restructured loans still accruing interest at the dates indicated.

Table 13. Nonperforming Assets, Past Due and Restructured Loans

(Dollars in thousands)	December 31,	
	2021	2020
Nonaccrual loans [1]		
Commercial, financial and agricultural - Other	\$ 183	\$ 1,461
Real estate:		
Residential mortgage	4,623	4,115
Home equity	786	524
Consumer	289	92
Total nonaccrual loans	<u>5,881</u>	<u>6,192</u>
Other real estate owned ("OREO")		
Real estate:		
Residential mortgage	—	—
Total OREO	<u>—</u>	<u>—</u>
Total nonperforming assets	<u>5,881</u>	<u>6,192</u>
Accruing loans delinquent for 90 days or more [1]		
Commercial, financial and agricultural - Other	945	—
Real estate:		
Residential mortgage	—	567
Home equity	44	—
Consumer	374	240
Total accruing loans delinquent for 90 days or more	<u>1,363</u>	<u>807</u>
Restructured loans still accruing interest [1]		
Commercial, financial and agricultural - Other	—	100
Real estate:		
Residential mortgage	3,768	5,718
Commercial mortgage	1,043	1,761
Consumer	92	207
Total restructured loans still accruing interest	<u>4,903</u>	<u>7,786</u>
Total NPAs, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	<u>\$ 12,147</u>	<u>\$ 14,785</u>

(Dollars in thousands)	December 31,	
	2021	2020
Ratios:		
Nonaccrual loans as a percentage of loans	0.12 %	0.12 %
Total NPAs as a percentage of loans and OREO	0.12	0.12
Total NPAs and accruing loans delinquent for 90 days or more as a percentage of loans and OREO	0.14	0.14
Total NPAs, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as a percentage of loans and OREO	0.24	0.30
Classified assets and OREO to tier 1 capital and ACL	6.42	7.49
Year-to-date changes in NPAs:		
Balance at beginning of year	\$ 6,192	\$ 1,719
Additions	7,462	14,257
Reductions:		
Payments	(3,112)	(4,006)
Return to accrual status	(1,358)	(671)
Sales of NPAs	—	(4,447)
Charge-offs, valuation and other adjustments	(3,303)	(660)
Total reductions	(7,773)	(9,784)
Balance at end of year	<u>\$ 5,881</u>	<u>\$ 6,192</u>

[1] Section 4013 of the CARES Act and the revised Interagency Statement are being applied to loan modifications related to the COVID-19 pandemic as eligible and applicable. These loan modifications are not included in the delinquent or restructured loan balances presented above.

Nonperforming assets, which includes nonaccrual loans, nonperforming loans classified as held for sale, if any, deferrals, and other real estate, totaled \$5.9 million, or 0.08% of total assets at December 31, 2021, compared to \$6.2 million, or 0.09% of total assets at December 31, 2020. Nonperforming assets at December 31, 2021 were comprised entirely of nonaccrual loans totaling \$5.9 million, none of which were loans classified as held for sale.

The decline in 2021 was attributable to \$3.1 million in repayments, \$1.4 million in loans returned to accrual status and \$3.3 million in charge-offs, valuation and other adjustments, partially offset by \$7.5 million in gross additions.

Net changes to nonperforming assets by category during 2021 included net decreases in commercial, financial and agricultural loans totaling \$1.3 million, partially offset by net increases in Hawaii residential mortgage loans totaling \$0.5 million, Hawaii home equity loans of \$0.3 million, and consumer loans of \$0.2 million.

Loans delinquent for 90 days or more still accruing interest totaled \$1.4 million at December 31, 2021, compared to \$0.8 million at December 31, 2020.

Troubled debt restructurings ("TDRs") included in nonperforming assets at December 31, 2021 consisted of four Hawaii residential mortgage loans with a combined principal balance of \$0.4 million. There were \$4.9 million of TDRs still accruing interest at December 31, 2021, none of which were more than 90 days delinquent. At December 31, 2020, there were \$7.8 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Loan balances that remained on loan payment forbearance or deferrals due to the impact of the COVID-19 pandemic totaled \$0.4 million, or 0.01% of total loans, as of December 31, 2021, compared to a peak of approximately \$605 million in May 2020 and \$120.2 million, or 2.4% of the total loan portfolio (or 2.6% excluding PPP loans), as of December 31, 2020.

The Company's ratio of classified assets and other real estate owned to tier 1 capital and the ACL decreased from 7.49% at December 31, 2020 to 6.42% at December 31, 2021.

Investment Portfolio

The following table sets forth the amounts and distribution of investment securities held as of the dates indicated.

Table 14. Distribution of Investment Securities

(Dollars in thousands)	December 31,			
	2021		2020	
	Available-for-Sale (Fair Value)	Equity Securities (Fair Value)	Available-for-Sale (Fair Value)	Equity Securities (Fair Value)
Debt securities:				
States and political subdivisions	\$ 236,828	\$ —	\$ 168,766	\$ —
Corporate securities	40,646	—	48,008	—
U.S. Treasury obligations and direct obligations of U.S. Government agencies	35,334	—	33,145	—
Mortgage-backed securities:				
Residential - U.S. government-sponsored entities ("GSEs")	1,198,816	—	778,826	—
Residential - Non-government sponsored entities ("Non-GSEs")	12,213	—	23,423	—
Commercial - U.S. GSEs and agencies	65,849	—	87,469	—
Commercial - Non-GSEs	42,013	—	42,972	—
Equity securities	—	—	—	1,351
Total	<u>\$ 1,631,699</u>	<u>\$ —</u>	<u>\$ 1,182,609</u>	<u>\$ 1,351</u>

Investment securities totaled \$1.63 billion at December 31, 2021, increasing by \$447.7 million, or 37.8%, from the \$1.18 billion held at December 31, 2020, which increased by \$55.9 million, or 5.0%, from the \$1.13 billion at year-end 2019.

In the third quarter of 2021, \$104.4 million in available-for-sale securities were sold as part of an investment portfolio rebalancing strategy due to faster than expected prepayments. We received \$104.5 million in gross proceeds and reinvested the proceeds in \$98.8 million in higher yield investment securities with an average yield of 1.55% and a weighted average life of 6.1 years. The investment securities sold had an average yield of 1.13% and a weighted average life of 2.6 years. Gross realized gains and losses on the sale of the investment securities were \$1.1 million and \$1.0 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the second quarter of 2021, \$175.0 million in available-for-sale were sold as part of an investment portfolio rebalancing strategy due to faster than expected prepayments. We received \$175.0 million in gross proceeds and reinvested the proceeds in \$186.1 million in higher yield investment securities with an average yield of 1.70% and a weighted average life of 6.9 years. The investment securities sold had an average yield of -0.11% and a weighted average life of 1.6 years. Gross realized losses and gains on the sale of the investment securities were \$2.2 million and \$2.2 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the fourth quarter of 2020, \$89.9 million in available-for-sale securities were sold as part of an investment portfolio rebalancing strategy due to the large downward shift in interest rates and the change in expected prepayments. We received \$90.1 million in gross proceeds and reinvested the proceeds in \$105.1 million in higher yield, longer duration investment securities with an average yield of 1.27% and a weighted-average life of 4.6 years. The investment securities sold had an average yield of 0.28% and a weighted-average life of 1.2 years. Gross realized gains and losses on the sale of the investment securities were \$0.5 million and \$0.3 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

In the third quarter of 2020, \$90.4 million in available-for-sale non-agency commercial mortgage-backed securities with retail mall exposure were sold to mitigate credit risk during the pandemic. The investment securities sold had an average yield of 3.44% and a weighted-average life of 14.03 years. Gross realized losses and gains on the sale of the investment securities were \$0.6 million and \$0.2 million, respectively. The specific identification method was used as the basis for determining the cost of all securities sold.

Maturity Distribution of Investment Portfolio

The following table sets forth the maturity distribution of the investment portfolio and weighted-average yields by investment type and maturity grouping at December 31, 2021.

Table 15. Maturity Distribution of Investment Portfolio

Portfolio Type and Maturity Grouping	Carrying Value	Weighted Average Yield (1)
	(Dollars in thousands)	
Available-for-sale portfolio:		
Debt securities - States and political subdivisions:		
Within one year	\$ 13,987	2.42 %
After one but within five years	21,234	3.39
After five but within ten years	24,262	3.43
After ten years	177,345	2.29
Total debt securities - States and political subdivisions	<u>236,828</u>	<u>2.52</u>
Debt securities - Corporate:		
Within one year	5,015	3.15
After one but within five years	—	—
After five but within ten years	35,631	1.66
After ten years	—	—
Total debt securities - Corporate	<u>40,646</u>	<u>1.84</u>
Debt securities - U.S. Treasury obligations and direct obligations of U.S Government agencies:		
Within one year	—	—
After one but within five years	956	1.75
After five but within ten years	24,519	1.36
After ten years	9,859	1.62
Total debt securities - U.S. Treasury obligations and direct obligations of U.S Government agencies	<u>35,334</u>	<u>1.44</u>
Residential mortgage-backed securities - U.S. GSEs:		
Within one year	—	—
After one but within five years	—	—
After five but within ten years	11,346	2.30
After ten years	1,187,470	1.76
Total residential mortgage-backed securities - U.S. GSEs	<u>1,198,816</u>	<u>1.77</u>
Residential mortgage-backed securities - Non-government sponsored entities ("Non-GSEs"):		
Within one year	—	—
After one but within five years	—	—
After five but within ten years	—	—
After ten years	12,213	3.45
Total residential mortgage-backed securities - Non-GSEs	<u>12,213</u>	<u>3.45</u>
Commercial mortgage-backed securities - U.S. GSEs and agencies:		
Within one year	—	—
After one but within five years	—	—
After five but within ten years	30,155	2.86
After ten years	35,694	1.59
Total commercial mortgage-backed securities - U.S. GSEs and agencies	<u>65,849</u>	<u>2.17</u>
Commercial mortgage-backed securities - Non-GSEs:		
Within one year	—	—
After one but within five years	—	—
After five but within ten years	42,013	2.97
After ten years	—	—
Total commercial mortgage-backed securities - Non-GSEs	<u>42,013</u>	<u>2.97</u>
Total available-for-sale portfolio	<u>\$ 1,631,699</u>	<u>1.93 %</u>

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

As of December 31, 2021, the weighted-average yield of the investment portfolio of 1.93% decreased by 16 bp from 2.09% in the prior year.

Deposits

The primary source of our funding comes from deposits in the state of Hawaii. In this competitive market, we strive to distinguish ourselves by providing exceptional customer service in our branch offices and through digital channels, and establishing long-term relationships with businesses and their principals. Our focus has been to develop a large, stable base of core deposits, which are comprised of non-interest bearing and interest-bearing demand deposits, savings and money market deposits, and time deposits less than \$250,000. Time deposits in amounts of \$250,000 and greater are generally considered to be more price-sensitive than relationship-based and are thus given less focus in our marketing and sales efforts.

The following table sets forth the composition of our deposits by category as of the dates indicated.

Table 16. Deposits by Categories

(Dollars in thousands)	December 31,	
	2021	2020
Noninterest-bearing demand deposits	\$ 2,291,246	\$ 1,790,269
Interest-bearing demand deposits	1,415,277	1,174,888
Savings and money market deposits	2,225,903	1,932,043
Time deposits less than \$100,000	136,584	149,063
Other time deposits of \$100,000 to \$250,000	88,873	90,149
Core deposits	6,157,883	5,136,412
Government time deposits	214,950	500,344
Other time deposits greater than \$250,000	266,325	159,362
Total time deposits greater than \$250,000	481,275	659,706
Total deposits	<u>\$ 6,639,158</u>	<u>\$ 5,796,118</u>

Total deposits of \$6.64 billion at December 31, 2021 increased by \$843.0 million, or 14.5%, from total deposits of \$5.80 billion at December 31, 2020. Total deposits at December 31, 2020 increased by \$676.1 million, or 13.2%, over the year-end 2019 balance of \$5.12 billion. The increase in deposits in 2021 reflects net increases in noninterest-bearing demand deposits of \$501.0 million, savings and money market deposits of \$293.9 million, interest-bearing demand deposits of \$240.4 million and other time deposits greater than \$250,000 (excluding government time deposits) of \$107.0 million. The net increases were partially offset by decreases in government time deposits of \$285.4 million and other time deposits up to \$250,000 totaling \$13.8 million. The deposit of funds from PPP and other stimulus programs into new and existing deposit accounts, combined with an increase in the rate of personal savings largely contributed to the increases in deposits in 2020 and 2021. In addition, the Company's RISE2020 and rebranding efforts have driven more relationships to the bank, and off-balance sheet investment funds from several large clients were brought back into deposit accounts. The addition of funds from PPP and other stimulus programs may be temporary as PPP funds are spent by the businesses in accordance with the program. Going forward, the Company is focused on expanding banking relationships with the new businesses we assisted with PPP.

Core deposits totaled \$6.16 billion at December 31, 2021 and increased by \$1.02 billion, or 19.9%, from December 31, 2020, which increased by \$769.5 million or 17.6% from December 31, 2019. Core deposits as a percentage of total deposits was 92.8% at December 31, 2021, compared to 88.6% at December 31, 2020 and 85.3% at December 31, 2019. For additional information regarding the contractual maturities of our time deposits, See Note 10 - Deposits to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

The table below sets forth information regarding the average balances and average rates paid for certain deposit categories for each of the years indicated. Average balances are computed using daily average balances. The average rate on time deposits, which are most sensitive to changes in market rates, decreased by 53 bp in 2021, while savings and money market deposit rates decreased by 7 bp. The average rate paid on all deposits decreased 13 bp to 0.06% in 2021 from 0.19% in 2020, which decreased from 0.48% in 2019.

Table 17. Average Balances and Average Rates on Deposits

(Dollars in thousands)	Year Ended December 31,			
	2021		2020	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand deposits	\$ 2,117,423	— %	\$ 1,691,958	— %
Interest-bearing demand deposits	1,300,022	0.03	1,078,589	0.05
Savings and money market deposits	2,099,388	0.06	1,830,972	0.13
Time deposits	782,536	0.25	954,358	0.78
Total	<u>\$ 6,299,369</u>	0.06	<u>\$ 5,555,877</u>	0.19

We expect overall deposit rates to slightly increase in 2022 based on the Federal Open Market Committee's recent statements and the expectation of interest rate increases in 2022. In addition to the external interest rate environment, the overall direction and magnitude of rate movements in our deposit base will largely depend on the level of deposit growth we need to maintain adequate liquidity and competitive pricing considerations.

Contractual Obligations

The following table sets forth our material contractual obligations (excluding deposit liabilities) as of December 31, 2021.

Table 18. Contractual Obligations

(Dollars in thousands)	Payments Due By Period		
	Less Than One Year	Greater Than One Year	Total
Long-term debt	\$ —	\$ 106,547	\$ 106,547
Pension plan and SERP obligations	21,153	11,564	32,717
Operating leases	5,925	45,394	51,319
Purchase obligations	11,367	30,361	41,728
Other long-term liabilities	15,843	85	15,928
Total	<u>\$ 54,288</u>	<u>\$ 193,951</u>	<u>\$ 248,239</u>

Components of short-term borrowings and long-term debt are discussed in Note 11 - Short-Term Borrowings and Note 12 - Long-Term Debt, respectively, to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data." Pension plan obligations include obligations under our defined benefit retirement plan and Supplemental Executive Retirement Plans, which are discussed in Note 17 - Pension Plans to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data." Operating leases represent leases on bank premises as discussed in Note 19 - Operating Leases to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data." Purchase obligations represent other contractual obligations to purchase goods or services at specified terms including, but not limited to, software licensing agreements, equipment maintenance contracts and professional service contracts. Other long-term liabilities represent expected payments for unfunded commitments related to our investments in LIHTC partnerships and other unconsolidated entities.

In January 2021, the Board of Directors approved termination of, and authorized Company management to commence taking actions to terminate, the Company's defined benefit retirement plan. Final settlement is expected to occur in 2022.

Contractual obligations in Table 18 - Contractual Obligations do not include off-balance sheet arrangements. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees written, forward foreign exchange contracts, forward interest rate contracts and interest rate swaps and options. These instruments and the related off-balance sheet exposures are discussed in detail in Note 24 - Financial Instruments With Off-Balance Sheet Risk to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

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 anticipated performance of our business (including the effects of the COVID-19 pandemic), and 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, the need for raising additional capital (whether debt and/or equity) or returning capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

Common and Preferred Equity

Shareholders' equity totaled \$558.2 million at December 31, 2021, an increase of \$11.5 million, or 2.1%, from the \$546.7 million at December 31, 2020, which increased by \$18.2 million, or 3.4%, from December 31, 2019. When expressed as a percentage of total assets, shareholders' equity was 7.5% at December 31, 2021, compared to 8.3% at December 31, 2020 and 8.8% at December 31, 2019. The decline in our ratio of shareholders' equity to total assets from 2019 to 2020 to 2021 was primarily attributable to the significant increases in total assets in 2020 and 2021.

Our book value per share was \$20.14, \$19.40, and \$18.68 at year-end 2021, 2020 and 2019, respectively. The increase in our book value per share from 2020 was primarily attributable to the increase in shareholders' equity from December 31, 2019 to December 31, 2020 as described above.

The increase in shareholders' equity from December 31, 2020 to December 31, 2021 was primarily attributable to net income of \$79.9 million, partially offset by other comprehensive loss of \$28.1 million, cash dividends paid of \$27.0 million and the repurchase of 696,894 shares of our common stock for a total cost of \$18.7 million, under our stock repurchase program. During 2021 we repurchased approximately 2.5% of our common stock outstanding at December 31, 2020.

The increase in shareholders' equity from December 31, 2019 to December 31, 2020 was primarily attributable to: net income of \$37.3 million and accumulated other comprehensive income of \$11.7 million, partially offset by the repurchase of 206,802 shares of our common stock for a total cost of \$4.7 million, under our stock repurchase program and cash dividends paid of \$25.9 million. During 2020 we repurchased approximately 0.7% of our common stock outstanding at December 31, 2019.

Trust Preferred Securities

As of December 31, 2021, we have two remaining statutory trusts, CPB Capital Trust IV ("Trust IV") and CPB Statutory Trust V ("Trust V"), which issued a total of \$50.0 million in floating rate trust preferred securities. The \$30.0 million in floating rate trust preferred securities of Trust IV bear an interest rate of three-month LIBOR plus 2.45% and the \$20.0 million in floating rate trust preferred securities of Trust V bear an interest rate of three-month LIBOR plus 1.87%. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of the trusts' obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

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

We also previously had CPB Capital Trust I ("Trust I"), which was canceled in August 2014, and CPB Capital Trust II ("Trust II") and CPB Statutory Trust III ("Trust III"), which were both canceled in January 2019.

Subordinated Notes

On October 20, 2020, the Company completed a \$55.0 million private placement of ten-year fixed-to-floating rate subordinated notes, which will be used to support regulatory capital ratios and for general corporate purposes. The Company exchanged the privately placed notes for registered notes with the same terms and in the same aggregate principal amount at the end of the fourth quarter of 2020. The notes bear a fixed interest rate of 4.75% for the first five years and will reset quarterly thereafter for the remaining five years to the then current three-month Secured Overnight Financing Rate, as published by the Federal Reserve Bank of New York, plus 456 basis points. The notes are redeemable at our option on any interest payment date on or after November 1, 2025. The subordinated notes totaled \$54.1 million as of December 31, 2021, and includes \$0.9 million in debt issuance costs, which are being amortized over the expected life.

Holding Company Capital Resources

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

CPF relies on the bank to pay dividends to it to fund its obligations. As of December 31, 2021, on a stand-alone basis, CPF had an available cash balance of approximately \$20.1 million in order to meet its ongoing obligations.

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 December 31, 2021, the bank had Statutory Retained Earnings of \$114.0 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. For further information, see the "Dividends — Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" section.

Share Repurchases

We repurchase shares of our common stock when we believe such repurchases are in the best interests of the Company and our shareholders.

In June 2019, the Company's Board of Directors authorized the repurchase of up to \$30 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2019 Repurchase Plan"). The 2019 Repurchase Plan replaced and superseded in its entirety the share repurchase program previously approved by the Company's Board of Directors, which had \$6.8 million in remaining repurchase authority.

In 2019, 797,003 shares of common stock, at a cost of \$22.8 million, were repurchased under the previous share repurchase plan and the 2019 Repurchase Plan combined.

In January 2020, the Company's Board of Directors authorized the repurchase of up to \$30 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2020 Repurchase Plan"). The 2020 Repurchase Plan replaced and superseded in its entirety the 2019 Repurchase Plan, which had \$19.8 million in remaining repurchase authority.

During the first quarter of 2020, 206,802 shares of common stock, at a cost of \$4.7 million, were repurchased under the 2019 and 2020 Repurchase Plans combined.

In March 2020, the Company temporarily suspended the 2020 Repurchase Plan due to uncertainty during the current COVID-19 pandemic.

In January 2021, the Company's Board of Directors approved a new authorization to resume repurchases of up to \$25 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2021 Repurchase Plan"). The new repurchase plan replaced and superseded in its entirety the 2020 Repurchase Plan, which had \$26.6 million in remaining repurchase authority.

In 2021, 696,894 shares of common stock, at a cost of \$18.7 million, were repurchased under the 2021 Repurchase Plan. A total of \$6.3 million remained available for repurchase under the 2021 Repurchase Plan at December 31, 2021.

In January 2022, the Company's Board of Directors approved a new authorization to resume repurchases of up to \$30 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program. The new repurchase plan replaces and supersedes in its entirety the 2021 Repurchase Plan. Our ability to repurchase shares is subject to the discretion of our Board of Directors and approval of our regulators, and there can be no assurance that the Board will repurchase shares of our common stock in the future.

Cybersecurity

In recent years, cybersecurity has gained prominence within the financial services industry due to increases in the quantity and sophistication of cyber-attacks, which include significant distributed denial-of-service and credential validation attacks, malicious code and viruses and attempts to breach the security of systems, which, in certain instances, have resulted in unauthorized access to customer account data.

The bank has a number of complex information systems used for a variety of functions by customers, employees and vendors. In addition, third parties with which the bank does business or that facilitate business activities (e.g., vendors, exchanges, clearing houses, central depositories and financial intermediaries) could also be sources of cybersecurity risk to the bank, including with respect to breakdowns or failures of their systems, misconduct by the employees of such parties, or cyber-attacks which could affect their ability to deliver a product or service to the bank.

As a regulated financial institution, we must adhere to the security requirements and expectations of the applicable regulatory agencies, which include requirements related to data privacy, systems availability and business continuity planning, among others. The regulatory agencies have established guidelines for the responsibilities of the Board of Directors and senior management, which include establishing policy, appointing and training personnel, implementing review and testing functions and ensuring an appropriate frequency of updates.

The Board of Directors overall, and its Board Compliance Committee more specifically, oversees cybersecurity risk. The Executive Committee overall, and our Chief Legal Officer, our Chief Technology Officer and our Chief Information Officer more specifically, manages the cybersecurity risk at the operational level. Various reports on cybersecurity are provided to our Executive Committee and a quarterly update is provided to the Board Compliance Committee and the Board of Directors.

As a complement to the overall cybersecurity infrastructure, the bank utilizes a number of internal training methods, both formally through mandatory courses and informally through written communications and other updates. Internal policies and procedures have been implemented to require the reporting of potential phishing attacks or other security risks. The bank also uses third party services as part of its cybersecurity framework, and any such third parties are required to comply with the bank's policies regarding information security and confidentiality. In addition, the bank retains third party groups to assess and supplement the bank's cybersecurity needs. These cyber-attacks have not, to date, resulted in any material disruption to the bank's operations or harm to its customers and have not had a material adverse effect on the bank's results of operations; however, there can be no assurance that a sophisticated cyber-attack can be detected or thwarted.

Transaction Risk

Transaction risk is the risk to earnings or capital arising from problems in service, activity or product delivery. This risk is significant within any bank and is interconnected with other risk categories in most activities throughout the Company. Transaction risk is a function of internal controls, information systems, associate integrity, and operating processes. It arises daily throughout the Company as transactions are processed. It pervades all divisions, departments and centers and is inherent in all products and services we offer.

In general, transaction risk by major area is categorized as high, medium or low by the Company. The audit plan ensures that high risk areas are reviewed annually. We utilize internal auditors and independent audit firms to test key controls of operational processes and to audit information systems, compliance management programs, loan programs and trust services.

The key to managing transaction risk is in the design, documentation and implementation of well-defined procedures and controls. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met.

Compliance Risk

Compliance risk is the risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain products or activities of the bank's customers may be ambiguous or untested. Compliance risk exposes us to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can also lead to a diminished reputation, reduced business value, limited business opportunities, lessened expansion potential, and lack of contract enforceability. The Company utilizes independent external firms to conduct compliance audits as a means of identifying weaknesses in the compliance program.

There is no single or primary source of compliance risk. It is inherent in every activity. Frequently, it blends into operational risk and transaction risk. A portion of this risk is sometimes referred to as legal risk. This is not limited solely to risk from failure to comply with consumer protection laws; it encompasses all laws, as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of banking, traditional and non-traditional.

Our risk management policies and codes of ethical conduct are cornerstones for controlling compliance risk. An integral part of controlling this risk is the proper training and development of employees. The Director of Compliance is responsible for developing and executing a comprehensive compliance training program. The Director of Compliance, in consultation with our internal and external legal counsel, seeks to provide our employees with adequate training commensurate to their job functions to ensure compliance with banking laws and regulations.

Our risk management policies and programs includes a risk-based audit program aimed at identifying internal control deficiencies and weaknesses. We have in-depth audits performed by an independent audit firm under the direction of the Director of Internal Audit and supplemented by independent external firms, and periodic monitoring performed by our risk management personnel. Annually, an Audit Plan for the Company is developed and presented for approval to the Audit Committee.

Our risk management team conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to verify whether our employees are adhering to established policies and procedures. Any material exceptions identified are brought forward to the appropriate department head, the Audit Committee and the Board Compliance Committee.

We recognize that customer complaints can often identify weaknesses in our compliance program which could expose us to risk. Therefore, we attempt to ensure that all complaints are given prompt attention. The Director of Compliance reviews formal complaints to determine if a significant compliance risk exists and communicates those findings to our Board Compliance Committee.

Strategic Risk

Strategic risk is the risk to earnings or capital arising from adverse decisions or improper implementation of strategic decisions. This risk is a function of the compatibility between an organization's goals, the resources deployed against those goals and the quality of implementation.

Strategic risks are identified as part of the strategic planning process. Offsite strategic planning sessions, with members of the Board of Directors and Executive Committee, are held annually. The strategic review consists of an economic assessment, competitive analysis, industry outlook and risk and regulatory review.

A primary measurement of strategic risk is peer group analysis. Key performance ratios are compared to peer groups consisting of U.S. banks of comparable size and complexity and banks in the Hawaii market to identify any sign of weakness and potential opportunities.

Another measure is the comparison of the actual results of previous strategic initiatives against the expected results established prior to implementation of each strategy.

Asset/Liability Management and Interest Rate Risk

Our earnings and capital are sensitive to risk of interest rate fluctuations. Interest rate risk arises when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. In the normal course of business, we are subjected to interest rate risk through the activities of making loans and taking deposits, as well as from our investment securities portfolio and other interest-bearing funding sources. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives.

Our Asset/Liability Management Policy seeks to maximize the risk-adjusted return to shareholders while maintaining consistently acceptable levels of liquidity, interest rate risk and capitalization. Our Asset/Liability Management Committee, or 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. This process is designed to measure the impact of future changes in interest rates on net interest income and market value of portfolio equity. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

Interest rate risk can be analyzed by monitoring an institution's interest rate sensitivity gap and changes in the gap over time. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities maturing or repricing within a specified time period.

The following table sets forth information regarding our interest rate sensitivity gap at December 31, 2021. The assumptions used in determining interest rate sensitivity of various asset and liability products had a significant impact on the resulting table. For purposes of this presentation, assets and liabilities are classified by the earliest repricing date or maturity. All interest-bearing demand and savings balances are included in the three-months-or-less category, even though repricing of these accounts is not contractually required and may not actually occur during that period. Since all interest rates and yields do not adjust at the same velocity or magnitude, and since volatility is subject to change, the interest rate sensitivity gap is only a general indicator of interest rate risk.

Table 19. Rate Sensitivity of Assets, Liabilities and Equity

(Dollars in thousands)	Three Months or Less	Over Three Through Six Months	Over Six Through Twelve Months	Over One Through Three Years	Over Three Years	Non-Rate Sensitive	Total
Assets							
Interest-bearing deposits in other financial institutions	\$ 247,401	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 247,401
Investment securities	106,308	53,680	114,929	303,208	1,053,574	—	1,631,699
Loans held for sale	3,531	—	—	—	—	—	3,531
Loans	1,049,277	294,786	416,975	1,223,697	2,121,023	(4,109)	5,101,649
FHLB stock	7,964	—	—	—	—	—	7,964
Other assets	—	—	—	—	—	426,845	426,845
Total assets	<u>\$ 1,414,481</u>	<u>\$ 348,466</u>	<u>\$ 531,904</u>	<u>\$ 1,526,905</u>	<u>\$ 3,174,597</u>	<u>\$ 422,736</u>	<u>\$ 7,419,089</u>
Liabilities and Equity							
Noninterest-bearing deposits	\$ 2,291,246	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,291,246
Interest-bearing deposits	3,962,289	116,198	165,839	88,476	15,110	—	4,347,912
Long-term debt	51,547	—	—	—	54,069	—	105,616
Lease liability	—	—	—	—	—	40,731	40,731
Other liabilities	—	—	—	—	—	75,317	75,317
Equity	—	—	—	—	—	558,267	558,267
Total liabilities and equity	<u>\$ 6,305,082</u>	<u>\$ 116,198</u>	<u>\$ 165,839</u>	<u>\$ 88,476</u>	<u>\$ 69,179</u>	<u>\$ 674,315</u>	<u>\$ 7,419,089</u>
Interest rate sensitivity gap	<u><u>\$ (4,890,601)</u></u>	<u><u>\$ 232,268</u></u>	<u><u>\$ 366,065</u></u>	<u><u>\$ 1,438,429</u></u>	<u><u>\$ 3,105,418</u></u>	<u><u>\$ (251,579)</u></u>	<u><u>\$ —</u></u>
Cumulative interest rate sensitivity gap	<u><u>\$ (4,890,601)</u></u>	<u><u>\$ (4,658,333)</u></u>	<u><u>\$ (4,292,268)</u></u>	<u><u>\$ (2,853,839)</u></u>	<u><u>\$ 251,579</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

ALCO also utilizes a detailed and dynamic simulation model to measure and manage interest rate risk exposures. The monthly simulation process is designed to measure the impact of future changes in interest rates on net interest income and market value of portfolio equity and to allow ALCO to model alternative balance sheet strategies.

The following reflects our net interest income sensitivity analysis as of December 31, 2021, over a one-year horizon, assuming no balance sheet growth and given both a 100 bp upward and 100 bp downward parallel shift in interest rates.

Rate Change	Estimated Net Interest Income Sensitivity
+100bp	4.54 %
-100bp	(4.67)%

The table below presents information on financial instruments held that are sensitive to changes in interest rates. For purposes of this presentation, expected maturities of interest-sensitive assets and liabilities are contractual maturities. Interest-bearing demand and savings deposits, which have indeterminate maturities, are included in the earliest maturity category. The resulting table is based on numerous assumptions including prepayment rates on mortgage-related assets and forecasted market interest rates. This differs from the assumptions used in Table 10 - Maturity Distribution and Sensitivities of Loans to Changes in Interest Rates. See Note 25 - Fair Value of Financial Assets and Financial Liabilities to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data" for a discussion of the calculation of fair values.

Maturities and fair values of interest-sensitive assets and liabilities may vary from expectation if actual experience differs from the assumptions used.

Table 20. Interest Rate Sensitivity

(Dollars in thousands)	Expected Maturity Within						Total Book Value	Total Fair Value
	One Year	Two Years	Three Years	Four Years	Five Years	Thereafter		
Interest-sensitive assets								
Interest-bearing deposits in other financial institutions	\$ 247,401	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 247,401	\$ 247,401
Weighted-average yields	0.15 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.15 %	
Fixed-rate investment securities	\$ 249,293	\$ 167,793	\$ 135,404	\$ 120,240	\$ 101,754	\$ 831,540	\$1,606,024	\$ 1,606,024
Weighted-average yields	2.40 %	2.26 %	2.25 %	2.38 %	2.30 %	2.21 %	2.27 %	
Variable-rate investment securities	\$ 2,559	\$ 2,659	\$ 2,732	\$ 2,502	\$ 2,598	\$ 12,625	\$ 25,675	\$ 25,675
Weighted-average yields	3.83 %	3.83 %	3.83 %	3.78 %	3.78 %	3.42 %	3.62 %	
Fixed-rate loans	\$ 540,362	\$ 438,933	\$ 387,442	\$ 349,509	\$ 373,942	\$1,275,597	\$3,365,785	\$ 3,125,747
Weighted-average yields	3.80 %	4.01 %	3.91 %	3.80 %	3.30 %	3.31 %	3.60 %	
Variable-rate loans	\$ 689,145	\$ 292,355	\$ 183,509	\$ 143,505	\$ 122,324	\$ 312,667	\$1,743,505	\$ 1,619,163
Weighted-average yields	2.98 %	2.74 %	2.94 %	3.01 %	3.39 %	3.35 %	3.03 %	
Total - December 31, 2021	<u>\$1,728,760</u>	<u>\$ 901,740</u>	<u>\$ 709,087</u>	<u>\$ 615,756</u>	<u>\$ 600,618</u>	<u>\$2,432,429</u>	<u>\$6,988,390</u>	<u>\$ 6,624,010</u>
Total - December 31, 2020	<u>\$1,992,233</u>	<u>\$1,208,531</u>	<u>\$ 741,410</u>	<u>\$ 491,236</u>	<u>\$ 348,228</u>	<u>\$1,397,534</u>	<u>\$6,179,172</u>	<u>\$ 6,002,944</u>
Interest-sensitive liabilities								
Interest-bearing demand and savings deposits	\$3,641,180	\$ —	\$ —	\$ —	\$ —	\$ —	\$3,641,180	\$ 3,641,180
Weighted-average rates paid	0.05 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.05 %	
Time deposits	\$ 603,146	\$ 65,825	\$ 22,651	\$ 7,584	\$ 7,511	\$ 15	\$ 706,732	\$ 704,645
Weighted-average rates paid	0.26 %	0.33 %	0.67 %	0.48 %	0.36 %	0.38 %	0.28 %	
Long-term debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 105,616	\$ 105,616	\$ 94,558
Weighted-average rates paid	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	3.62 %	3.62 %	
Total - December 31, 2021	<u>\$4,244,326</u>	<u>\$ 65,825</u>	<u>\$ 22,651</u>	<u>\$ 7,584</u>	<u>\$ 7,511</u>	<u>\$ 105,631</u>	<u>\$4,453,528</u>	<u>\$ 4,440,383</u>
Total - December 31, 2020	<u>\$3,933,632</u>	<u>\$ 58,320</u>	<u>\$ 15,952</u>	<u>\$ 11,500</u>	<u>\$ 8,111</u>	<u>\$ 105,719</u>	<u>\$4,133,234</u>	<u>\$ 4,120,981</u>

The preceding sensitivity analysis does not represent our forecast and should not be relied upon as being indicative of expected operating results. These estimates are based upon numerous assumptions including: the magnitude and timing of interest rate changes, prepayments on loans and investment securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment of asset and liability cash flows and others.

Liquidity

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 assure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources. Our loan-to-deposit ratio at December 31, 2021 was 76.8% compared to 85.6% at December 31, 2020. Our liquidity may be negatively impacted by unforeseen demands on cash or if our deposit customers withdraw funds due to uncertainties surrounding our financial condition or prospects.

The consolidated statements of cash flows identify the three major categories of sources and uses of cash as operating, investing and financing activities. As presented in the consolidated statements of cash flows, cash provided by operating activities has provided a significant source of funds during the past three years. Cash provided by operating activities totaled \$110.5 million in 2021, \$76.8 million in 2020, and \$72.2 million in 2019. The primary source of cash provided by operating activities continues to be our net operating income, exclusive of non-cash items such as the Provision and asset impairments.

Net cash used in investing activities amounted to \$662.3 million, \$596.9 million and \$129.0 million in 2021, 2020 and 2019, respectively. Investment securities and lending activities generally comprise the largest components of investing activities, although the level of investment securities activities are impacted by the relationship of loan and deposit growth during the period. The Company received net loans payments of \$128.6 million in 2021. In 2020 and 2019, net loan originations accounted for \$479.6 million and \$237.5 million, respectively, of cash used in investing activities. In addition, purchases of portfolio loans totaled \$266.7 million, \$53.2 million and \$140.1 million in 2021, 2020 and 2019, respectively. Net purchases of investment securities totaled \$498.4 million and \$49.7 million in 2021 and 2020, respectively, compared to net proceeds received from sales and maturities of investment securities of \$253.6 million in 2019. Net purchases of premises and equipment totaled \$22.2 million, \$26.0 million and \$7.2 million in 2021, 2020 and 2019, respectively. Investing activities included proceeds from sales of loans originated for investment in 2020 totaled \$10.7 million. We did not sell any loans originated for investment in 2021 and 2019. Proceeds from sales of foreclosed loans and other real estate of \$0.2 million, and \$0.1 million in 2020 and 2019, respectively. We did not sell any foreclosed loans or other real estate in 2021.

Cash provided by financing activities totaled \$776.6 million, \$521.2 million, and \$57.6 million in 2021, 2020 and 2019, respectively. Deposit activities, borrowings and capital transactions represent the major components of financing activities. In 2021, 2020 and 2019, deposits increased by \$843.0 million, \$676.1 million, and \$173.5 million, respectively. Net cash outflows of FHLB advances and short-term borrowings totaled \$22.0 million in 2021, \$128.0 million in 2020, and \$47.0 million in 2019. Repayments of long-term debt totaled \$115.9 million and \$20.6 million in 2020 and 2019, respectively. We did not repay any long-term debts in 2021. We received \$119.8 million in proceeds from long-term debt in 2020. We did not receive any proceeds from long-term debt totaled 2021 and 2019. As with investment securities, the level of net borrowings is impacted by the levels of loan and deposit growth or contraction during the period. Capital transactions, primarily cash dividends and stock repurchases, totaled \$44.4 million, \$30.7 million and \$48.3 million of cash used in 2021, 2020 and 2019, respectively.

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, continued 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 \$1.83 billion line of credit with the FHLB as of December 31, 2021, of which \$1.80 billion remained available as of December 31, 2021. There were no short-term advances outstanding under this arrangement as of December 31, 2021. Short-term advances outstanding under this arrangement totaled \$22.0 million at December 31, 2020. There were no long-term advances with the FHLB outstanding at December 31, 2021 and 2020. FHLB advances outstanding at December 31, 2020 were secured by certain real estate loans with a carrying value of \$2.75 billion in accordance with the collateral provisions of the Advances Pledge and Security Agreement with the FHLB.

The FHLB provides standby letters of credit on behalf of the bank to secure certain public deposits. If the FHLB is required to make a payment on a standby letter of credit, the payment amount is converted to an advance at the FHLB. The standby letters of credit issued on our behalf by the FHLB totaled \$32.2 million and \$268.0 million at December 31, 2021 and 2020, respectively.

The bank also maintained a line of credit with the Federal Reserve discount window of \$55.4 million and \$64.5 million as of December 31, 2021 and 2020, respectively. There were no advances outstanding under this arrangement at December 31, 2021 and 2020. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value totaling \$131.0 million. The Federal Reserve does not have the right to sell or repledge these loans. See Note 11 - Short-Term Borrowings and Note 12 - Long-Term Debt to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data" for additional information regarding our borrowings.

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.

Holding Company Liquidity

For the holding company on a stand-alone basis, in 2021, net cash provided by operating activities amounted to \$51.6 million. The primary source of funds in operating activities included dividends received from the bank of \$54.0 million. Net cash used in financing activities amounted to \$44.4 million, which included cash dividends of \$27.0 million paid to our common shareholders and repurchases of common stock totaling \$18.7 million.

In 2020, net cash provided by operating activities amounted to \$24.1 million. The primary source of funds in operating activities included dividends received from the bank of \$24.0 million. Net cash provided by financing activities amounted to \$23.2 million. During the fourth quarter of 2020, the Company completed a \$55 million private placement of ten-year fixed-to-floating rate subordinated notes, which was partially offset by \$1.2 million in debt issuance costs, repurchases of common stock totaling \$4.7 million and cash dividends of \$25.9 million paid to our common shareholders. Cash used in investing activities included a \$46.8 million contribution to the bank from the proceeds received from the private placement.

In 2019, net cash provided by operating activities amounted to \$62.2 million. The primary source of funds in operating activities included dividends received from the bank of \$63.0 million. Net cash used in financing activities amounted to \$69.0 million. The primary use of funds in financing activities included the repurchases of common stock totaling \$22.8 million and cash dividends of \$25.7 million paid to our common shareholders. In addition, junior subordinated debentures issued by Trust II totaling \$20.6 million were repaid in 2019.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into off-balance sheet arrangements to meet the financing needs of our banking customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees written, forward foreign exchange contracts, forward interest rate contracts, interest rate swaps and options, and risk participation agreements. These instruments and the related off-balance sheet exposures are discussed in detail in Note 24 - Financial Instruments With Off-Balance Sheet Risk to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data." In the unlikely event that we must satisfy a significant amount of outstanding commitments to extend credit, liquidity will be adversely impacted, as will credit risk. The remaining components of off-balance sheet arrangements, primarily interest rate options and forward interest rate contracts related to our mortgage banking activities, are not expected to have a material impact on our consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk is set forth under "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Asset/Liability Management and Interest Rate Risk" and in Note 25 - Fair Value of Financial Assets and Financial Liabilities to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**Index**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
Central Pacific Financial Corp.
Honolulu, Hawaii

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Central Pacific Financial Corp. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Financial Accounting Standard Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method provided in Accounting Standards Update No. 2016-13 such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinions

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans – Reasonable and Supportable Forecasts - Refer to Notes 1 and 5 to the financial statements

The allowance for credit losses on loans is an accounting estimate of expected credit losses over the estimated life of the Company's loan portfolio, measured at amortized cost, to be presented at the net amount expected to be collected. The provision for credit losses on loans for the year ended December 31, 2021 was a credit of \$14,323,000 and the allowance for credit losses on loans as of December 31, 2021 was \$68,097,000.

The allowance for credit losses on loans under the current expected credit loss methodology required by ASC 326, *Financial Instruments – Credit Losses*, is based on relevant available information about the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. Historical credit loss experience provides the basis for the Company's expected credit loss estimate. The economic forecast used in the current expected credit loss methodology includes both National and Hawaii specific economic indicators. The Company performed a loss driver analysis to determine relevant economic indicators with a strong correlation to the historical loss experience used as the basis for the expected credit loss estimate. Significant management judgments are required in the development and application of reasonable and supportable forecasts.

We identified reasonable and supportable forecasts used in the application of ASC 326 as a critical audit matter because of the significant auditor judgment and audit effort to evaluate the judgments made by management, including the need to involve more experienced audit personnel and valuation specialists.

The primary procedures we performed to address this critical audit matter included:

- a. Testing the effectiveness of controls over the development and application of reasonable and supportable forecasts, including controls addressing:
 - i. Significant judgments and assumptions in the reasonable and supportable forecasts methodology, including the selection and application of economic variables,
 - ii. The accuracy of the reasonable and supportable forecasts calculation, including the completeness, accuracy and relevance of the underlying data.

- a. Substantively testing management's process for the development and application of reasonable and supportable forecasts, including:
 - i. Evaluation of significant judgments and assumptions in the reasonable and supportable forecasts methodology, including the selection and application of economic variables,
 - ii. Testing the accuracy of the reasonable and supportable forecasts calculation, including the completeness, accuracy and relevance of the underlying data.

/s/ Crowe LLP

We have served as the Company's auditor since 2018.

Sacramento, California
February 23, 2022

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2021	2020
(Dollars in thousands)		
Assets		
Cash and due from financial institutions	\$ 81,506	\$ 97,546
Interest-bearing deposits in other financial institutions	247,401	6,521
Investment securities:		
Available-for-sale debt securities, at fair value	1,631,699	1,182,609
Equity securities, at fair value	—	1,351
Total investment securities	<u>1,631,699</u>	<u>1,183,960</u>
Loans held for sale	3,531	16,687
Loans	5,101,649	4,964,113
Allowance for credit losses	(68,097)	(83,269)
Loans, net of allowance for credit losses	<u>5,033,552</u>	<u>4,880,844</u>
Premises and equipment, net	80,354	65,278
Accrued interest receivable	16,709	20,224
Investment in unconsolidated entities	29,679	29,968
Mortgage servicing rights, net	9,738	11,865
Bank-owned life insurance	169,148	163,161
Federal Home Loan Bank ("FHLB") stock	7,964	8,237
Right-of-use lease asset	39,441	45,857
Other assets	68,367	64,435
Total assets	<u>\$ 7,419,089</u>	<u>\$ 6,594,583</u>
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 2,291,246	\$ 1,790,269
Interest-bearing demand	1,415,277	1,174,888
Savings and money market	2,225,903	1,932,043
Time	706,732	898,918
Total deposits	<u>6,639,158</u>	<u>5,796,118</u>
FHLB advances and other short-term borrowings	—	22,000
Long-term debt	105,616	105,385
Lease liability	40,731	47,191
Other liabilities	75,317	77,156
Total liabilities	<u>6,860,822</u>	<u>6,047,850</u>
Contingent liabilities and other commitments (see Note 23)		
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding none at: December 31, 2021, and December 31, 2020	—	—
Common stock, no par value, authorized 185,000,000 shares; issued and outstanding: 27,714,071 at December 31, 2021 and 28,183,340 at December 31, 2020	426,091	442,635
Additional paid-in capital	98,073	94,842
Retained earnings (accumulated deficit)	42,015	(10,920)
Accumulated other comprehensive (loss) income	(7,960)	20,128
Total shareholders' equity	<u>558,219</u>	<u>546,685</u>
Non-controlling interest	48	48
Total equity	<u>558,267</u>	<u>546,733</u>
Total liabilities and equity	<u>\$ 7,419,089</u>	<u>\$ 6,594,583</u>

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands, except per share data)		
Interest income:			
Interest and fees on loans	\$ 193,778	\$ 186,129	\$ 182,657
Interest and dividends on investment securities:			
Taxable investment securities	22,430	23,302	29,454
Tax-exempt investment securities	1,972	2,392	3,044
Dividend income on investment securities	75	69	63
Interest on deposits in other financial institutions	262	46	201
Dividend income on FHLB stock	245	480	964
Total interest income	<u>218,762</u>	<u>212,418</u>	<u>216,383</u>
Interest expense:			
Interest on deposits:			
Demand	384	510	800
Savings and money market	1,240	2,416	5,100
Time	1,992	7,489	18,044
Interest on short-term borrowings	2	718	4,285
Interest on long-term debt	4,097	3,602	4,080
Total interest expense	<u>7,715</u>	<u>14,735</u>	<u>32,309</u>
Net interest income	211,047	197,683	184,074
(Credit) provision for credit losses	(14,591)	42,111	6,346
Net interest income after provision for credit losses	<u>225,638</u>	<u>155,572</u>	<u>177,728</u>
Other operating income:			
Mortgage banking income	7,732	13,682	6,685
Service charges on deposit accounts	6,358	6,234	8,406
Other service charges and fees	18,367	14,867	15,113
Income from fiduciary activities	5,075	4,829	4,395
Income from bank-owned life insurance	3,493	3,803	3,105
Net gains (losses) on sales of investment securities	150	(201)	36
Other	1,885	1,984	4,061
Total other operating income	<u>43,060</u>	<u>45,198</u>	<u>41,801</u>
Other operating expense:			
Salaries and employee benefits	90,213	83,848	80,877
Net occupancy	16,133	15,162	14,299
Legal and professional services	10,452	9,035	7,354
Computer software expense	13,304	12,717	10,812
Communication expense	3,271	3,225	3,551
Equipment	4,344	4,531	4,353
Advertising expense	5,495	3,791	2,661
Other	19,834	19,428	17,695
Total other operating expense	<u>163,046</u>	<u>151,737</u>	<u>141,602</u>
Income before income taxes	105,652	49,033	77,927
Income tax expense	25,758	11,760	19,605
Net income	<u>\$ 79,894</u>	<u>\$ 37,273</u>	<u>\$ 58,322</u>
Per common share data:			
Basic earnings per share	\$ 2.85	\$ 1.33	\$ 2.05
Diluted earnings per share	2.83	1.32	2.03
Cash dividends declared	0.96	0.92	0.90

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Net income	\$ 79,894	\$ 37,273	\$ 58,322
Other comprehensive (loss) income, net of tax:			
Net change in unrealized (loss) gain on investment securities	(30,317)	11,826	27,568
Defined benefit plans	2,229	(107)	34
Total other comprehensive (loss) income, net of tax	(28,088)	11,719	27,602
Comprehensive income	\$ 51,806	\$ 48,992	\$ 85,924

See accompanying notes to consolidated financial statements.

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

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total
(Dollars in thousands, except per share data)								
Balance at December 31, 2018	28,967,715	\$ —	\$ 470,660	\$ 88,876	\$ (51,718)	\$ (16,093)	\$ —	\$ 491,725
Impact of the adoption of new accounting standards (1)	—	—	—	—	—	(3,100)	—	(3,100)
Adjusted balance at January 1, 2019	28,967,715	—	470,660	88,876	(51,718)	(19,193)	—	488,625
Net income	—	—	—	—	58,322	\$ —	—	58,322
Other comprehensive income	—	—	—	—	—	27,602	—	27,602
Cash dividends declared (\$0.90 per share)	—	—	—	—	(25,706)	—	—	(25,706)
16,950 net shares of common stock purchased by the directors' deferred compensation plan	—	—	(416)	—	—	—	—	(416)
797,003 shares of common stock repurchased and other related costs	(797,003)	—	(22,793)	—	—	—	—	(22,793)
Share-based compensation expense	118,545	—	151	2,735	—	—	—	2,886
Balance at December 31, 2019	28,289,257	\$ —	\$ 447,602	\$ 91,611	\$ (19,102)	\$ 8,409	\$ —	\$ 528,520
Impact of the adoption of new accounting standards (2)	—	—	—	—	(3,156)	—	—	(3,156)
Adjusted balance at January 1, 2020	28,289,257	\$ —	\$ 447,602	\$ 91,611	\$ (22,258)	\$ 8,409	\$ —	\$ 525,364
Net income	—	—	—	—	37,273	—	—	37,273
Other comprehensive income	—	—	—	—	—	11,719	—	11,719
Cash dividends declared (\$0.92 per share)	—	—	—	—	(25,935)	—	—	(25,935)
14,600 net shares of common stock purchased by the directors' deferred compensation plan	—	—	(218)	—	—	—	—	(218)
206,802 shares of common stock repurchased and other related costs	(206,802)	—	(4,749)	—	—	—	—	(4,749)
Share-based compensation expense	100,885	—	—	3,231	—	—	—	3,231
Non-controlling interest	—	—	—	—	—	—	48	48
Balance at December 31, 2020	28,183,340	\$ —	\$ 442,635	\$ 94,842	\$ (10,920)	\$ 20,128	\$ 48	\$ 546,733
Net income	—	—	—	—	79,894	—	—	79,894
Other comprehensive loss	—	—	—	—	—	(28,088)	—	(28,088)
Cash dividends declared (\$0.96 per share)	—	—	—	—	(26,959)	—	—	(26,959)
31,748 net shares of common stock sold by directors' deferred compensation plan	—	—	889	—	—	—	—	889
696,894 shares of common stock repurchased and other related costs	(696,894)	—	(18,669)	—	—	—	—	(18,669)
Share-based compensation expense	227,625	—	1,236	3,231	—	—	—	4,467
Non-controlling interest	—	—	—	—	—	—	—	—
Balance at December 31, 2021	27,714,071	\$ —	\$ 426,091	\$ 98,073	\$ 42,015	\$ (7,960)	\$ 48	\$ 558,267

(1) Represents the impact of the adoption of Accounting Standards Update ("ASU") 2017-12.

(2) Represents the impact of the adoption of ASU 2016-13.

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 79,894	\$ 37,273	\$ 58,322
Adjustments to reconcile net income to net cash provided by operating activities:			
(Credit) provision for credit losses	(14,591)	42,111	6,346
Depreciation and amortization of premises and equipment	6,984	6,223	6,139
Loss on disposals of premises and equipment	101	839	—
Non-cash lease expense	2,262	1,051	284
Cash flows for operating leases	(6,533)	(6,371)	(6,230)
Amortization of mortgage servicing rights	3,468	6,167	2,460
Write down of other real estate, net of loss on sale	—	79	252
Net amortization and accretion of premium/discount on investment securities	9,176	9,905	9,271
Share-based compensation expense	3,231	3,231	2,735
Net (gain) loss on sales of investment securities	(150)	201	(36)
Net gain on sales of residential mortgage loans	(6,376)	(16,043)	(4,128)
Proceeds from sales of loans held for sale	166,144	418,381	207,686
Origination of loans held for sale	(146,612)	(409,942)	(205,994)
Equity in earnings of unconsolidated entities	(365)	(415)	(257)
Distributions from unconsolidated entities	480	330	246
Net increase in cash surrender value of bank-owned life insurance	(5,043)	(5,845)	(3,259)
Deferred income tax expense (benefit)	10,828	(13,087)	(3,965)
Net tax benefit (expense) from share-based compensation	200	(258)	253
Net change in other assets and liabilities	7,390	2,962	2,067
Net cash provided by operating activities	110,488	76,792	72,192
Cash flows from investing activities:			
Proceeds from maturities of and calls on available-for-sale investment securities	291,734	351,180	252,079
Proceeds from sales of available-for-sale and equity investment securities	281,191	180,103	53,935
Purchases of available-for-sale investment securities	(1,071,360)	(581,008)	(55,011)
Redemption of MasterCard Class B common stock	—	—	2,555
Loan payments (originations), net	128,595	(479,619)	(237,493)
Purchases of loan portfolios	(266,712)	(53,158)	(140,085)
Proceeds from sales of loans originated for investment	—	10,691	—
Proceeds from sales of foreclosed loans and other real estate	—	213	140
Purchases of bank-owned life insurance	(3,550)	—	—
Proceeds from bank-owned life insurance death benefits	2,606	2,340	1,043
Purchases of premises and equipment	(22,161)	(25,997)	(7,197)
Distributions from unconsolidated entities	—	—	622
Contributions to unconsolidated entities	(2,912)	(8,437)	(1,222)
Proceeds from redemption of FHLB stock	273	6,746	1,662
Net cash used in investing activities	(662,296)	(596,946)	(128,972)
Cash flows from financing activities:			
Net increase in deposits	843,040	676,095	173,533
Proceeds from long-term debt	—	119,782	—
Repayments of long-term debt	—	(115,944)	(20,619)
Net decrease in FHLB advances and other short-term borrowings	(22,000)	(128,000)	(47,000)
Cash dividends paid on common stock	(26,959)	(25,935)	(25,706)
Repurchases of common stock	(18,669)	(4,749)	(22,793)
Net proceeds from issuance of common stock and stock option exercises	1,236	—	151
Net cash provided by financing activities	776,648	521,249	57,566

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Net increase in cash and cash equivalents	224,840	1,095	786
Cash and cash equivalents at beginning of year	104,067	102,972	102,186
Cash and cash equivalents at end of year	\$ 328,907	\$ 104,067	\$ 102,972

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 8,320	\$ 17,296	\$ 33,072
Income taxes	22,678	20,044	24,101

Supplemental non-cash disclosures:

Net change in common stock held by directors' deferred compensation plan	\$ (889)	\$ 218	\$ 416
Net reclassification of loans to foreclosed loans and other real estate	—	128	142
Net transfer of portfolio loans to loans held for sale	—	6,565	—
Net transfer of investment securities from held-to-maturity to available-for-sale	—	—	(149,042)
Right-of-use lease assets obtained in exchange for lease liabilities	—	—	56,779

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021, 2020, and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Central Pacific Financial Corp. is a bank holding company. Our principal operating subsidiary, Central Pacific Bank, is a full-service commercial bank with 30 branches and 69 ATMs located throughout the state of Hawaii. The bank engages in a broad range of lending activities including originating commercial loans, commercial and residential mortgage loans, home equity loans and consumer loans. The bank also offers a variety of deposit products and services. These include personal and business checking and savings accounts, money market accounts and time certificates of deposit. Other products and services include debit cards, internet banking, mobile banking, cash management services, full-service ATMs, safe deposit boxes, international banking services, night depository facilities, foreign exchange and wire transfers. Wealth management products and services include non-deposit investment products, annuities, insurance, investment management, asset custody and general consultation and planning services.

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

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

Operating Segments

Operations, resource allocation and financial performance are managed by the Company's Executive Committee, or its chief operating decision maker ("CODM"), on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable segment.

Reclassifications

Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation. These reclassifications did not impact net income, shareholders' equity and the consolidated balance sheets.

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 January 2020, we acquired a 50% ownership interest in a mortgage loan origination and brokerage company, Oahu 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 also 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.

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 entities: Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC.

We have low income housing tax credit partnership investments that are accounted for under the proportional amortization method and are included in investment in unconsolidated entities.

During the second quarter of 2021, the Company invested \$2.0 million in the JAM FINTOP Banktech Fund, L.P., an investment fund designed to help develop and accelerate technology adoption at community banks across the United States. The investment is accounted for under the cost method and is also included in investment in unconsolidated entities. We also have

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

Our investments in unconsolidated entities accounted for under the equity, proportional amortization and cost methods were \$0.2 million, \$25.9 million and \$3.6 million, respectively, at December 31, 2021 and \$0.3 million, \$28.1 million and \$1.6 million, respectively, at December 31, 2020. 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.

Risks and Uncertainties

COVID-19 Pandemic

The ongoing novel coronavirus disease ("COVID-19") pandemic caused significant disruption in the local, national and global economies and financial markets in 2020. While the economy appears to be on a track for recovery and most COVID-19 related restrictions have been lifted, continuation and worsening of COVID-19 could cause reductions in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. Such events could cause the Company to experience a material adverse effect on its business operations, asset valuations, financial condition, and results of operations. Material adverse effects may include all or a combination of losses in operations, higher provisions for credit losses and valuation impairments on the Company's investments, loans, mortgage servicing rights, deferred tax assets, or derivatives.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from financial institutions, interest-bearing deposits in other financial institutions, federal funds sold and all highly liquid investments with maturities of three months or less at the time of purchase. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Investment Securities

Investments in debt securities are designated as trading, available-for-sale ("AFS"), or held-to-maturity ("HTM"). Investments in debt securities are designated as HTM only if we have the positive intent and ability to hold these securities to maturity. HTM securities are reported at amortized cost in the consolidated balance sheets. Trading securities are reported at fair value, with changes in fair value included in net income. Debt securities not classified as HTM or trading are classified as AFS and are reported at fair value, with net unrealized gains and losses, net of applicable taxes, excluded from net income and included in accumulated other comprehensive income (loss) ("AOCI").

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value included in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

The Company classifies its investment securities portfolio into the following major security types: mortgage-backed securities ("MBS"), other debt securities and equity securities. The Company's MBS portfolio is comprised primarily of residential MBS issued by United States of America ("U.S.") government entities and agencies. These securities are either explicitly or implicitly guaranteed by an agency of the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The remainder of the MBS portfolio are commercial MBS issued by U.S. government entities and agencies (which there is no minimum credit rating), non-agency residential MBS (which shall meet a minimum credit rating of AAA) and non-agency commercial MBS (which shall meet a minimum credit rating of BBB and meet minimum internal credit guidelines).

The Company's other debt securities portfolio is comprised of obligations issued by U.S. government entities and agencies, obligations issued by states and political subdivisions (which shall meet a minimum credit rating of BBB), and corporate bonds (which shall meet a minimum credit rating of BBB-).

Interest income on investment securities includes amortization of premiums and accretion of discounts. We amortize premiums to the earliest call date. We accrete discounts associated with investment securities using the effective interest method over the life of the respective security instrument. Gains and losses on the sale of investment securities are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual status is reversed against current period interest income. There were no investment securities on nonaccrual status as of December 31, 2021 and the Company did not reverse any accrued interest against interest income during the year ended December 31, 2021.

Allowance for Credit Losses ("ACL") for AFS Debt Securities

AFS debt securities in an unrealized loss position are evaluated for impairment at least quarterly. For AFS debt securities in an unrealized loss position, the Company first assesses whether or not it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the investment security's amortized cost basis is written down to fair value through net income.

For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In conducting this assessment for debt securities in an unrealized loss position, management evaluates the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the investment security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in AOCI.

Changes in the ACL are recorded as a provision (credit) for credit losses. Losses are charged against the ACL when management believes the uncollectibility of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

As of December 31, 2021, the declines in market values of our AFS debt securities were primarily attributable to changes in interest rates and volatility in the financial markets. Because we have no intent to sell securities in an unrealized loss position and it is not more likely than not that we will be required to sell such securities before recovery of its amortized cost basis, we do not believe a credit loss exists and an ACL was not recorded.

The Company has made a policy election to exclude accrued interest receivable from the amortized cost basis of debt securities and report accrued interest receivable together with accrued interest on loans in the consolidated balance sheets. Accrued interest receivable on AFS debt securities totaled \$4.6 million and \$3.9 million as of December 31, 2021 and 2020, respectively. Accrued interest receivable on AFS debt securities is excluded from the estimate of credit losses.

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential mortgage loans in both Hawaii and the U.S. Mainland that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis, while the non-residential Hawaii and U.S. Mainland loans are recorded at the lower of cost or fair value on an individual basis. Net

fees and costs associated with originating and acquiring the Hawaii residential mortgage loans held for sale are deferred and included in the basis for determining the gain or loss on sales of loans held for sale. We report the fair values of the non-residential mortgage loans classified as held for sale net of applicable selling costs on our consolidated balance sheets.

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

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

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

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the ACL. Amortized cost is the unpaid principal amount outstanding, net of unamortized purchase premiums and discounts, unamortized deferred loan origination fees and costs and cumulative principal charge-offs. Purchase premiums and discounts are generally amortized into interest income over the contractual terms of the underlying loans using the effective interest method. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the life of the related loan as an adjustment to yield and are amortized using the interest method over the contractual term of the loan, adjusted for actual prepayments. Deferred loan fees and costs on loans paid in full are recognized as a component of interest income on loans.

Interest income on loans is accrued at the contractual rate of interest on the unpaid principal balance. Accrued interest receivable on loans totaled \$12.1 million and \$16.2 million at December 31, 2021 and 2020, respectively, and is reported together with accrued interest on AFS debt securities on the consolidated balance sheets. Upon adoption of Accounting Standards Update ("ASU") 2016-13, *"Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* the Company made the accounting policy election to not measure an estimate of credit losses on accrued interest receivable as the Company writes off any uncollectible accrued interest receivable in a timely manner. The Company believes COVID-19 modified loans have distinct risk characteristics that cause them to be monitored and assessed for credit risk differently than their unmodified counterparts. Thus, in the third quarter of 2020, the Company elected to reserve on the accrued interest receivable for loans on active payment forbearance or deferral. As a result, during the third quarter of 2020, the Company recorded a reserve of \$0.2 million against accrued interest receivable with the offset recorded to provision for credit losses. Due to the significant decline in loans on active forbearance or deferral, the Company reversed the \$0.2 million reserve during the second quarter of 2021 and no longer has a reserve on accrued interest receivable as of December 31, 2021.

Nonaccrual Loans

The Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. Commercial, scored small business, automobile and other consumer loans are generally placed on nonaccrual status when principal and/or interest payments are 90 days past due, or earlier should management determine that the borrowers will be unable to meet contractual principal and/or interest obligations, unless the loans are well-secured and in the process of collection. Residential mortgage and home equity loans, are generally placed on nonaccrual status when principal and/or interest payments are 120 days past due, or earlier should management determine that the borrowers will be unable to

meet contractual principal and/or interest obligations, unless the loans are well-secured and in the process of collection. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income should management determine that the collectability of such accrued interest is doubtful. All subsequent receipts are applied to principal outstanding and no interest income is recognized unless the financial condition and payment record of the borrowers warrant such recognition and the loan is restored to accrual status. A nonaccrual loan may be restored to an accrual basis when principal and interest payments are current for a predetermined period, normally at least six months, and full payment of principal and interest is reasonably assured.

Troubled Debt Restructuring (“TDR”)

A loan is accounted for and reported as a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) the Company grants a concession to the borrower experiencing financial difficulty that it would not otherwise consider for a borrower or transaction with similar credit risk characteristics. A restructuring that results in only an insignificant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the debt’s original contractual maturity or original expected duration.

TDRs that are performing and on accrual status as of the date of the modification remain on accrual status. TDRs that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonably assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDRs with temporary below-market concessions remain designated as a TDR regardless of the accrual or performance status until the loan is paid off.

Expected credit losses are estimated on a collective (pool) basis when they share similar risk characteristics. If a TDR financial asset shares similar risk characteristics with other financial assets, it is evaluated with those other financial assets on a collective basis. If it does not share similar risk characteristics with other financial assets, it is evaluated individually. The Company’s ACL reflects all effects of a TDR when an individual asset is specifically identified as a reasonably expected TDR. The Company has determined that a TDR is reasonably expected no later than the point when the lender concludes that modification is the best course of action and it is at least reasonably possible that the troubled borrower will accept some form of concession from the lender to avoid a default. Reasonably expected TDRs and executed TDRs are evaluated to determine the required ACL using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan. Based on the underlying risk characteristics, TDRs performing in accordance with their modified contractual terms may be collectively evaluated.

In April 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, (“the agencies”) issued a revised interagency statement encouraging financial institutions to work with customers affected by the COVID-19 pandemic and providing additional information regarding loan modifications. The revised interagency statement clarifies the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by Section 4013 of the CARES Act. Section 4013 allows financial institutions to suspend the requirements to classify certain loan modifications as TDRs. The revised statement also provides supervisory interpretations on past due and nonaccrual regulatory reporting of loan modification programs and regulatory capital. Section 4013 and the interagency guidance are being applied by the Company to loan modifications made related to the COVID-19 pandemic as eligible and appropriate. The application of the guidance reduced the number of TDRs that were reported. In December 2020, the Consolidated Appropriations Act, 2021 was signed into law. Section 541 of this legislation, “*Extension of Temporary Relief From Troubled Debt Restructurings and Insurer Clarification*,” extends Section 4013 of the CARES Act to the earlier of January 1, 2022 or 60 days after the termination of the national emergency declared relating to COVID-19.

Future TDRs are indeterminable and will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

ACL for Loans

Under the current expected credit loss methodology, the ACL for loans is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Our policy is to charge off a loan in the period in which the loan is deemed to be uncollectible and all interest previously accrued but not collected is reversed against current period interest income. We consider a loan to be uncollectible when it is probable that a loss has been incurred and the Company can make a reasonable estimate of the loss. In these instances, the likelihood of and/or timeframe for recovery of the

amount due is uncertain, weak, or protracted. Subsequent receipts, if any, are credited first to the remaining principal, then to the ACL for loans as recoveries, and finally to unaccrued interest.

The ACL for loans represents management's estimate of all expected credit losses over the expected life of our existing loan portfolio. Management estimates the ACL balance using relevant available information about the collectability of cash flows, from internal and external sources, including historical information relating to past events, current conditions, and reasonable and supportable forecasts of future economic conditions. When the Company is unable to forecast future economic events, management may revert to historical information.

The Company's methodologies incorporate a reasonable and supportable forecast period of one year and revert to historical loss information on a straight-line basis over one year when its forecast is no longer deemed reasonable and supportable.

The Company maintains an ACL at an appropriate level as of a given balance sheet date to absorb management's best estimate of expected life of loan credit losses.

Historical credit loss experience provides the basis for the Company's expected credit loss estimate. Adjustments to historical loss information may be made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or when historical asset terms do not reflect the contractual terms of the financial assets being evaluated.

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

The Company uses the Moody's Analytics Baseline forecast for its economic forecast consideration. The Moody's Analytics Baseline forecast includes both National and Hawaii specific economic indicators. The Moody's Analytics forecast service is widely used in the industry and is reasonable and supportable. It is updated at least monthly and includes a variety of upside and downside economic scenarios from the Baseline. Generally the Company will use the most recent Baseline forecast from Moody's as of the balance sheet date. During times of economic and market volatility or instability, the Company may include a qualitative factor for forecast imprecision that factors in other potential economic scenarios available by Moody's Analytics or may apply overrides to its statistical models to enhance the reasonableness of its loss estimates.

The ACL is measured on a collective or pool basis when similar risk characteristics exist. The Company segments its portfolio generally by Federal Financial Institutions Examination Council ("FFIEC") Call Report codes. Loan pools are further segmented by risk utilizing risk ratings or bands of payment delinquency (including TDR or non-accrual status), depending on what is most appropriate for each segment. Additional sub-segmentation may be utilized to identify groups of loans with unique risk characteristics relative to the rest of the portfolio.

The Company relies on a third-party platform which offers multiple methodologies to measure historical life-of-loan losses. The Company has also developed statistical models internally to incorporate future economic conditions and forecast expected credit losses based on various macro-economic indicators such as unemployment and income levels.

The Company has identified the following portfolio segments to measure the allowance for credit losses. For all segments the economic forecast length is one year and reversion method is one year.

Loan Segment	Historical Lifetime Loss Method	Historical Lookback Period	Economic Forecast Length	Reversion Method
Construction	Probability of Default/Loss Given Default ("PD/LGD")	2008-Present		
Commercial real estate	PD/LGD	2008-Present		
Multi-family mortgage	PD/LGD	2008-Present		
Commercial, financial and agricultural	PD/LGD	2008-Present		
Home equity lines of credit	Loss-Rate Migration	2008-Present	One Year	One Year (straight-line basis)
Residential mortgage	Loss-Rate Migration	2008-Present		
Consumer - other revolving	Loss-Rate Migration	2008-Present		
Consumer - non-revolving	Loss-Rate Migration	2008-Present		
Purchased Mainland portfolios (Dealer, Other consumer)	Weighted-Average Remaining Maturity ("WARM")	2008-Present		

Below is a description and the risk characteristics of each segment:

Construction loans

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

Commercial real estate loans

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

Multi-family mortgage loans

Multi-family mortgage loans can comprise multi-building properties with extensive amenities to a single building with no amenities. The primary risk characteristic of this segment is operating risk or the ability to generate sufficient rental cash flows from the operation of the property within the owner's strategy and resources.

Commercial, financial and agricultural loans

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

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

Residential mortgage loans

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

Home equity lines of credit

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

Consumer loans - other revolving

This segment consists of consumer unsecured lines of credit. Its predominant risk characteristics relate to current and projected economic conditions as well as employment and income levels attributed to the borrower.

Consumer loans - non-revolving

This segment consists of consumer non-revolving loans, including dealer loans. Its predominant risk characteristics relate to current and projected economic conditions as well as employment and income levels attributed to the borrower.

Purchased consumer portfolios

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

Below is a description of the methodologies mentioned above:

Probability of Default ("PD")/Loss Given Default ("LGD")

The PD/LGD calculation is based on a cohort methodology whereby loans in the same cohort are tracked over time to identify defaults and corresponding losses. PD/LGD analysis requires a portfolio segmented into pools, and we elected to then further sub-segment by risk characteristics such as Risk Rating, days past due, delinquency counters, TDR status and nonaccrual status to measure losses accurately. PD measures the count or dollar amount of loans that defaulted in a given cohort. LGD measures the losses related to the loans that defaulted. Total loss rate is calculated using the formula "PD times LGD".

Migration

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

Weighted-Average Remaining Maturity ("WARM")

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

Other

If a loan ceases to share similar risk characteristics with other loans in its segment, it will be moved to a different pool sharing similar risk characteristics. Loans that do not share risk characteristics are evaluated on an individual basis based on the fair value of the collateral or other approaches such as discounted cash flow ("DCF") techniques. Loans evaluated individually are not included in the collective evaluation.

Determining the Term

Expected credit losses represent life-of-loan loss estimates and are calculated based on the estimated remaining life of the loans which considers the contractual term of the loans, prepayments and other assumptions. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company. If such renewal options or extensions are present, these options are evaluated in determining the contractual term.

Reserve for Off-Balance Sheet Credit Exposures

The Company maintains a separate and distinct reserve for off-balance-sheet credit exposures which is included in other liabilities on the Company's consolidated balance sheets. The Company estimates the amount of expected losses by calculating a commitment usage factor for letters of credit, non-revolving lines of credit, and revolving lines of credit over the remaining life during which the Company is exposed to credit risk via a contractual obligation to extend credit.

Letters of credit are generally unlikely to advance since they are typically in place only to ensure various forms of performance of the borrowers. Many of the letters of credit are cash secured. Non-revolving lines of credit are determined to be likely to advance as these are typically construction lines. Meanwhile, the likelihood of revolving lines of credit advancing varies with each individual borrower. Therefore, the future usage of each line was estimated based on the average line utilization of the revolving line of credit portfolio as a whole.

The estimate also applies the loss factors for each loan type used in the ACL for loans methodology, which is based on historical losses, economic conditions and reasonable and supportable forecasts. The reserve for off-balance sheet credit exposures is adjusted as a provision for off-balance sheet credit exposures. In 2021, the provision for off-balance sheet credit exposures was reclassified from other operating expense and is now included in the provision for credit losses in the consolidated statements of income. The consolidated statements of income in prior periods have been adjusted retrospectively to reflect this change.

Purchased Credit Deteriorated ("PCD") Financial Assets

The Company has purchased financial assets, none of which were credit deteriorated since origination at the time of purchase. The Company does not purchase any financial assets that are greater than 30 days delinquent at the time of purchase.

PCD financial assets, if any, are recorded at the amount paid. An ACL for PCD financial assets will be determined using the same methodology as other financial assets. The initial ACL determined on a collective basis is allocated to individual financial assets. The sum of the financial asset's purchase price and the ACL becomes its initial amortized cost. The difference between the initial amortized costs basis and the par value of the financial asset is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through the provision for credit losses

Premises and Equipment

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

Other Real Estate

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

Mortgage Servicing Rights

Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify and pool our mortgage servicing rights into buckets of homogeneous characteristics. 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 and is a component of mortgage banking income in the other operating income section of our consolidated statements of income. Amortization of the servicing rights is also reported as a component of mortgage banking income. Ancillary income is recorded in other income.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third-party service provider based on market value assumptions at the time of origination and we assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, and servicing income and costs. 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 government FHA loans) include average discount rates, servicing cost and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

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

We perform an impairment assessment of our mortgage servicing rights quarterly or whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgments and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including 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.

Federal Home Loan Bank Stock

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

Non-Controlling Interest

Non-controlling interest is comprised of capital and undistributed profits of the member of Oahu HomeLoans, LLC, other than the bank. As a result, non-controlling interest on our consolidated balance sheet totaled \$48 thousand at December 31, 2021 and December 31, 2020.

Share-Based Compensation

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award. We use the Black-Scholes option-pricing model to determine the fair-value of stock options, and the market price of the Company's common stock at the grant date for restricted stock awards. Share-based compensation is recognized as expense over the employee's requisite service period, generally defined as the vesting period. For awards with graded vesting, we reindex recognize compensation expense on a straight-line basis over their respective vesting period. The Company's accounting policy is to recognize forfeitures as they occur. See Note 16 - Share-Based Compensation for further discussion of our stock-based compensation.

Income Taxes

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

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

Earnings per Share

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

Forward Foreign Exchange Contracts

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

Derivatives and Hedging Activities

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

Accounting Standards Adopted in 2021

In December 2019, the FASB issued ASU 2019-12, *"Income Taxes (Topic 740)."* This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. It also improves consistent application of GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The Company adopted ASU 2019-12 effective January 1, 2021 and it did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, *"Codification Improvements."* This ASU issues improvements to the codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to the financial statements is codified, reducing the likelihood that disclosure requirements would be missed. The Company adopted ASU 2020-10 effective January 1, 2021 and it did not have a material impact on our consolidated financial statements.

In August 2021, the FASB issued ASU 2021-06, *"Amendments to SEC Paragraphs"*. This ASU amends various SEC paragraphs to reflect SEC Final Rule Releases No. 33-10786, which addresses financial disclosures about acquired and

disposed businesses, and No. 33-10835, which addresses update of statistical disclosures for bank and savings and loan registrants. The ASU is effective upon issuance in August 2021. The Company adopted ASU 2021-06 effective August 9, 2021 and it did not have a material impact on our consolidated financial statements.

Impact of Other Recently Issued Accounting Pronouncements on Future Filings

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848)." This ASU provides optional expedients and exceptions for contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform. Entities can (1) elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Entities can also (2) elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. Finally, entities can (3) make a one-time election to sell and/or reclassify held-to-maturity ("HTM") debt securities that reference an interest rate affected by reference rate reform. In January 2021, the FASB issued ASU 2021-01, "*Reference Rate Reform (Topic 848)*," which clarifies that all derivative instruments affected by the changes to interest rates used for discounting, margining or contract price alignment, regardless of whether they reference LIBOR or another rate expected to be discontinued as a result of reference rate reform, an entity may apply certain practical expedients in Topic 848. The ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Company will elect (1) above for all contract modifications that meet the stated criteria. As the Company currently does not utilize hedge accounting, (2) above is currently not applicable. The Company currently does not have HTM debt securities and therefore, (3) above is currently not applicable.

In May 2021, the FASB issued ASU No. 2021-04, "*Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*". ASU 2021-04 addresses issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options. ASU 2021-04 is effective for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years, with early adoption permitted. We do not expect adoption of the new guidance to have a significant impact on our financial statements.

In July 2021, the FASB issued ASU No. 2021-05, "Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments". ASU 2021-05 updates guidance in Topic 842, to restore long-standing accounting practice for certain sales-type leases with variable payments. ASU 2021-05 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. We do not expect adoption of the new guidance to have a significant impact on our financial statements.

2. RESERVE REQUIREMENTS

On March 15, 2020, the Federal Reserve Board announced a reduction in the reserve requirement ratios on deposits to zero percent effective March 26, 2020 to support lending activity. As a result, the bank is no longer required to hold reserves on deposits. Cash and additional balances held by our bank at the Federal Reserve Bank of San Francisco at December 31, 2021 and 2020 were \$71.1 million and \$80.7 million, respectively.

3. INVESTMENT SECURITIES

A summary of our available-for-sale investment securities as of December 31, 2021 and 2020 are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Available-for-Sale:				
Debt securities:				
States and political subdivisions	\$ 235,521	\$ 3,156	\$ (1,849)	\$ 236,828
Corporate securities	41,687	24	(1,065)	40,646
U.S. Treasury obligations and direct obligations of U.S Government agencies	35,833	69	(568)	35,334
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities ("GSEs")	1,213,910	4,899	(19,993)	1,198,816
Residential - Non-government sponsored entities ("Non-GSEs")	11,942	335	(64)	12,213
Commercial - U.S. GSEs and agencies	66,287	756	(1,194)	65,849
Commercial - Non-GSEs	41,328	685	—	42,013
Total available-for-sale investment securities	<u>\$ 1,646,508</u>	<u>\$ 9,924</u>	<u>\$ (24,733)</u>	<u>\$ 1,631,699</u>
Equity securities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Available-for-Sale:				
Debt securities:				
States and political subdivisions	\$ 163,573	\$ 5,370	\$ (177)	\$ 168,766
Corporate securities	47,351	788	(131)	48,008
U.S. Treasury obligations and direct obligations of U.S Government agencies	33,413	18	(286)	33,145
Mortgage-backed securities:				
Residential - U.S. GSEs	762,309	16,816	(299)	778,826
Residential - Non-GSEs	22,671	786	(34)	23,423
Commercial - U.S. GSEs and agencies	85,405	2,564	(500)	87,469
Commercial - Non-GSEs	41,309	1,663	—	42,972
Total available-for-sale investment securities	<u>\$ 1,156,031</u>	<u>\$ 28,005</u>	<u>\$ (1,427)</u>	<u>\$ 1,182,609</u>
Equity securities	<u>\$ 1,068</u>	<u>\$ 283</u>	<u>\$ —</u>	<u>\$ 1,351</u>

The amortized cost and fair value of our equity investment securities is as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
December 31, 2021		
Equity securities	\$ —	\$ —
December 31, 2020		
Equity securities	1,068	1,351

The amortized cost and estimated fair value of our investment securities at December 31, 2021 by contractual maturity are shown below. Actual maturities may differ from contractual maturities as issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

(Dollars in thousands)	December 31, 2021	
	Amortized Cost	Fair Value
Available-for-Sale:		
Due in one year or less	\$ 18,958	\$ 19,002
Due after one year through five years	21,579	22,190
Due after five years through ten years	84,715	84,411
Due after ten years	187,789	187,205
Mortgage-backed securities		
Residential - U.S. GSEs	1,213,910	1,198,816
Residential - Non-GSEs	11,942	12,213
Commercial - U.S. GSEs and agencies	66,287	65,849
Commercial - Non-GSEs	41,328	42,013
Total available-for-sale investment securities	<u>\$ 1,646,508</u>	<u>\$ 1,631,699</u>
Equity securities	<u>\$ —</u>	<u>\$ —</u>

In 2021, proceeds from the sale of available-for-sale investment securities were \$279.5 million and resulted in a net realized gain of \$0.2 million. Gross realized gains and losses on the sale of available-for-sale investment securities totaled \$3.4 million and \$3.2 million, respectively. In 2021, proceeds from the sale of equity investment securities were \$1.7 million.

In 2020, proceeds from the sale of available-for-sale investment securities were \$180.1 million and resulted in a net realized loss of \$0.2 million. Gross realized losses and gains on the sale of available-for-sale investment securities totaled \$0.9 million and \$0.7 million, respectively.

In 2019, proceeds from the sale of available-for-sale investment securities were \$53.9 million and resulted in a net realized gain of \$36 thousand. Gross realized gains and losses on the sale of available-for-sale investment securities totaled \$83 thousand and \$47 thousand, respectively.

Investment securities of \$455.8 million and \$483.6 million at December 31, 2021 and 2020, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

At December 31, 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

There were a total of 153 and 37 securities in an unrealized or unrecognized loss position at December 31, 2021 and 2020, respectively. The following table summarizes securities which were in an unrealized or unrecognized loss position at

December 31, 2021 and 2020, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

Description of Securities	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2021						
Debt securities:						
States and political subdivisions	\$ 79,360	\$ (1,252)	\$ 10,864	\$ (597)	\$ 90,224	\$ (1,849)
Corporate securities	8,633	(235)	21,960	(830)	30,593	(1,065)
U.S. Treasury obligations and direct obligations of U.S Government agencies	16,103	(415)	10,891	(153)	26,994	(568)
Mortgage-backed securities:						
Residential - U.S. GSEs	926,570	(15,883)	114,747	(4,110)	1,041,317	(19,993)
Residential - Non-GSEs	—	—	938	(64)	938	(64)
Commercial - U.S. GSEs and agencies	6,313	(205)	16,281	(989)	22,594	(1,194)
Total temporarily impaired securities	<u>\$ 1,036,979</u>	<u>\$ (17,990)</u>	<u>\$ 175,681</u>	<u>\$ (6,743)</u>	<u>\$ 1,212,660</u>	<u>\$ (24,733)</u>

Description of Securities	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2020						
Debt securities:						
States and political subdivisions	\$ 21,313	\$ (177)	\$ —	\$ —	\$ 21,313	\$ (177)
U.S. Treasury obligations and direct obligations of U.S Government agencies	5,980	(24)	20,925	(262)	26,905	(286)
Mortgage-backed securities:						
Residential - U.S. GSEs	76,402	(299)	—	—	76,402	(299)
Residential - Non-GSEs	989	(34)	—	—	989	(34)
Commercial - U.S. GSEs and agencies	16,977	(500)	—	—	16,977	(500)
Total temporarily impaired securities	<u>\$ 126,530</u>	<u>\$ (1,165)</u>	<u>\$ 20,925</u>	<u>\$ (262)</u>	<u>\$ 147,455</u>	<u>\$ (1,427)</u>

The Company has evaluated its AFS investment securities that are in an unrealized loss position and has determined that the unrealized losses on the Company's investment securities are unrelated to credit quality and are primarily attributable to changes in interest rates and volatility in the financial markets since purchase. Investment securities in an unrealized loss position are evaluated on at least a quarterly basis, and include evaluating the changes in the investment securities' ratings issued by rating agencies and changes in the financial condition of the issuer. For mortgage-related securities, delinquency and loss information with respect to the underlying collateral, changes in levels of subordination for the Company's particular position within the repayment structure, and remaining credit enhancement as compared to projected credit losses of the security are also evaluated. All of the investment securities in an unrealized loss position continue to be rated investment grade by one or more major rating agencies. 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, the Company has not recorded an ACL and unrealized losses on these securities and have not been recognized into income.

Visa and MasterCard Class B Common Stock

As of December 31, 2021, the Company owns 34,631 shares of Class B common stock of Visa, Inc. ("Visa"). These shares were received in 2008 as part of Visa's initial public offering ("IPO"). These shares are transferable only under limited circumstances until they can be converted into shares of the publicly traded Class A common stock. This conversion will not occur until the resolution of certain litigation, which is indemnified by Visa members. Since its IPO, Visa has funded a litigation reserve to settle these litigation claims. At its discretion, Visa may continue to increase the litigation reserve based upon a change in the conversion ratio of each member bank's restricted Class B common stock to unrestricted Class A common

stock. Due to the existing transfer restriction and the uncertainty of the outcome of the Visa litigation, the Company has determined that the Visa Class B common stock does not have a readily determinable fair value and chooses to carry the shares on the Company's consolidated balance sheets at zero cost basis.

During the first quarter of 2019, the Company converted the 11,170 shares of Class B common stock of MasterCard, Inc. ("MasterCard") it received during their initial public offering to an equal number of Class A common stock and sold the shares for \$2.6 million. The shares were carried on the Company's consolidated balance sheets at zero cost basis and the proceeds received were recorded as a gain in other operating income - other in the Company's consolidated statements of income. The Company no longer owns any shares of MasterCard Class B common stock.

4. LOANS

Loans, excluding loans held for sale, net of ACL under ASC 326 as of December 31, 2021 and December 31, 2020 consisted of the following:

(Dollars in thousands)	December 31,	
	2021	2020
Commercial, financial and agricultural:		
Small Business Administration Paycheck Protection Program ("SBA PPP")	\$ 94,850	\$ 425,993
Other	530,383	545,136
Real estate:		
Construction	123,351	125,625
Residential mortgage	1,875,200	1,687,251
Home equity	635,721	550,216
Commercial mortgage	1,222,138	1,158,203
Consumer	624,115	479,580
Subtotal	5,105,758	4,972,004
Net deferred fees	(4,109)	(7,891)
Total loans	\$ 5,101,649	\$ 4,964,113

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

The bank is a Small Business Administration ("SBA") approved lender and actively participated in assisting customers with loan applications for the SBA's Paycheck Protection Program, or PPP, which was part of the CARES Act. PPP loans have a two or five-year term and earn interest at 1%. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan, which the Company is recognizing over the life of the loan.

The SBA began accepting submissions for the initial round of PPP loans on April 3, 2020. In April 2020, the Paycheck Protection Program and Health Care Enhancement Act added an additional round of funding for the PPP. In June 2020, the Paycheck Protection Program Flexibility Act of 2020 was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Through the end of the second round in August 2020, the Company funded over 7,200 PPP loans totaling \$558.9 million and received gross processing fees of \$21.2 million. In December 2020, the Consolidated Appropriations Act, 2021 was passed which among other things, included a third round of funding and a new simplified forgiveness procedure for PPP loans of \$150,000 or less. During 2021, the Company funded over 4,600 loans totaling \$320.9 million in the third round, which ended on May 31, 2021, and received additional gross processing fees of \$18.4 million.

The Company received forgiveness payments from the SBA and repayments from borrowers totaling \$784.9 million as of December 31, 2021. A total outstanding balance of \$94.9 million and net deferred fees of \$3.5 million as of December 31, 2021. Although the Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program, there could be risks and liabilities by the Company that cannot be determined at this time.

We did not transfer any loans to the held-for-sale category during the year ended December 31, 2021. We transferred three loans totaling \$6.6 million to the held-for-sale category during the year ended December 31, 2020, which were sold at a loss of less than \$0.1 million.

The Company has purchased loan portfolios, none of which were credit deteriorated at the time of purchase.

The following table presents loan purchases by class for the periods presented:

(Dollars in thousands)	Consumer - Unsecured	Consumer - Automobile	Total
Year Ended December 31, 2021			
Purchases:			
Outstanding balance	\$ 199,813	\$ 71,432	\$ 271,245
Purchase (discount) premium	(9,613)	5,080	(4,533)
Purchase price	<u>\$ 190,200</u>	<u>\$ 76,512</u>	<u>\$ 266,712</u>
Year Ended December 31, 2020			
Purchases:			
Outstanding balance	\$ 54,777	\$ —	\$ 54,777
Purchase discount	(1,619)	—	(1,619)
Purchase price	<u>\$ 53,158</u>	<u>\$ —</u>	<u>\$ 53,158</u>

In the normal course of business, our bank makes loans to certain directors, executive officers and their affiliates. These loans are made in the ordinary course of business at normal credit terms. As of December 31, 2021 and December 31, 2020, related party loan balances were \$36.4 million and \$42.3 million, respectively.

Collateral-Dependent Loans

In accordance with ASC 326, a loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table presents the amortized cost basis of collateral-dependent loans by class, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2021 and December 31, 2020:

(Dollars in thousands)	December 31, 2021				Allocated ACL
	Secured by 1-4 Family Residential Properties	Secured by Nonfarm Nonresidential Properties	Secured by Real Estate and Business Assets	Total	
Commercial, financial and agricultural - Other ...	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Residential mortgage	8,391	—	—	8,391	—
Home equity	786	—	—	786	—
Commercial mortgage	—	—	—	—	—
Total	<u>\$ 9,177</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,177</u>	<u>\$ —</u>

	December 31, 2020				
(Dollars in thousands)	Secured by 1-4 Family Residential Properties	Secured by Nonfarm Nonresidential Properties	Secured by Real Estate and Business Assets	Total	Allocated ACL
Commercial, financial and agricultural - Other ...	\$ —	\$ —	\$ 676	\$ 676	\$ 209
Real estate:					
Residential mortgage	9,833	—	—	9,833	—
Home equity	524	—	—	524	—
Commercial mortgage	—	626	—	626	—
Total	<u>\$ 10,357</u>	<u>\$ 626</u>	<u>\$ 676</u>	<u>\$ 11,659</u>	<u>\$ 209</u>

Foreclosure Proceedings

The Company had \$0.7 million and \$1.6 million of residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure at December 31, 2021 and 2020, respectively.

During the year ended December 31, 2021, we did not foreclose on any loans. During the year ended December 31, 2020, we foreclosed on one portfolio loan with a carrying value of \$0.1 million and had no gain or loss on the transfer.

We did not sell any foreclosed properties during the year ended December 31, 2021. We sold two foreclosed properties totaling \$0.2 million during the year ended December 31, 2020 at a loss of \$15 thousand.

Nonaccrual and Past Due Loans

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following tables present by class, the aging of the recorded investment in past due loans as of December 31, 2021 and 2020:

	December 31, 2021							
(Dollars in thousands)	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans 90+ Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total	Nonaccrual Loans with No ACL
Commercial, financial and agricultural:								
SBA PPP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 91,327	\$ 91,327	\$ —
Other	970	604	945	183	2,702	527,419	530,121	—
Real estate:								
Construction	638	—	—	—	638	122,229	122,867	—
Residential mortgage	5,315	—	—	4,623	9,938	1,866,042	1,875,980	4,623
Home equity	234	—	44	786	1,064	636,185	637,249	786
Commercial mortgage	—	—	—	—	—	1,220,204	1,220,204	—
Consumer	2,444	712	374	289	3,819	620,082	623,901	—
Total	<u>\$ 9,601</u>	<u>\$ 1,316</u>	<u>\$ 1,363</u>	<u>\$ 5,881</u>	<u>\$ 18,161</u>	<u>\$ 5,083,488</u>	<u>\$ 5,101,649</u>	<u>\$ 5,409</u>

December 31, 2020

(Dollars in thousands)	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans 90+ Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total	Nonaccrual Loans with No ACL
Commercial, financial and agricultural:								
SBA PPP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 416,375	\$ 416,375	\$ —
Other	613	350	—	1,461	2,424	542,667	545,091	—
Real estate:								
Construction	—	—	—	—	—	125,407	125,407	—
Residential mortgage	2,832	689	567	4,115	8,203	1,682,009	1,690,212	4,115
Home equity	273	3	—	524	800	550,466	551,266	524
Commercial mortgage	—	—	—	—	—	1,156,328	1,156,328	—
Consumer	2,725	906	240	92	3,963	475,471	479,434	—
Total	<u>\$ 6,443</u>	<u>\$ 1,948</u>	<u>\$ 807</u>	<u>\$ 6,192</u>	<u>\$ 15,390</u>	<u>\$ 4,948,723</u>	<u>\$ 4,964,113</u>	<u>\$ 4,639</u>

Interest income totaling \$0.8 million, \$0.4 million, and \$3.1 million was recognized on nonaccrual loans, including loans held for sale, in 2021, 2020 and 2019, respectively. Additional interest income of \$0.3 million, \$0.2 million, and \$0.3 million would have been recognized in 2021, 2020 and 2019, respectively, had these loans been accruing interest throughout those periods. Additionally, interest income of \$0.3 million, \$0.2 million, and \$0.3 million was collected and recognized on charged-off loans in 2021, 2020 and 2019, respectively.

In accordance with the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)" issued in April 2020, loans with deferrals granted because of COVID-19 are not considered past due and/or reported as nonaccrual if deemed collectible during the deferral period.

Modifications

TDRs included in nonperforming assets at December 31, 2021 consisted of four Hawaii residential mortgage loans with a combined principal balance of \$0.4 million. At December 31, 2020, TDRs included in nonperforming assets consisted of two loans with a principal balance of \$0.3 million.

There were \$4.9 million of TDRs still accruing interest at December 31, 2021, none of which were more than 90 days delinquent. At December 31, 2020, there were \$7.8 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

The Company offers various types of concessions when modifying a loan. Concessions made to the original contractual terms of the loan typically consists of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. In these cases, the principal balance on the TDR had matured and/or was in default at the time of restructure, and there were no commitments to lend additional funds to the borrower during the year ended December 31, 2021 and 2020. The loans modified in a TDR did not have a material effect on our Provision and ACL during the years ended December 31, 2021 and 2020.

As discussed in Note 1 to these financial statements, Section 4013 of CARES Act and the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)" provided banks an optional TDR election for certain loan modifications related to COVID-19 as long as the borrowers were not more than 30 days past due as of December 31, 2019 or at the time of modification program implementation, respectively, and meets other applicable criteria. The Company did not identify any loans as of December 31, 2021 that were modified and did not meet the criteria under Section 4013 of CARES Act or the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)". The Company had active loan deferrals with outstanding balances of approximately \$0.4 million and \$120.2 million resulting from the COVID-19 pandemic as of December 31, 2021 and 2020, respectively of which \$0.4 million and \$119.3 million were not classified as a TDR under the CARES Act or the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)".

The following table presents by class, information related to loans modified in a TDR during the years ended December 31, 2021, 2020 and 2019:

Year Ended December 31, 2021			
(Dollars in thousands)	Number of Loans	Recorded Investment (as of period end)	Increase in the ACL
Real estate: Residential mortgage	1	\$ 48	\$ —
Total	1	\$ 48	\$ —

Year Ended December 31, 2020			
(Dollars in thousands)	Number of Loans	Recorded Investment (as of period end)	Increase in the ACL
Real estate: Residential mortgage	1	\$ 677	\$ —
Real estate: Commercial mortgage	1	276	—
Consumer	11	207	—
Total	13	\$ 1,160	\$ —

Year Ended December 31, 2019			
(Dollars in thousands)	Number of Loans	Recorded Investment (as of period end)	Increase in the ACL
Real estate: Residential mortgage	1	\$ 104	\$ —
Total	1	\$ 104	\$ —

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the years ended December 31, 2021, 2020 and 2019.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans by credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk rating of loans. Loans not meeting the following criteria that are analyzed individually as part of the described process are considered to be pass-rated loans.

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

Substandard. Loans classified as substandard are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans 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 classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

Loss. Loans classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

Loans not meeting the criteria above are considered to be pass rated loans.

The following table presents the amortized cost basis, net of deferred (fees) costs of the Company's loans by class, credit quality indicator and origination year as of December 31, 2021. Revolving loans converted to term as of and during the year ended December 31, 2021 were not material to the total loan portfolio.

(Dollars in thousands)	Amortized Cost of Term Loans by Origination Year						Amortized Cost of Revolving Loans	Total
	2021	2020	2019	2018	2017	Prior		
December 31, 2021								
Commercial, financial and agricultural - SBA PPP:								
Risk Rating								
Pass	\$ 84,254	\$ 7,073	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 91,327
Subtotal	84,254	7,073	—	—	—	—	—	91,327
Commercial, financial and agricultural - Other:								
Risk Rating								
Pass	122,729	68,021	56,531	52,375	31,817	93,957	79,131	504,561
Special Mention	1,441	1,278	2,443	96	8,671	354	—	14,283
Substandard	—	982	393	682	6,623	1,847	750	11,277
Subtotal	124,170	70,281	59,367	53,153	47,111	96,158	79,881	530,121
Construction:								
Risk Rating								
Pass	35,236	25,430	3,196	28,333	288	20,090	9,376	121,949
Substandard	—	—	—	918	—	—	—	918
Subtotal	35,236	25,430	3,196	29,251	288	20,090	9,376	122,867
Residential mortgage:								
Risk Rating								
Pass	670,011	478,891	180,687	75,820	92,394	372,539	42	1,870,384
Special Mention	—	973	—	—	—	—	—	973
Substandard	—	—	—	577	881	3,165	—	4,623
Subtotal	670,011	479,864	180,687	76,397	93,275	375,704	42	1,875,980
Home equity:								
Risk Rating								
Pass	26,479	13,008	10,329	10,593	480	7,743	567,600	636,232
Special Mention	—	—	—	—	—	—	187	187
Substandard	—	176	—	79	—	575	—	830
Subtotal	26,479	13,184	10,329	10,672	480	8,318	567,787	637,249
Commercial mortgage:								
Risk Rating								
Pass	229,108	126,169	146,584	126,014	153,041	387,751	9,472	1,178,139
Special Mention	—	—	3,106	3,219	283	9,455	—	16,063
Substandard	—	—	1,760	8,050	1,784	14,408	—	26,002
Subtotal	229,108	126,169	151,450	137,283	155,108	411,614	9,472	1,220,204
Consumer:								
Risk Rating								
Pass	308,326	96,066	91,194	41,995	20,719	9,446	55,311	623,057
Special Mention	—	—	181	—	10	7	—	198
Substandard	10	35	128	80	19	221	—	493
Loss	—	—	—	—	—	153	—	153
Subtotal	308,336	96,101	91,503	42,075	20,748	9,827	55,311	623,901
Total	\$ 1,477,594	\$ 818,102	\$ 496,532	\$ 348,831	\$ 317,010	\$ 921,711	\$ 721,869	\$ 5,101,649

The following tables present by class and credit indicator, the recorded investment in the Company's loans as of December 31, 2021 and 2020:

(Dollars in thousands)	Pass	Special Mention	Substandard	Loss	Subtotal	Net Deferred (Fees) Costs	Total
December 31, 2021							
Commercial, financial and agricultural:							
SBA PPP	\$ 94,850	\$ —	\$ —	\$ —	\$ 94,850	\$ (3,523)	\$ 91,327
Other	504,823	14,283	11,277	—	530,383	(262)	530,121
Real estate:							
Construction	122,433	—	918	—	123,351	(484)	122,867
Residential mortgage	1,869,604	973	4,623	—	1,875,200	780	1,875,980
Home equity	634,704	187	830	—	635,721	1,528	637,249
Commercial mortgage	1,180,074	16,062	26,002	—	1,222,138	(1,934)	1,220,204
Consumer	623,271	181	510	153	624,115	(214)	623,901
Total	<u>\$ 5,029,759</u>	<u>\$ 31,686</u>	<u>\$ 44,160</u>	<u>\$ 153</u>	<u>\$ 5,105,758</u>	<u>\$ (4,109)</u>	<u>\$ 5,101,649</u>

(Dollars in thousands)	Pass	Special Mention	Substandard	Loss	Subtotal	Net Deferred (Fees) Costs	Total
December 31, 2020							
Commercial, financial and agricultural:							
SBA PPP	\$ 425,993	\$ —	\$ —	\$ —	\$ 425,993	\$ (9,618)	\$ 416,375
Other	471,085	67,177	6,874	—	545,136	(45)	545,091
Real estate:							
Construction	122,782	2,843	—	—	125,625	(218)	125,407
Residential mortgage	1,680,762	1,736	4,753	—	1,687,251	2,961	1,690,212
Home equity	548,985	707	524	—	550,216	1,050	551,266
Commercial mortgage	1,051,122	69,786	37,295	—	1,158,203	(1,875)	1,156,328
Consumer	478,998	250	284	48	479,580	(146)	479,434
Total	<u>\$ 4,779,727</u>	<u>\$ 142,499</u>	<u>\$ 49,730</u>	<u>\$ 48</u>	<u>\$ 4,972,004</u>	<u>\$ (7,891)</u>	<u>\$ 4,964,113</u>

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

The following tables present by class, the activity in the ACL for loans under ASC 326 during the years ended December 31, 2021 and 2020 and under previous GAAP during the year ended December 31, 2019:

(Dollars in thousands)	Commercial, Financial and Agricultural		Real Estate				Consumer	Total
	SBA PPP	Other	Construction	Residential Mortgage	Home Equity	Commercial Mortgage		
Year ended December 31, 2021								
Beginning balance	\$ 304	\$ 18,717	\$ 4,277	\$ 16,484	\$ 5,449	\$ 22,163	\$ 15,875	\$ 83,269
(Credit) provision for credit losses on loans [1]	(227)	(7,684)	(1,528)	(4,379)	(949)	(3,825)	4,269	(14,323)
Subtotal	77	11,033	2,749	12,105	4,500	18,338	20,144	68,946
Charge-offs	—	1,723	—	—	—	—	4,402	6,125
Recoveries	—	1,004	1,159	358	9	73	2,673	5,276
Net charge-offs (recoveries)	—	719	(1,159)	(358)	(9)	(73)	1,729	849
Ending balance	<u>\$ 77</u>	<u>\$ 10,314</u>	<u>\$ 3,908</u>	<u>\$ 12,463</u>	<u>\$ 4,509</u>	<u>\$ 18,411</u>	<u>\$ 18,415</u>	<u>\$ 68,097</u>

(Dollars in thousands)	Commercial, Financial and Agricultural		Real Estate				Consumer	Total
	SBA PPP	Other	Construction	Residential Mortgage	Home Equity	Commercial Mortgage		
Year ended December 31, 2020								
Beginning balance	\$ —	\$ 8,136	\$ 1,792	\$ 13,327	\$ 4,206	\$ 11,113	\$ 9,397	\$ 47,971
Impact of adoption of ASC 326	—	(627)	479	608	(1,614)	2,624	2,096	3,566
Balance after adoption of ASC 326	—	7,509	2,271	13,935	2,592	13,737	11,493	51,537
Provision for credit losses on loans [1]	304	13,077	1,875	2,383	2,824	8,485	9,982	38,930
Subtotal	304	20,586	4,146	16,318	5,416	22,222	21,475	90,467
Charge-offs	—	3,026	—	63	—	75	8,191	11,355
Recoveries	—	1,157	131	229	33	16	2,591	4,157
Net charge-offs (recoveries)	—	1,869	(131)	(166)	(33)	59	5,600	7,198
Ending balance	\$ 304	\$ 18,717	\$ 4,277	\$ 16,484	\$ 5,449	\$ 22,163	\$ 15,875	\$ 83,269

(Dollars in thousands)	Commercial, Financial and Agricultural		Real Estate				Consumer	Total
	SBA PPP	Other	Construction	Residential Mortgage	Home Equity	Commercial Mortgage		
Year ended December 31, 2019								
Beginning balance	\$ —	\$ 8,027	\$ 1,202	\$ 14,349	\$ 3,788	\$ 13,358	\$ 7,192	\$ 47,916
Provision (credit) for credit losses on loans	—	1,413	(20)	(1,546)	381	(2,270)	8,359	6,317
Subtotal	—	9,440	1,182	12,803	4,169	11,088	15,551	54,233
Charge-offs	—	2,478	—	—	5	—	8,265	10,748
Recoveries	—	1,174	610	524	42	25	2,111	4,486
Net charge-offs	—	1,304	(610)	(524)	(37)	(25)	6,154	6,262
Ending balance	\$ —	\$ 8,136	\$ 1,792	\$ 13,327	\$ 4,206	\$ 11,113	\$ 9,397	\$ 47,971

[1] In 2020, the Company recorded a reserve on accrued interest receivable for loans on active payment forbearance or deferral, which were granted to borrowers impacted by the COVID-19 pandemic. This reserve was recorded as a contra-asset against accrued interest receivable with the offset to provision for credit losses. Due to the significant decline in loans on active forbearance or deferral, the Company reversed the \$0.2 million reserve during the second quarter of 2021 and no longer has a reserve on accrued interest receivable as of December 31, 2021. The provision for credit losses presented in this table excludes the provision (credit) for credit losses on accrued interest receivable of \$0.2 million.

The following table presents the activity in the reserve for off-balance sheet credit exposures, included in other liabilities, under ASC 326 during the years ended December 31, 2021 and 2020 and under previous GAAP during the year ended December 31, 2019.

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Balance, beginning of year	\$ 4,884	\$ 1,272	\$ 1,243
Impact of adoption of ASC 326	—	740	—
Balance after adoption of ASC 326	4,884	2,012	1,243
(Credit) provision for off-balance sheet credit exposures	(80)	2,872	29
Balance, end of year	\$ 4,804	\$ 4,884	\$ 1,272

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

In determining the amount of our ACL, 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 ACL may not be sufficient to cover future credit losses and we may experience significant increases to our Provision.

6. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following as of December 31, 2021 and 2020:

(Dollars in thousands)	December 31,	
	2021	2020
Land	\$ 14,184	\$ 11,616
Office buildings and improvements	141,628	125,132
Furniture, fixtures and equipment	35,515	37,839
Gross premises and equipment	191,327	174,587
Accumulated depreciation and amortization	(110,973)	(109,309)
Net premises and equipment	<u>\$ 80,354</u>	<u>\$ 65,278</u>

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Net occupancy	\$ 4,570	\$ 3,616	\$ 3,401
Equipment	2,414	2,607	2,738
Total	<u>\$ 6,984</u>	<u>\$ 6,223</u>	<u>\$ 6,139</u>

7. INVESTMENTS IN UNCONSOLIDATED ENTITIES

Investments in unconsolidated entities as of December 31, 2021 and 2020 consisted of the following components:

(Dollars in thousands)	December 31,	
	2021	2020
Investments in low income housing tax credit partnerships	\$ 25,916	\$ 28,090
Investments in common securities of statutory trusts	1,547	1,547
Investments in affiliates	162	277
Other	2,054	54
Total	<u>\$ 29,679</u>	<u>\$ 29,968</u>

During the second quarter of 2021, the Company invested \$2.0 million in the JAM FINTOP Banktech Fund, L.P., an investment fund designed to help develop and accelerate technology adoption at community banks across the United States. The investment is accounted for under the cost method and is included in investment in unconsolidated entities. As of December 31, 2021, the Company had an unfunded commitments of \$1.7 million related to the investment, which is expected to be paid in 2022 and is recorded in other liabilities in the Company's consolidated balance sheets.

The Company invests in low income housing tax credit ("LIHTC") partnerships. As of December 31, 2021 and 2020, the Company had \$14.3 million and \$17.2 million, respectively, in unfunded commitments related to the LIHTC partnerships, which is recorded in other liabilities in the Company's consolidated balance sheets. The expected payments for the unfunded commitments related to the LIHTC partnerships as of December 31, 2021 are as follows:

(Dollars in thousands)	
Year Ending December 31:	
2022	\$ 14,190
2023	10
2024	26
2025	6
2026	6
Thereafter	37
Total commitments	<u>\$ 14,275</u>

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Proportional amortization method:			
Amortization expense recognized in income tax expense	\$ 2,174	\$ 1,391	\$ 681
Federal and state tax credits recognized in income tax expense	2,373	1,599	803

8. MORTGAGE SERVICING RIGHTS

The following table presents changes in our mortgage servicing rights for the periods presented:

(Dollars in thousands)	Mortgage Servicing Rights
Balance as of December 31, 2018	\$ 15,596
Additions	1,582
Amortization	(2,460)
Balance as of December 31, 2019	14,718
Additions	3,314
Amortization	(6,167)
Balance as of December 31, 2020	11,865
Additions	1,341
Amortization	(3,468)
Balance as of December 31, 2021	<u>\$ 9,738</u>

The gross carrying value, accumulated amortization, and net carrying value related to our mortgage servicing rights as of December 31, 2021 and 2020 are presented below:

(Dollars in thousands)	December 31, 2021			December 31, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Mortgage servicing rights	\$ 72,250	\$ (62,512)	\$ 9,738	\$ 70,909	\$ (59,044)	\$ 11,865

Based on our mortgage servicing rights held as of December 31, 2021, estimated amortization expense for the next five succeeding fiscal years and all years thereafter are as follows:

(Dollars in thousands)	
Year Ending December 31:	
2022	\$ 1,915
2023	1,476
2024	1,157
2025	923
2026	745
Thereafter	3,522
Total	<u>\$ 9,738</u>

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as a component of mortgage banking income and totaled \$1.3 million, \$3.3 million, and \$1.6 million in 2021, 2020 and 2019, respectively. Amortization of the servicing rights is reported as a component of mortgage banking income in our consolidated statements of income. Ancillary income is recorded in other income. Mortgage servicing

rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify and pool our mortgage servicing rights into buckets of homogeneous characteristics.

Initial fair value of the servicing right is calculated by a discounted cash flow model prepared by a third-party service provider based on market value assumptions at the time of origination and we assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, and servicing income and costs. 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 government FHA loans) include average discount rates, servicing costs and ancillary income. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

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

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

(Dollars in thousands)	Year Ended December 31,	
	2021	2020
Fair market value, beginning of period	\$ 12,003	\$ 15,820
Fair market value, end of period	10,504	12,003
Weighted-average discount rate	9.5 %	9.6 %
Weighted-average prepayment speed assumption	19.0 %	17.6 %

Loans serviced for others as of December 31, 2021 and 2020 totaled \$1.40 billion and \$1.73 billion, respectively. Loans serviced for others are not reported as assets on the Company's consolidated balance sheets.

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. At each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings. We had no derivative instruments designated as hedging instruments as of December 31, 2021 and December 31, 2020.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At December 31, 2021, we were a party to forward sale commitments on \$3.5 million of mortgage loans. As of December 31, 2021, we did not have any outstanding interest rate lock commitments on mortgage

loans. At December 31, 2020, we were a party to interest rate lock and forward sale commitments on \$0.7 million and \$16.6 million of mortgage loans, respectively.

Risk Participation Agreements

In the first and fourth quarters of 2020, the Company entered into credit risk participation agreements ("RPA") with financial institution counterparties for interest rate swaps related to loans in which we participate. The risk participation agreements entered into by us a participant bank provide credit protection to the financial institution counterparties should the borrowers fail to perform on their interest rate derivative contracts with the financial institutions.

Back-to-Back Swap Agreements

The Company established a program whereby it originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an equal and offsetting swap with a highly rated third-party financial institution. These "back-to-back swap agreements" are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. These back-to-back swap agreements are free-standing derivatives and are recorded at fair value on our consolidated balance sheet in other assets or other liabilities, with changes recorded in current period earnings. During the year ended December 31, 2021, the Company entered into swap agreements with its borrowers with a total notional amount of \$33.1 million, offset by swap agreements with third party financial institutions with a total notional amount of \$33.1 million. As of December 31, 2021, the Company pledged \$0.3 million in cash as collateral for the back-to-back swap agreements.

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

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at December 31, 2021	Fair Value at December 31, 2020	Fair Value at December 31, 2021	Fair Value at December 31, 2020
(Dollars in thousands)					
Interest rate lock commitments, forward sale commitments, risk participation agreements, and back-to-back swap agreements...	Other assets / other liabilities	\$ 5	\$ 18	\$ 20	\$ 163

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

Derivatives Not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives
(Dollars in thousands)		
Year ended December 31, 2021		
Interest rate lock and forward sale commitments	Mortgage banking income	\$ 98
Risk participation agreements	Other service charges and fees	32
Back-to-back swap agreements	Other service charges and fees	600
Year ended December 31, 2020		
Interest rate lock and forward sale commitments	Mortgage banking income	(76)
Risk participation agreements	Other service charges and fees	1,323
Year ended December 31, 2019		
Interest rate lock and forward sale commitments	Mortgage banking income	63

10. DEPOSITS

The Company had \$706.7 million and \$898.9 million of total time deposits as of December 31, 2021 and 2020, respectively. Contractual maturities of total time deposits as of December 31, 2021 were as follows:

(Dollars in thousands)

Year Ending December 31:

2022	\$	601,209
2023		67,195
2024		22,651
2025		7,584
2026		7,511
Thereafter		582
Total	\$	<u>706,732</u>

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 totaled \$488.8 million and \$666.5 million at December 31, 2021 and 2020, respectively. This includes \$215.0 million and \$500.3 million in government time deposits at December 31, 2021 and 2020, respectively, which are collateralized.

Contractual maturities of time deposits of \$250,000 or more as of December 31, 2021 were as follows:

(Dollars in thousands)

Three months or less	\$	265,827
Over three months through six months		69,516
Over six months through twelve months		95,411
2023		46,591
2024		7,743
2025		1,829
2026		1,858
Thereafter		—
Total	\$	<u>488,775</u>

At December 31, 2021 and 2020, overdrawn deposit accounts totaling \$0.5 million and \$0.4 million have been reclassified as loans on the consolidated balance sheets.

11. SHORT-TERM BORROWINGS

The bank is a member of the FHLB and maintained a \$1.83 billion line of credit, of which \$1.80 billion remained available as of December 31, 2021. At December 31, 2021, there were no short-term borrowings under this arrangement. At December 31, 2020, short-term borrowings under this arrangement totaled \$22.0 million.

The FHLB provides standby letters of credit on behalf of the bank to secure certain public deposits. If the FHLB is required to make a payment on a standby letter of credit, the payment amount is converted to an advance at the FHLB. The standby letters of credit issued on our behalf by the FHLB totaled \$32.2 million and \$268.0 million at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, our bank had additional unused borrowings available at the Federal Reserve discount window of \$55.4 million and \$64.5 million, respectively. As of December 31, 2021 and 2020, certain commercial real estate and commercial loans with a carrying value totaling \$131.0 million and \$136.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

Interest expense on short-term borrowings totaled \$2 thousand, \$0.7 million and \$4.3 million in 2021, 2020 and 2019, respectively.

A summary of our short-term borrowings as of December 31, 2021, 2020 and 2019 is as follows:

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Amount outstanding at December 31	\$ —	\$ 22,000	\$ 150,000
Average amount outstanding during year	607	89,904	185,909
Highest month-end balance during year	6,500	222,000	334,500
Weighted-average interest rate on balances outstanding at December 31	— %	0.29 %	1.81 %
Weighted-average interest rate during year	0.30 %	0.80 %	2.31 %

12. LONG-TERM DEBT

Long-term debt, which is based on original maturity, consisted of subordinated notes and debentures totaling \$105.6 million and \$105.4 million at December 31, 2021 and 2020, respectively. There were no long-term FHLB advances outstanding at December 31, 2021 and 2020.

(Dollars in thousands)	December 31,	
	2021	2020
Subordinated debentures	51,547	51,547
Subordinated notes, net of issuance costs	\$ 54,069	\$ 53,838
Total	\$ 105,616	\$ 105,385

At December 31, 2021, future principal payments on long-term debt based on redemption date or final maturity are as follows (dollars in thousands):

(Dollars in thousands)	
Year Ending December 31:	
2022	\$ —
2023	—
2024	—
2025	—
2026	—
Thereafter	106,547
Total	\$ 106,547

Paycheck Protection Program Liquidity Facility

To bolster the effectiveness of the SBA's PPP the Federal Reserve is supplying liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The PPP provides loans to small businesses so that they can keep their workers on the payroll. The Paycheck Protection Program Liquidity Facility ("PPPLF") extended credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value. During the second quarter of 2020, we pledged \$65.9 million in PPP loans to the Federal Reserve Bank and drew funds totaling \$65.9 million from the Federal Reserve Bank related to the PPPLF. This was subsequently paid down during the third quarter of 2020. At the expiration of the PPPLF on July 30, 2021, we had no draws outstanding from the Federal Reserve Bank under the PPPLF and no PPP loans pledged to the Federal Reserve Bank.

FHLB Advances

We had no FHLB long-term advances outstanding as of December 31, 2021 and 2020. At December 31, 2021, our bank had FHLB advances available of approximately \$1.80 billion, which was secured by certain real estate loans with a carrying value of \$2.68 billion in accordance with the collateral provisions of the Advances, Pledge and Security Agreement with the FHLB. We did not incur any interest expense on FHLB long-term advances in 2021. Interest expense on FHLB long-term advances was \$1.5 million and \$1.6 million in 2020 and 2019, respectively.

Subordinated Debentures

As of December 31, 2021 and December 31, 2020, the Company had the following junior subordinated debentures outstanding:

(Dollars in thousands)		December 31, 2021	
Name of Trust	Amount of Subordinated Debentures	Interest Rate	
Trust IV	\$ 30,928	Three month LIBOR + 2.45%	
Trust V	20,619	Three month LIBOR + 1.87%	
Total	<u>\$ 51,547</u>		

(Dollars in thousands)		December 31, 2020	
Name of Trust	Amount of Subordinated Debentures	Interest Rate	
Trust IV	30,928	Three month LIBOR + 2.45%	
Trust V	20,619	Three month LIBOR + 1.87%	
Total	<u>\$ 51,547</u>		

In October 2003, we created two wholly-owned statutory trusts, CPB Capital Trust II, a Delaware statutory trust ("Trust II") and CPB Statutory Trust III, a Delaware statutory trust ("Trust III"). We completed the redemption of \$20.0 million of floating rate trust preferred securities issued by Trust II in January 2019 and \$20.0 million of floating rate preferred securities issued by Trust III in December 2018.

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

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

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

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

Subordinated Notes

As of December 31, 2021, the Company had the following subordinated notes outstanding:

(Dollars in thousands)	Name	December 31, 2020	
		Amount of Subordinated Notes	Interest Rate
	October 2020 Private Placement	\$ 55,000	4.75% for the first five years. Resets quarterly thereafter to the then current three-month SOFR.

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

The subordinated notes may be included in Tier 2 capital, with certain limitations applicable, under current regulatory guidelines and interpretations. The subordinated notes had a carrying value of \$54.1 million, net of unamortized debt issuance costs of \$0.9 million, at December 31, 2021.

13. EQUITY

As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of December 31, 2021, the bank had Statutory Retained Earnings of \$114.0 million.

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

We repurchase shares of our common stock when we believe such repurchases are in the best interests of the Company. In March 2020, the Company temporarily suspended the Repurchase Plan due to uncertainty in the wake of the current COVID-19 pandemic.

In January 2021, the Company's Board of Directors authorized the repurchase of up to \$25.0 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program (the "2021 Repurchase Plan"). The 2021 Repurchase Plan replaced and superseded in its entirety the share repurchase program previously approved by the Company's Board of Directors, which had \$26.6 million in remaining repurchase authority. The Company's 2021 Repurchase Plan is subject to a one year expiration.

In the year ended December 31, 2021, a total of 696,894 shares of common stock, at a cost of \$18.7 million, were repurchased under the 2021 Repurchase Plan. A total of \$6.3 million remained available for repurchase under the 2021 Repurchase Plan at December 31, 2021.

In the year ended December 31, 2020, 206,802 shares of common stock, at a cost of \$4.7 million, were repurchased under the Company's share repurchase program.

14. 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:

Mortgage banking income

Loan placement fees, included in mortgage banking income, 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.

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 fees on foreign exchange, cards and payments income, safe deposit rental income and other service charges, commissions and fees.

The Company provides foreign currency exchange services to customers, whereby cash can be converted to different foreign currencies, and vice versa. As a result of the services, a gain or loss is recognized on foreign currency transactions, as well as income related to commissions and fees earned on each transaction. Revenue from the commissions and fees earned on the transactions fall within the scope of ASC 606, and is recorded in a manner that reflects the timing of when transactions occur, and as services are provided. Realized and unrealized gains or losses related to foreign currency are out of scope of ASC 606.

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.

Net Gain (Loss) on Sales of Foreclosed Assets

The Company records a gain or loss on the sale of a foreclosed property when control of the property transfers to the Company, which typically occurs at the time the deed is executed. The Company does not finance the sale of the foreclosed property.

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 periods presented:

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Other operating income:			
In-scope of ASC 606			
Mortgage banking income	\$ 1,993	\$ 1,128	\$ 702
Service charges on deposit accounts	6,358	6,234	8,406
Other service charges and fees	15,281	11,621	12,536
Income on fiduciary activities	5,075	4,829	4,395
In-scope other operating income	28,707	23,812	26,039
Out-of-scope other operating income	14,353	21,386	15,762
Total other operating income	<u>\$ 43,060</u>	<u>\$ 45,198</u>	<u>\$ 41,801</u>

15. MORTGAGE BANKING INCOME

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Mortgage banking income:			
Net loan servicing fees	\$ 2,733	\$ 2,754	\$ 4,252
Amortization of mortgage servicing rights	(3,468)	(6,167)	(2,460)
Net gain on sale of residential mortgage loans	6,376	16,043	4,128
Unrealized gain (loss) on interest rate locks	98	(76)	63
Loan placement fees	1,993	1,128	702
Total mortgage banking income	<u>\$ 7,732</u>	<u>\$ 13,682</u>	<u>\$ 6,685</u>

16. SHARE-BASED COMPENSATION

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Salaries and employee benefits	\$ 4,580	\$ 3,822	\$ 4,289
Directors stock awards	91	165	96
Income tax benefit	(1,449)	(809)	(1,427)
Net share-based compensation effect	<u>\$ 3,222</u>	<u>\$ 3,178</u>	<u>\$ 2,958</u>

Upon exercise or vesting of a share-based award, if the tax deduction exceeds the compensation cost that was previously recorded for financial statement purposes, this will result in an excess tax benefit. Effective January 1, 2017, ASU 2016-09,

"*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" requires the Company to recognize all excess tax benefits or tax deficiencies through the income statement as income tax expense/benefit. Under previous GAAP, any excess tax benefits were recognized in additional-paid-in-capital to offset current-period and subsequent-period tax deficiencies. The Company recorded income tax benefit of \$0.2 million in 2021, income tax expense of \$0.3 million in 2020, and income tax benefit of \$0.3 million in 2019, as a result of restricted stock units vesting during the year.

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

Equity Incentive Plans

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

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

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

As of December 31, 2021, 2020 and 2019, a total of 843,469, 996,850 and 1,304,773 shares, respectively, were available for future grants under our 2013 Plan.

Stock Options

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

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

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

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

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

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

The following is a summary of option activity for our stock option plans for the year ended December 31, 2021:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Stock options outstanding as of January 1, 2021	133,813	\$ 14.31		
Changes during the year:				
Granted	—	—		
Exercised	(86,373)	14.31		944
Expired	—	—		
Forfeited	—	—		
Stock options outstanding as of December 31, 2021	<u>47,440</u>	14.32	0.3	657
Vested and exercisable as of December 31, 2021	<u>47,440</u>	14.32	0.3	657

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying option awards and the quoted price of the Company's common stock for the options that were in-the-money as of December 31, 2021.

There were 86,373 options exercised during the year ended December 31, 2021. The aggregate intrinsic value of options exercised in 2021 under our stock option plan determined as of the date of exercise was \$0.9 million. There were no options exercised during the year ended December 31, 2020. The aggregate intrinsic value of options exercised in 2019 under our stock option plan determined as of the date of exercise was \$0.2 million.

As of December 31, 2021, all compensation costs related to stock options granted to employees under our stock option plans have been recognized.

As of December 31, 2021, all shares have been vested. There were no shares that vested in 2021, 2020 and 2019.

No stock options were granted during the years ended December 31, 2021, 2020 and 2019.

Restricted Stock Awards and Units

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

As of December 31, 2021, there was \$5.1 million of total unrecognized compensation cost related to restricted stock awards and units that is expected to be recognized over a weighted-average period of 1.5 years.

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

	Number of Units	Weighted Average Grant Date Fair Value	Fair Value of Restricted Stock Awards and Units That Vested During The Year (in thousands)
Unvested as of December 31, 2018	362,725	\$ 26.98	
Changes during the year:			
Granted	181,431	28.89	
Forfeited	(17,689)	29.10	
Vested	(160,000)	24.55	\$ 3,927
Unvested as of December 31, 2019	<u>366,467</u>	28.89	
Changes during the year:			
Granted	322,180	18.11	
Forfeited	(28,058)	23.79	
Vested	(128,215)	29.48	3,780
Unvested as of December 31, 2020	<u>532,374</u>	22.49	
Changes during the year:			
Granted	221,774	21.93	
Forfeited	(75,850)	21.95	
Vested	(192,959)	23.42	5,077
Unvested as of December 31, 2021	<u><u>485,339</u></u>	21.95	

17. PENSION PLANS

Defined Benefit Retirement Plan

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

In January 2021, the Board of Directors approved termination of, and authorized Company management to commence taking action to terminate, the defined benefit retirement plan. The Company received a favorable determination letter from the IRS and no objection from the Pension Benefit Guaranty Corporation on the Form 500 standard termination notice in January 2022. The Company intends to settle the plan in the second quarter of 2022. Upon final plan termination and settlement, we expect to recognize a one-time settlement expense of approximately \$4.5 to \$6.5 million.

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

(Dollars in thousands)	Year Ended December 31,	
	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 21,919	\$ 21,603
Interest cost	485	641
Actuarial (gains) losses	(427)	1,288
Benefits paid	(1,557)	(1,613)
Benefit obligation at end of the year	<u>20,420</u>	<u>21,919</u>
Change in plan assets, at fair value:		
Fair value of plan assets at beginning of year	21,153	21,309
Actual return on plan assets	1,189	1,457
Benefits paid	(1,557)	(1,613)
Fair value of plan assets at end of year	<u>20,785</u>	<u>21,153</u>
Funded status at end of year	<u>\$ 365</u>	<u>\$ (766)</u>
Amounts recognized in AOCI:		
Net actuarial losses	<u>\$ (4,699)</u>	<u>\$ (6,467)</u>

Benefit obligation actuarial assumptions:

Weighted-average discount rate	2.4 % (*)	2.3 %
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* Plan termination assumptions were utilized, including combination of lump sum values and estimated annuity purchase rates for other participants not electing or eligible to take lump sum.

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Components of net periodic benefit cost:			
Interest cost	\$ 485	\$ 641	\$ 828
Expected return on plan assets	(549)	(920)	(996)
Amortization of net actuarial losses	701	909	1,101
Net periodic benefit cost	<u>\$ 637</u>	<u>\$ 630</u>	<u>\$ 933</u>

Net periodic cost actuarial assumptions:

Weighted-average discount rate	2.3 %	3.1 %	4.2 %
Expected long-term rate of return on plan assets	2.7 %	4.5 %	5.3 %

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

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

	December 31,	
	2021	2020
Equity securities	— %	39.5 %
Debt securities	85.9	56.1
Money market funds	14.1	4.4
Total	<u>100.0 %</u>	<u>100.0 %</u>

Equity securities included the Company's common stock in the amount of \$0.1 million at December 31, 2020.

In conjunction with the upcoming defined benefit retirement plan termination, in 2021 the plan asset allocations were adjusted to minimize market risk, which included eliminating all equity securities and adjusting the portfolio duration.

The fair values of the defined benefit retirement plan as of December 31, 2021 and 2020 by asset category were as follows:

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2021				
Money market funds	\$ 2,938	\$ —	\$ —	\$ 2,938
Exchange traded funds	10,712	—	—	10,712
Government obligations	—	1,899	—	1,899
Common stocks	—	—	—	—
Preferred stocks	—	—	—	—
Corporate bonds and debentures	—	5,236	—	5,236
Total	<u>\$ 13,650</u>	<u>\$ 7,135</u>	<u>\$ —</u>	<u>\$ 20,785</u>

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2020				
Money market funds	\$ 928	\$ —	\$ —	\$ 928
Exchange traded funds	13,462	—	—	13,462
Government obligations	—	2,334	—	2,334
Common stocks	1,993	—	—	1,993
Preferred stocks	260	—	—	260
Corporate bonds and debentures	—	2,176	—	2,176
Total	<u>\$ 16,643</u>	<u>\$ 4,510</u>	<u>\$ —</u>	<u>\$ 21,153</u>

We are not required by funding regulations or laws to make any contributions to our defined benefit retirement plan in 2022.

The Company intends to terminate its defined benefit retirement plan in the second quarter of 2022. As a result, estimated future benefit payments in each of the next five years and in the aggregate for the five years thereafter are as follows:

(Dollars in thousands)	
Year Ending December 31:	
2022	\$ 20,672
2023	—
2024	—
2025	—
2026	—
2027-2031	—
Total	<u>\$ 20,672</u>

Supplemental Executive Retirement Plans

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

The following tables set forth information pertaining to the SERP:

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 12,740	\$ 11,971	
Interest cost	264	341	
Actuarial (gains) losses	(398)	737	
Benefits paid	(309)	(309)	
Benefit obligation at end of year	<u>12,297</u>	<u>12,740</u>	
Change in plan assets			
Fair value of plan assets at beginning of year	—	—	
Employer contributions	309	309	
Benefits paid	(309)	(309)	
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>	
Funded status at end of year	<u>\$ (12,297)</u>	<u>\$ (12,740)</u>	
Amounts recognized in AOCI			
Net transition obligation	\$ (26)	\$ (44)	
Prior service cost	—	—	
Net actuarial losses	(2,337)	(3,070)	
Total amounts recognized in AOCI	<u>\$ (2,363)</u>	<u>\$ (3,114)</u>	
Benefit obligation actuarial assumptions			
Weighted-average discount rate	2.5 %	2.1 %	
Components of net periodic benefit cost			
Year Ended December 31,			
(Dollars in thousands)	2021	2020	2019
Interest cost	\$ 264	\$ 341	\$ 430
Amortization of net actuarial (gains) losses	335	251	16
Amortization of net transition obligation	18	18	18
Amortization of prior service cost	—	14	18
Net periodic benefit cost	<u>\$ 617</u>	<u>\$ 624</u>	<u>\$ 482</u>
Net periodic cost actuarial assumptions			
Weighted-average discount rate	2.1 %	3.1 %	4.2 %

The SERP holds no plan assets other than employer contributions that are paid as benefits during the year. We expect to contribute \$0.5 million to the SERP in 2022.

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

(Dollars in thousands)

Year Ending December 31:

2022	\$	481
2023		649
2024		638
2025		626
2026		612
2027-2031		4,699
Total	\$	<u>7,705</u>

18. 401(K) RETIREMENT SAVINGS PLAN

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

We have the option of making regular matching contributions on employee's elective deferrals. The Company has sole discretion in determining the percentage to be matched, subject to limitations of the Internal Revenue Code. From January 1, 2020 to June 30, 2020, we matched 100% of an employee's elective deferrals, up to 4% of the employee's pay each pay period. Effective July 1, 2020, we temporarily suspended matching contributions due to economic uncertainty in the wake of the COVID-19 pandemic. In lieu of matching contributions, we provided an equity grant of the Company's common stock to all 401(k)-eligible employees as of June 30, 2020 that will vest ratably over three years. The equity grants were made outside of the Retirement Savings Plan.

From January 1, 2021 through June 30, 2021, matching contributions remained suspended. Effective July 1, 2021 through December 31, 2021, we matched 100% of an employees effective deferrals, up to 2% of the employee's pay each pay period.

We also have the option of making discretionary contributions into the Retirement Savings Plan. The Company has sole discretion in determining the discretionary contribution, subject to limitations of the Internal Revenue Code. On December 31, 2020, we made a discretionary contribution to all 401(k)-eligible employees, excluding Executive Committee and Managing Committee members, of 2% of the employee's eligible compensation, up to \$1,250 per employee. We did not make any discretionary contributions in 2021 and 2019.

Total contributions to the Retirement Savings Plan totaled \$0.5 million, \$2.1 million and \$2.3 million in 2021, 2020 and 2019, respectively.

19. OPERATING LEASES

We lease certain property and equipment with lease terms expiring through 2045. In some instances, a lease may contain renewal options for periods ranging from five to 15 years. All renewal options are likely to be exercised and therefore have been recognized as part of our right-of-use assets and lease liabilities in accordance with ASC 842, "Leases". Certain leases also contain variable payments that are primarily determined based on common area maintenance costs and Hawaii state tax rates. All leases are operating leases and we do not include any short-term leases in the calculation of the right-of-use assets and lease liabilities. The most significant assumption related to the Company's application of ASC 842 was the discount rate assumption. As most of the Company's lease agreements do not provide for an implicit interest rate, the Company uses the collateralized interest rate that the Company would have to pay to borrow over a similar term to estimate the Company's lease liability.

Total lease cost, cash flow information, weighted-average remaining lease term and weighted-average discount rate is summarized below for the periods indicated:

(Dollars in thousands)	Year Ended December 31,	
	2021	2020
Lease cost:		
Operating lease cost	\$ 6,397	\$ 6,621
Variable lease cost	2,476	2,689
Less: sublease income	(78)	(15)
Total lease cost	<u>\$ 8,795</u>	<u>9,295</u>
Other information:		
Operating cash flows from operating leases	\$ (6,533)	\$ (6,371)
Weighted-average remaining lease term - operating leases	11.91 years	13.51 years
Weighted-average discount rate - operating leases	3.93 %	3.89 %

The following is a schedule of annual undiscounted cash flows for our operating leases and a reconciliation of those cash flows to the operating lease liabilities for the next five succeeding fiscal years and all years thereafter:

(Dollars in thousands)			
Year Ending December 31,	Undiscounted Cash Flows	Lease Liability Expense	Lease Liability Reduction
2022	\$ 5,925	\$ 1,497	\$ 4,428
2023	5,183	1,343	3,840
2024	4,508	1,214	3,294
2025	4,195	1,088	3,107
2026	4,133	968	3,165
Thereafter	27,375	4,478	22,897
Total	<u>\$ 51,319</u>	<u>\$ 10,588</u>	<u>\$ 40,731</u>

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

(Dollars in thousands)	Year Ended December 31,	
	2021	2020
Total rental income recognized	\$ 2,094	\$ 2,071

Based on the Company's leases as lessor as of December 31, 2021, estimated lease payments for the next five succeeding fiscal years and all years thereafter are as follows:

(Dollars in thousands)		
Year Ending December 31,		
2022	\$	2,105
2023		932
2024		432
2025		305
2026		152
Thereafter		434
Total	<u>\$</u>	<u>4,360</u>

20. INCOME TAXES

Components of income tax expense (benefit) for the years ended December 31, 2021, 2020 and 2019 were as follows:

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Current expense:			
Federal.....	\$ 11,304	\$ 22,014	\$ 23,359
State.....	3,626	2,833	211
Total current.....	<u>14,930</u>	<u>24,847</u>	<u>23,570</u>
Deferred expense:			
Federal.....	8,654	(12,952)	(8,970)
State.....	2,174	(135)	5,005
Total deferred.....	<u>10,828</u>	<u>(13,087)</u>	<u>(3,965)</u>
Provision for income taxes.....	<u>\$ 25,758</u>	<u>\$ 11,760</u>	<u>\$ 19,605</u>

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law to provide certain relief as a result of COVID-19. As of December 31, 2021, the Company has determined that neither the CARES Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on income tax expense. On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2021, the Company has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on income tax expense.

Income tax expense (benefit) for the periods presented differed from the "expected" tax expense (computed by applying the U.S. federal corporate tax rate of 21% for the years ended December 31, 2021, 2020 and 2019, to income (loss) before income taxes) for the following reasons:

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Computed "expected" tax expense (benefit).....	\$ 22,187	\$ 10,297	\$ 16,365
Increase (decrease) in taxes resulting from:			
Tax-exempt interest income.....	(526)	(528)	(675)
Other tax-exempt income.....	(734)	(799)	(652)
Low-income housing and energy tax credits.....	(365)	(332)	(182)
State income taxes, net of Federal income tax effect, excluding impact of deferred tax valuation allowance.....	5,377	2,590	4,345
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense.....	(39)	(22)	(41)
Other, net.....	(142)	554	445
Total.....	<u>\$ 25,758</u>	<u>\$ 11,760</u>	<u>\$ 19,605</u>

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

(Dollars in thousands)	December 31,	
	2021	2020
Deferred tax assets		
Lease liability	\$ 10,891	\$ 12,624
Allowance for credit losses	14,382	17,576
Accrued expenses	3,616	2,447
Employee retirement benefits	2,547	3,143
State net operating loss carryforwards	3,091	3,134
Restricted stock and non-qualified stock options	611	963
Premises and equipment	4,678	3,996
Other	6,333	4,787
Total deferred tax assets	<u>46,149</u>	<u>48,670</u>
Deferred tax liabilities		
Right-of-use lease asset	10,546	12,267
Intangible assets	2,604	3,174
Other	3,808	3,383
Total deferred tax liabilities	<u>16,958</u>	<u>18,824</u>
Less: Deferred tax valuation allowance	<u>3,359</u>	<u>3,398</u>
Net deferred tax assets	<u>\$ 25,832</u>	<u>\$ 26,448</u>

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

As of December 31, 2021, the valuation allowance on our net DTA totaled \$3.4 million, of which \$3.2 million related to our DTA from net apportioned net operating loss ("NOL") carryforwards for California state income tax purposes as we do not expect to generate sufficient income in California to utilize the DTA. The remaining \$0.2 million relates to a valuation allowance on a Hawaii capital loss carry forward balance of \$6.2 million that we do not expect to be able to utilize. The net change in the valuation allowance was a decrease of \$39 thousand in 2021, compared to a decrease of \$22 thousand in 2020.

Net of this valuation allowance, the Company's net DTA totaled \$25.8 million as of December 31, 2021, compared to a net DTA of \$26.4 million as of December 31, 2020.

At December 31, 2021, the Company had NOL carryforwards for California state income tax purposes of \$36.1 million, which are available to offset future state taxable income. California NOL carryforwards will expire if not utilized beginning in 2028. The Company does not have any NOL carryforwards for U.S. federal or Hawaii state income tax purposes.

At December 31, 2021, we have no material unrecognized tax benefits that, if recognized would favorably affect the effective income tax rate in future periods. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. As of December 31, 2021, the Company's federal tax returns for 2016 and earlier, and the state tax returns for 2017 and earlier were no longer subject to examination by the taxing authorities. However, tax periods closed in a prior period may be subject to audit and re-examination by tax authorities for which tax carryforwards are utilized in subsequent years.

21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2021, 2020 and 2019, by component:

(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Year ended December 31, 2021			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$ (41,237)	\$ (11,030)	\$ (30,207)
Add: Reclassification adjustment for gains realized in net income	(150)	(40)	(110)
Net unrealized losses on investment securities	<u>(41,387)</u>	<u>(11,070)</u>	<u>(30,317)</u>
Defined benefit plans:			
Net actuarial gains arising during the period	2,014	544	1,470
Amortization of net actuarial losses	1,036	291	745
Amortization of net transition obligation	18	4	14
Amortization of prior service cost	—	—	—
Defined benefit plans, net	<u>3,068</u>	<u>839</u>	<u>2,229</u>
Other comprehensive loss	<u>\$ (38,319)</u>	<u>\$ (10,231)</u>	<u>\$ (28,088)</u>
(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Year ended December 31, 2020			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	\$ 15,939	\$ 4,260	\$ 11,679
Less: Reclassification adjustment for losses realized in net income	201	54	147
Net unrealized gains on investment securities	<u>16,140</u>	<u>4,314</u>	<u>11,826</u>
Defined benefit plans:			
Net actuarial losses arising during the period	(1,488)	(508)	(980)
Amortization of net actuarial losses	1,160	310	850
Amortization of net transition obligation	18	5	13
Amortization of prior service cost	14	4	10
Defined benefit plans, net	<u>(296)</u>	<u>(189)</u>	<u>(107)</u>
Other comprehensive income	<u>\$ 15,844</u>	<u>\$ 4,125</u>	<u>\$ 11,719</u>

(Dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Year ended December 31, 2019			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	\$ 37,696	\$ 10,102	\$ 27,594
Add: Reclassification adjustment for losses realized in net income	(36)	(10)	(26)
Net unrealized gains on investment securities	<u>37,660</u>	<u>10,092</u>	<u>27,568</u>
Defined benefit plans:			
Net actuarial losses arising during the period	(1,106)	(296)	(810)
Amortization of net actuarial losses	1,117	299	818
Amortization of net transition obligation	18	5	13
Amortization of prior service cost	18	5	13
Defined benefit plans, net	<u>47</u>	<u>13</u>	<u>34</u>
Other comprehensive income	<u>\$ 37,707</u>	<u>\$ 10,105</u>	<u>\$ 27,602</u>

The following table presents the changes in each component of AOCI, net of tax, for the years ended December 31, 2021, 2020 and 2019:

(Dollars in thousands)	Investment Securities	Defined Benefit Plans	AOCI
Year ended December 31, 2021			
Balance at beginning of period	\$ 26,651	\$ (6,523)	\$ 20,128
Other comprehensive income (loss) before reclassifications	(30,207)	1,470	(28,737)
Amounts reclassified from AOCI	(110)	759	649
Net other comprehensive income (loss)	<u>(30,317)</u>	<u>2,229</u>	<u>(28,088)</u>
Balance at end of period	<u>\$ (3,666)</u>	<u>\$ (4,294)</u>	<u>\$ (7,960)</u>

(Dollars in thousands)	Investment Securities	Defined Benefit Plans	AOCI
Year ended December 31, 2020			
Balance at beginning of period	\$ 14,825	\$ (6,416)	\$ 8,409
Other comprehensive income (loss) before reclassifications	11,679	(980)	10,699
Amounts reclassified from AOCI	147	873	1,020
Net other comprehensive income (loss)	<u>11,826</u>	<u>(107)</u>	<u>11,719</u>
Balance at end of period	<u>\$ 26,651</u>	<u>\$ (6,523)</u>	<u>\$ 20,128</u>

(Dollars in thousands)	Investment Securities	Defined Benefit Plans	AOCI
Year ended December 31, 2019			
Balance at beginning of period	\$ (9,643)	\$ (6,450)	\$ (16,093)
Impact of adoption of new accounting standards	(3,100)	—	(3,100)
Adjusted balance at beginning of period	(12,743)	(6,450)	(19,193)
Other comprehensive income (loss) before reclassifications	27,594	(810)	26,784
Amounts reclassified from AOCI	(26)	844	818
Total other comprehensive income (loss)	27,568	34	27,602
Balance at end of period	<u>\$ 14,825</u>	<u>\$ (6,416)</u>	<u>\$ 8,409</u>

The following table presents the amounts reclassified out of each component of AOCI for the years ended December 31, 2021, 2020 and 2019:

Details about AOCI Components	Amount Reclassified from AOCI			Affected Line Item in the Statement Where Net Income is Presented
	Year ended December 31,			
	2021	2020	2019	
(Dollars in thousands)				
Sale of available-for-sale investment securities:				
Realized gains (losses) on available-for-sale investment securities	\$ 150	\$ (201)	\$ 36	Net gains (losses) on sales of investment securities
Tax effect	(40)	54	(10)	Income tax benefit (expense)
Net of tax	<u>\$ 110</u>	<u>\$ (147)</u>	<u>\$ 26</u>	
Defined benefit plan items:				
Amortization of net actuarial losses	\$ (1,036)	\$ (1,160)	\$ (1,117)	Salaries and employee benefits (1)
Amortization of net transition obligation	(18)	(18)	(18)	Salaries and employee benefits (1)
Amortization of prior service cost	—	(14)	(18)	Salaries and employee benefits (1)
Total before tax	(1,054)	(1,192)	(1,153)	
Tax effect	295	319	309	Income tax expense
Net of tax	<u>\$ (759)</u>	<u>\$ (873)</u>	<u>\$ (844)</u>	
Total reclassifications, net of tax	<u>\$ (649)</u>	<u>\$ (1,020)</u>	<u>\$ (818)</u>	

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

22. EARNINGS PER SHARE

The table below presents the information used to compute basic and diluted earnings per share for the years ended December 31, 2021, 2020 and 2019:

(In thousands, except per share data)	Year Ended December 31,		
	2021	2020	2019
Net income	<u>\$ 79,894</u>	<u>\$ 37,273</u>	<u>\$ 58,322</u>
Weighted-average shares outstanding for basic earnings per share	28,003,744	28,074,543	28,495,699
Add: Dilutive effect of employee stock options and awards	253,579	106,033	181,401
Weighted-average shares outstanding for diluted earnings per share	<u>28,257,323</u>	<u>28,180,576</u>	<u>28,677,100</u>
Basic earnings per share	<u>\$ 2.85</u>	<u>\$ 1.33</u>	<u>\$ 2.05</u>
Diluted earnings per share	<u>\$ 2.83</u>	<u>\$ 1.32</u>	<u>\$ 2.03</u>

There were no potentially anti-dilutive securities that have been excluded from the dilutive share calculation for the years ended December 31, 2021, 2020, and 2019.

23. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

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

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

24. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

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

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

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

Risk participation agreements represent agreements with a financial institution counterparty for interest rate swaps related to loans in which we participate. These derivatives are carried at fair value with changes in fair value recorded as a component of other service charges and fees. The risk participation agreements entered into by us as a participant bank provide credit protection to the financial institution counterparty should the borrowers fail to perform on their interest rate derivative contracts with that financial institution.

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

Forward foreign exchange contracts represent commitments to purchase or sell foreign currencies at a future date at a specified price. These derivatives are carried at fair value with changes in fair value recorded as a component of other operating income in the consolidated statements of income. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movements in foreign currency exchange rates. Management reviews and approves the creditworthiness of its forward foreign exchange counter-parties. At December 31, 2021 and 2020, we did not have any forward foreign exchange contracts.

At December 31, 2021 and 2020, financial instruments with off-balance sheet risk were as follows:

(Dollars in thousands)	December 31,	
	2021	2020
Notional amount of:		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit.....	\$ 1,266,596	\$ 1,176,065
Standby letters of credit and financial guarantees written.....	6,634	10,544
Notional amount of:		
Financial instruments whose contract amounts exceed the amount of credit risk:		
Back-to-back swap agreements:		
Assets.....	33,112	—
Liabilities.....	33,112	—
Interest rate options.....	—	714
Forward interest rate contracts.....	3,525	16,603
Risk participation agreements.....	37,531	37,762

25. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

Investment Securities

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

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company's various loan types and are derived from available market information, as well as specific borrower information. As of December 31, 2021, the weighted-average discount rate used in the valuation of loans was 5.13%. In accordance with ASU 2016-01, the fair value of loans as of December 31, 2021 and 2020 are based on the notion of exit price.

Loans Held for Sale

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

Deposit Liabilities

The fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits and interest-bearing demand and savings accounts, are equal to the amount payable on demand. The fair value of time deposits is estimated using discounted cash flow analyses. As of December 31, 2021, the weighted-average discount rate used in the valuation of time deposits was 0.51%. 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. As of December 31, 2021, the weighted-average discount rate used in the valuation of long-term debt was 5.63%.

Derivatives

The fair values of derivative financial instruments 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.

Off-Balance Sheet Financial Instruments

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

Limitations

Fair value estimates are made at a specific point in time based on relevant market 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 and liabilities and premises and equipment.

(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, 2021					
Financial assets:					
Cash and due from financial institutions	\$ 81,506	\$ 81,506	\$ 81,506	\$ —	\$ —
Interest-bearing deposits in other financial institutions	247,401	247,401	247,401	—	—
Investment securities	1,631,699	1,631,699	—	1,623,080	8,619
Loans held for sale	3,531	3,531	—	3,531	—
Loans, net of ACL	5,033,552	4,741,379	—	—	4,741,379
Accrued interest receivable	16,709	16,709	16,709	—	—
Financial liabilities:					
Deposits:					
Noninterest-bearing deposits	2,291,246	2,291,246	2,291,246	—	—
Interest-bearing demand and savings deposits	3,641,180	3,641,180	3,641,180	—	—
Time deposits	706,732	704,645	—	—	704,645
FHLB advances and other short-term borrowings	—	—	—	—	—
Long-term debt	105,616	94,558	—	—	94,558
Accrued interest payable (included in other liabilities)	1,122	1,122	1,122	—	—

(Dollars in thousands)	Notional Amount	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021						
Off-balance sheet financial instruments:						
Commitments to extend credit	\$ 1,266,596	\$ —	\$ 1,347	\$ —	\$ 1,347	\$ —
Standby letters of credit and financial guarantees written	6,634	—	100	—	100	—
Derivatives:						
Back-to-back swap agreements:						
Assets	33,112	435	435	—	—	435
Liabilities	33,112	(435)	(435)	—	—	(435)
Forward sale commitments	3,525	1	1	—	1	—
Risk participation agreements	37,531	(16)	(16)	—	—	(16)

(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, 2020					
Financial assets:					
Cash and due from financial institutions	\$ 97,546	\$ 97,546	\$ 97,546	\$ —	\$ —
Interest-bearing deposits in other financial institutions	6,521	6,521	6,521	—	—
Investment securities	1,183,960	1,183,960	1,351	1,170,283	12,326
Loans held for sale	16,687	16,687	—	16,687	—
Loans, net of ACL	4,880,844	4,795,776	—	—	4,795,776
Accrued interest receivable	20,224	20,224	20,224	—	—
Financial liabilities:					
Deposits:					
Noninterest-bearing deposits	1,790,269	1,790,269	1,790,269	—	—
Interest-bearing demand and savings deposits	3,106,931	3,106,931	3,106,931	—	—
Time deposits	898,918	899,562	—	—	899,562
FHLB advances and other short-term borrowings	22,000	22,000	—	22,000	—
Long-term debt	105,385	92,488	—	—	92,488
Accrued interest payable (included in other liabilities)	1,727	1,727	1,727	—	—

(Dollars in thousands)	Fair Value Measurement Using					
	Notional Amount	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020						
Off-balance sheet financial instruments:						
Commitments to extend credit.....	\$ 1,176,065	\$ 1,313	\$ 1,313	\$ —	\$ 1,313	\$ —
Standby letters of credit and financial guarantees written.....	10,544	158	158	—	158	—
Derivatives:						
Interest rate lock commitments.....	714	18	18	—	18	—
Forward sale commitments.....	16,603	(115)	(115)	—	(115)	—
Risk participation agreements.....	37,762	(48)	(48)	—	—	(48)

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 investment 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 into and out of Level 3 of the fair value hierarchy during the year ended December 31, 2021.

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

(Dollars in thousands)	Fair Value at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Available-for-sale investment securities:				
Debt securities:				
States and political subdivisions	\$ 236,828	\$ —	\$ 229,147	\$ 7,681
Corporate securities	40,646	—	40,646	—
U.S. Treasury obligations and direct obligations of U.S. Government agencies	35,334	—	35,334	—
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities ("GSEs")	1,198,816	—	1,198,816	—
Residential - Non-government sponsored entities ("Non-GSEs")	12,213	—	11,275	938
Commercial - U.S. GSEs and agencies	65,849	—	65,849	—
Commercial - Non-GSEs	42,013	—	42,013	—
Total investment securities	1,631,699	—	1,623,080	8,619
Derivatives: Interest rate lock commitments, forward sale commitments, risk participation agreements, and back-to-back swap agreements	(15)	—	1	(16)
Total	\$ 1,631,684	\$ —	\$ 1,623,081	\$ 8,603

(Dollars in thousands)	Fair Value at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Available-for-sale investment securities:				
Debt securities:				
States and political subdivisions	\$ 168,766	\$ —	\$ 157,429	\$ 11,337
Corporate securities	48,008	—	48,008	—
U.S. Treasury obligations and direct obligations of U.S. Government agencies	33,145	—	33,145	—
Mortgage-backed securities:				
Residential - U.S. Government-sponsored entities ("GSEs")	778,826	—	778,826	—
Residential - Non-government sponsored entities ("Non-GSEs")	23,423	—	22,434	989
Commercial - U.S. GSEs and agencies	87,469	—	87,469	—
Commercial - Non-GSEs	42,972	—	42,972	—
Equity securities	1,351	1,351	—	—
Total investment securities	1,183,960	1,351	1,170,283	12,326
Derivatives: Interest rate lock commitments, forward sale commitments, risk participation agreements, and back-to-back swap agreements	(145)	—	(97)	(48)
Total	\$ 1,183,815	\$ 1,351	\$ 1,170,186	\$ 12,278

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 Debt Securities:		
	States and Political Subdivisions	Residential - Non-Government Agencies	Total
Balance as of December 31, 2019	\$ 11,255	\$ —	\$ 11,255
Principal payments received	(428)	—	(428)
Purchases	—	989	989
Unrealized net gain included in other comprehensive income	510	—	510
Balance as of December 31, 2020	11,337	989	12,326
Principal payments received	(2,841)	(22)	(2,863)
Purchases	—	—	—
Unrealized net loss included in other comprehensive income	(815)	(29)	(844)
Balance as of December 31, 2021	\$ 7,681	\$ 938	\$ 8,619

Within the state and political subdivisions debt securities category, the Company holds two mortgage revenue bonds issued by the City and County of Honolulu with an aggregate fair value of \$7.7 million and \$11.3 million at December 31, 2021 and 2020, respectively. Within the residential non-government agency available-for-sale debt securities category, the Company holds two mortgage backed bonds issued by Habitat for Humanity with an aggregate fair value of \$0.9 million and \$1.0 million at December 31, 2021 and 2020, respectively. The Company estimates the aggregate fair value of \$8.6 million 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 and Habitat for Humanity mortgage backed bonds is the weighted-average discount rate. As of December 31, 2021, the weighted-average discount rate utilized was 3.46%, 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.

26. PARENT COMPANY AND REGULATORY RESTRICTIONS

At December 31, 2021, the retained earnings of the parent company, Central Pacific Financial Corp., included \$371.2 million of equity in undistributed losses of Central Pacific Bank.

Central Pacific Bank, as a Hawaii state-chartered bank, may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of December 31, 2021, the bank had Statutory Retained Earnings of \$114.0 million. For further information, see Note 13 - Equity.

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

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Company on January 1, 2015, and were fully phased in on January 1, 2019. Under the Basel III rules, the Company must hold a "capital conservation buffer" above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in at the rate of 0.625% per year from 0.625% in 2016 to 2.50% on January 1, 2019. The capital conservation buffer for 2019, 2018 and 2017 was 2.50%, 1.875% and 1.25%, respectively. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Company and bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If under-capitalized, capital

distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the bank was categorized as "well-capitalized" and maintained the required capital conservation buffer under the regulatory framework for prompt corrective action. There are no conditions or events since then that management believes have changed the institution's category.

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

(Dollars in thousands)	Actual		Minimum required for capital adequacy purposes		Minimum required to be well-capitalized	
	Amount	Ratio	Amount	Ratio (1)	Amount	Ratio
Company						
As of December 31, 2021						
Tier 1 capital to avg. assets (leverage ratio) ..	\$ 622,130	8.5 %	\$ 293,382	4.0 %		N/A
Tier 1 capital to risk-weighted assets	622,130	12.2	307,215	6.0		N/A
Total capital to risk-weighted assets	741,291	14.5	409,620	8.0		N/A
Common equity tier 1 ("CET1") capital to risk-weighted assets	572,130	11.2	230,411	4.5		N/A
As of December 31, 2020						
Tier 1 capital to avg. assets (leverage ratio) ..	581,358	8.8	263,979	4.0		N/A
Tier 1 capital to risk-weighted assets	581,358	12.9	271,027	6.0		N/A
Total capital to risk-weighted assets	686,130	15.2	361,369	8.0		N/A
CET1 capital to risk-weighted assets	531,358	11.8	203,270	4.5		N/A
Central Pacific Bank						
As of December 31, 2021						
Tier 1 capital to avg. assets (leverage ratio) ..	\$ 652,987	8.9 %	\$ 292,877	4.0 %	\$ 366,096	5.0 %
Tier 1 capital to risk-weighted assets	652,987	12.8	306,497	6.0	408,663	8.0
Total capital to risk-weighted assets	717,000	14.0	408,663	8.0	510,828	10.0
CET1 capital to risk-weighted assets	652,987	12.8	229,873	4.5	332,038	6.5
As of December 31, 2020						
Tier 1 capital to avg. assets (leverage ratio) ..	620,372	9.4	263,735	4.0	329,668	5.0
Tier 1 capital to risk-weighted assets	620,372	13.7	270,820	6.0	361,094	8.0
Total capital to risk-weighted assets	670,087	14.9	361,094	8.0	451,367	10.0
CET1 capital to risk-weighted assets	620,372	13.7	203,115	4.5	293,389	6.5

(1) Under the Basel III Capital Rules, the Company and the bank must also maintain the required Capital Conservation Buffer ("CCB") to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The CCB is calculated as a ratio of CET1 capital to risk-weighted assets, and effectively increases the required minimum risk-based capital ratios. The CCB requirement was phased in over a three-year period that began on January 1, 2016. The phase-in period ended on January 1, 2019, and the CCB is now at its fully phased-in level of 2.5%.

Condensed financial statements of the parent company are as follows:

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

(Dollars in thousands)	December 31,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 20,090	\$ 11,184
Equity investment securities, at fair value	—	1,351
Investment in subsidiary bank	639,050	635,673
Other assets	12,029	8,575
Total assets	\$ 671,169	\$ 656,783
Liabilities and Equity		
Long-term debt	\$ 105,616	\$ 105,385
Other liabilities	7,334	4,713
Total liabilities	112,950	110,098
Total shareholders' equity	558,219	546,685
Total equity	558,219	546,685
Total liabilities and equity	\$ 671,169	\$ 656,783

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Income:			
Dividends from subsidiary bank	\$ 54,016	\$ 24,015	\$ 42,008
Interest income from subsidiary bank	3	4	5
Other income	43	52	92
Total income	54,062	24,071	42,105
Expense:			
Interest expense on long-term debt	4,097	2,095	2,453
Other expenses	3,504	1,293	2,599
Total expenses	7,601	3,388	5,052
Income before income taxes and equity in undistributed income of subsidiaries	46,461	20,683	37,053
Income tax expense (benefit)	(1,968)	(690)	(1,289)
Income before equity in undistributed income of subsidiaries	48,429	21,373	38,342
Equity in undistributed income of subsidiary bank	31,465	15,900	19,980
Net income	\$ 79,894	\$ 37,273	\$ 58,322

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

(Dollars in thousands)	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 79,894	\$ 37,273	\$ 58,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense (benefit)	70	2,552	3,055
Net change in dividends receivable from subsidiary bank	—	—	21,004
Equity in undistributed loss (income) of subsidiary bank	(31,465)	(15,900)	(19,980)
Share-based compensation expense	3,231	3,231	2,735
Net change in other assets and liabilities	(85)	(3,010)	(2,900)
Net cash provided by operating activities	51,645	24,146	62,236
Cash flows from investing activities:			
Contributions to subsidiary bank	—	(46,750)	—
Proceeds from sale of investment securities	1,653	—	—
Distributions from unconsolidated entities	—	—	622
Net cash provided by (used in) investing activities	1,653	(46,750)	622
Cash flows from financing activities:			
Net proceeds from issuance of common stock and stock option exercises	1,236	—	151
Net proceeds from subordinated debt	—	53,838	—
Repayments of long-term debt	—	—	(20,619)
Repurchases of common stock	(18,669)	(4,749)	(22,793)
Cash dividends paid on common stock	(26,959)	(25,935)	(25,706)
Net cash provided by (used in) financing activities	(44,392)	23,154	(68,967)
Net increase (decrease) in cash and cash equivalents	8,906	550	(6,109)
Cash and cash equivalents at beginning of year	11,184	10,634	16,743
Cash and cash equivalents at end of year	\$ 20,090	\$ 11,184	\$ 10,634

27. UNAUDITED QUARTERLY FINANCIAL INFORMATION

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2021					
Total interest income	\$ 51,781	\$ 53,959	\$ 57,969	\$ 55,053	\$ 218,762
Total interest expense	1,977	1,898	1,883	1,957	7,715
Net interest income	49,804	52,061	56,086	53,096	211,047
Provision (credit) for credit losses	(821)	(3,443)	(2,635)	(7,692)	(14,591)
Net interest income after provision (credit) for credit losses	50,625	55,504	58,721	60,788	225,638
Other operating income	10,711	10,530	10,253	11,566	43,060
Other operating expense	37,846	41,433	41,345	42,422	163,046
Income before income taxes	23,490	24,601	27,629	29,932	105,652
Income tax expense	5,452	5,887	6,814	7,605	25,758
Net income	<u>\$ 18,038</u>	<u>\$ 18,714</u>	<u>\$ 20,815</u>	<u>\$ 22,327</u>	<u>\$ 79,894</u>
Per Common Share:					
Basic earnings per share	\$ 0.64	\$ 0.66	\$ 0.74	\$ 0.80	\$ 2.85
Diluted earnings per share	0.64	0.66	0.74	0.80	2.83
Dividends declared per share	0.23	0.24	0.24	0.25	0.96
Performance Ratios:					
Return on average assets (ROA)	1.07 %	1.06 %	1.15 %	1.22 %	1.13 %
Return on average equity (ROE)	13.07 %	13.56 %	14.82 %	16.05 %	14.38 %
Efficiency ratio	62.54 %	66.20 %	62.32 %	65.61 %	64.16 %
Net interest margin (NIM)	3.19 %	3.16 %	3.31 %	3.08 %	3.18 %

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2020					
Total interest income	\$ 53,814	\$ 52,950	\$ 51,753	\$ 53,901	\$ 212,418
Total interest expense	5,984	3,691	2,633	2,427	14,735
Net interest income	47,830	49,259	49,120	51,474	197,683
Provision (credit) for credit losses	11,127	11,213	14,873	4,898	42,111
Net interest income after provision (credit) for credit losses	36,703	38,046	34,247	46,576	155,572
Other operating income	8,886	10,692	11,563	14,057	45,198
Other operating expense	34,442	35,854	36,751	44,690	151,737
Income before income taxes	11,147	12,884	9,059	15,943	49,033
Income tax expense	2,821	2,967	2,200	3,772	11,760
Net income	<u>\$ 8,326</u>	<u>\$ 9,917</u>	<u>\$ 6,859</u>	<u>\$ 12,171</u>	<u>\$ 37,273</u>
Per Common Share					
Basic earnings per share	\$ 0.30	\$ 0.35	\$ 0.24	\$ 0.43	\$ 1.33
Diluted earnings per share	0.29	0.35	0.24	0.43	1.32
Dividends declared per share	0.23	0.23	0.23	0.23	0.92
Performance Ratios					
Return on average assets (ROA)	0.55 %	0.61 %	0.42 %	0.74 %	0.58 %
Return on average equity (ROE)	6.21 %	7.34 %	4.99 %	8.87 %	6.85 %
Efficiency ratio	60.73 %	59.81 %	60.56 %	68.20 %	62.47 %
Net interest margin (NIM)	3.43 %	3.26 %	3.19 %	3.32 %	3.30 %

28. SUBSEQUENT EVENTS

In January 2022, the Board of Directors authorized the repurchase of up to \$30.0 million of its common stock from time to time in the open market or in privately negotiated transactions, pursuant to a newly authorized share repurchase program. The share repurchase program replaced and superseded in its entirety the 2021 Repurchase Plan. The 2021 Repurchase Plan had \$6.3 million in remaining repurchase authority as of December 31, 2021.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including our principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of December 31, 2021. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of December 31, 2021, the Company's disclosure controls and procedures are effective.

(b) Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act). The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

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

As of December 31, 2021, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2021 is effective.

The Company's internal control over financial reporting as of December 31, 2021 has been audited by Crowe LLP, an independent registered public accounting firm, as stated in their report appearing herein under the heading "Report of Independent Registered Public Accounting Firm."

(c) Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act during the Company's fiscal quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as hereinafter noted, the information concerning directors and executive officers of the Company is incorporated by reference from the section entitled "Directors' and Executive Officers' Information" of the Company's definitive Proxy Statement for the 2022 Annual Meeting of Shareholders (the "2022 Proxy Statement") to be filed with the SEC within 120 days of the fiscal year ended December 31, 2021. Information concerning the Company's Code of Conduct & Ethics is set forth above under "Available Information" and incorporated by reference from the section entitled "Corporate Governance and Board Matters—Code of Conduct & Ethics and Compliant Policy" of the Company's 2022 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated by reference from the section entitled "Compensation of Directors and Executive Officers" of the Company's 2022 Proxy Statement.

Information concerning the members of the Compensation Committee of the Company is incorporated by reference from the section entitled "Compensation Committee Interlocks and Insider Participation" of the Company's 2022 Proxy Statement.

Information concerning the report of the Compensation Committee of the Company is incorporated by reference from the section entitled "Compensation Committee Report" of the Company's 2022 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the sections entitled "Introduction—Principal Shareholders," and "Introduction—Security Ownership of Directors, Nominees and Executive Officers" of the Company's 2022 Proxy Statement.

The following table provides information as of December 31, 2021 regarding securities issued under our equity compensation plans that were in effect during fiscal 2021.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	47,440	\$ 14.32	843,469
Equity compensation plans not approved by security holders	—	—	—
Total	<u>47,440</u>	<u>14.32</u>	<u>843,469</u>

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions is incorporated by reference from the section entitled "Election of Directors" and "Corporate Governance and Board Matters—Director Independence and Relationships," and "Corporate Governance and Board Matters—Loans to Related Persons" of the Company's 2022 Proxy Statement.

Information concerning director independence is incorporated by reference from the section entitled "Corporate Governance and Board Matters—Director Independence and Relationships" of the Company's 2022 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated by reference from the section entitled "Discussion of Proposals Recommended by the Board of Directors—Proposal 3—Ratification of the Appointment of Independent Registered Public Accounting Firm" of the Company's 2022 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

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

Central Pacific Financial Corp. and Subsidiaries:

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

[Consolidated Balance Sheets at December 31, 2021 and 2020](#)

[Consolidated Statements of Income for the Years ended December 31, 2021, 2020 and 2019](#)

[Consolidated Statements of Comprehensive Income for the Years ended December 31, 2021, 2020 and 2019](#)

[Consolidated Statements of Changes in Equity for the Years ended December 31, 2021, 2020 and 2019](#)

[Consolidated Statements of Cash Flows for the Years ended December 31, 2021, 2020 and 2019](#)

[Notes to Consolidated Financial Statements](#)

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

(b) Exhibits

Exhibit Number	Description
3.1	Restated Articles of Incorporation of the Registrant (1)
3.2	Bylaws of the Registrant, as amended through January 25, 2012 (2)
4.1	Description of Securities of the Registrant Registered Pursuant to Section 12 of the Exchange Act (3)
4.2	Form of Registrant's Common Stock Certificate (4)
4.3	Other long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the Commission upon request.
10.1	Central Pacific Bank Supplemental Executive Retirement Plan (5) (6)
10.2	The Registrant's Directors' Deferred Compensation Plan (5) (7)
10.3	The Registrant's 2004 Stock Compensation Plan (5) (8)
10.4	Form of Restricted Share Grant Agreement to Non-Employee Director under 2004 Stock Compensation Plan (5) (8)
10.5	Supplemental Executive Retirement Agreement for Blenn A. Fujimoto, effective July 1, 2005 (5) (11)
10.6	Amendment No. 1 to the Supplemental Executive Retirement Plan between the Registrant and Blenn A. Fujimoto, effective December 31, 2008 (5) (10)
10.7	The Registrant's Long-Term Executive Incentive Plan, effective January 1, 2005 (5) (12)
10.8	Amendment No. 2008-1 to the Registrant's Long-Term Executive Incentive Plan (5) (10)
10.9	The Registrant's 2004 Annual Executive Incentive Plan (5) (8)
10.10	Amendment No. 2008-1 to the Registrant's 2004 Annual Executive Incentive Plan dated December 31, 2008 (5) (10)
10.11	Amendment No. 2011-1 to the Registrant's 2004 Stock Compensation Plan (5) (13)
10.12	Amendment No. 2012-1 to the Registrant's 2004 Stock Compensation Plan (14)
10.13	Form of Stock Option Grant Agreement for the Registrant's 2004 Stock Compensation Plan (14)
10.14	Form of Restricted Stock Unit Grant Agreement for the Registrant's 2004 Stock Compensation Plan (14)
10.15	The Registrant's 2013 Stock Compensation Plan (15)
10.16	Form of Stock Option Grant Agreement for the Registrant's 2013 Stock Compensation Plan (16)
10.17	Form of Restricted Stock Grant Agreement for the Registrant's 2013 Stock Compensation Plan (16)
10.18	Form of Restricted Stock Unit Agreement for the Registrant's 2013 Stock Compensation Plan (16)
10.19	Form of Stock Appreciation Rights Grant Agreement for the Registrant's 2013 Stock Compensation Plan (16)
10.20	Form of Key Employee Restricted Stock Unit Grant Agreement for the Registrant's 2013 Stock Compensation Plan (16)
10.21	Employment Agreement with Paul Yonamine, dated September 25, 2018 (5) (9)
14.1	The Registrant's Code of Conduct & Ethics (*)
14.2	The Registrant's Code of Conduct & Ethics for Senior Financial Officers (*)
21	Subsidiaries of the Registrant *
23	Consent of Independent Registered Public Accounting Firm (Crowe) *
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 **

Exhibit Number	Description
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
104	Cover Page Interactive Data File (formatted as Inline XBRL and included within the Exhibit 101 attachments)

* Filed herewith.

** Furnished herewith.

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

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

- (1) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015.
- (2) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 27, 2012.
- (3) Incorporated herein by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission on February 25, 2020.
- (4) Incorporated herein by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission on February 25, 2020.
- (5) Denotes management contract or compensation plan or arrangement.
- (6) Incorporated herein by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed with the Securities and Exchange Commission on March 28, 1997.
- (7) Incorporated herein by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission on March 30, 2001.
- (8) Incorporated herein by reference to Exhibits 10.8, 10.9 and 10.20, respectively, to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.
- (9) Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 26, 2018.
- (10) Incorporated herein by reference to Exhibits 10.15, 10.19 and 10.21, respectively, to the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009.
- (11) Incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 31, 2006.
- (12) Incorporated herein by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 15, 2006.
- (13) Incorporated herein by reference to Appendix B to the Registrant's Definitive Proxy Statement on Form DEF 14A filed with the Securities and Exchange Commission on March 4, 2011.
- (14) Incorporated herein by reference to Exhibits 10.1, 10.2 and 10.3, respectively, to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 30, 2012.
- (15) Incorporated herein by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission on February 27, 2019.
- (16) Incorporated herein by reference to Exhibits 10.2, 10.3, 10.4, 10.5 and 10.6, respectively, to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 1, 2013.

(c) Financial Statement Schedules

All financial statement schedules have been omitted as the information is not required under the related instructions or is inapplicable.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 23, 2022

CENTRAL PACIFIC FINANCIAL CORP.

(Registrant)

/s/ Paul K. Yonamine

Paul K. Yonamine

Chairman and Chief Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Paul K. Yonamine</u> Paul K. Yonamine	Chairman and Chief Executive Officer (Principal Executive Officer)	February 23, 2022
<u>/s/ David S. Morimoto</u> David S. Morimoto	Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2022
<u>/s/ A. Catherine Ngo</u> A. Catherine Ngo	Executive Vice Chair, Director	February 23, 2022
<u>/s/ Christine H. H. Camp</u> Christine H. H. Camp	Director	February 23, 2022
<u>/s/ Earl E. Fry</u> Earl E. Fry	Director	February 23, 2022
<u>/s/ Wayne K. Kamitaki</u> Wayne K. Kamitaki	Director	February 23, 2022
<u>/s/ Jonathan B. Kindred</u> Jonathan B. Kindred	Director	February 23, 2022
<u>/s/ Paul J. Kosasa</u> Paul J. Kosasa	Director	February 23, 2022
<u>/s/ Duane K. Kurisu</u> Duane K. Kurisu	Director	February 23, 2022
<u>/s/ Christopher T. Lutes</u> Christopher T. Lutes	Director	February 23, 2022
<u>/s/ Colbert M. Matsumoto</u> Colbert M. Matsumoto	Director	February 23, 2022
<u>/s/ Saedene K. Ota</u> Saedene K. Ota	Director	February 23, 2022
<u>/s/ Crystal K. Rose</u> Crystal K. Rose	Director	February 23, 2022

Subsidiaries of the Registrant

The Company or one of its wholly-owned subsidiaries owned the following percent of the outstanding common stock, voting securities and interests of each of the corporations listed below as of December 31, 2021:

<u>Name</u>	<u>State or Other Jurisdiction of Incorporation</u>	<u>Percent Owned</u>
Central Pacific Bank	Hawaii	100%
CPB Capital Trust IV	Delaware	100%
CPB Statutory Trust V	Delaware	100%
Gentry HomeLoans, LLC	Hawaii	50%
Haseko HomeLoans, LLC	Hawaii	50%
Island Pacific HomeLoans, LLC	Hawaii	50%
Oahu HomeLoans, LLC	Hawaii	50%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-141232, 333-188445, 333-119538, 333-196873, and 333-211155 on Form S-8 of Central Pacific Financial Corp. of our report dated February 23, 2022 relating to the financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Sacramento, California

February 23, 2022

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

I, Paul K. Yonamine, Chairman and Chief Executive Officer of Central Pacific Financial Corp. (the “Company”), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 23, 2022

By: /s/ Paul K. Yonamine

Paul K. Yonamine

Chairman and Chief Executive Officer

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

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

1. I have reviewed this Annual Report on Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 23, 2022

By: /s/ David S. Morimoto

David S. Morimoto

Senior Executive Vice President and Chief Financial Officer

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

I, Paul K. Yonamine, Chairman and Chief Executive Officer of Central Pacific Financial Corp. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2022

By: /s/ Paul K. Yonamine

Paul K. Yonamine

Chairman and Chief Executive Officer

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

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

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

I, David S. Morimoto, Senior Executive Vice President and Chief Financial Officer of Central Pacific Financial Corp. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2022

By: /s/ David S. Morimoto

David S. Morimoto

Senior Executive Vice President and Chief Financial Officer

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

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