

CENTRAL PACIFIC FINANCIAL CORP
Form 10-K/A
March 05, 2018

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

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

(Mark One)

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

For the Fiscal year ended December 31, 2017

or

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

Commission file number: 001-31567

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, No Par Value New York Stock Exchange

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

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

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

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

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)
Smaller Reporting Company Emerging Growth Company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2018 annual meeting of shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent stated herein. The proxy statement will be filed within 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

EXPLANATORY NOTE

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

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

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

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Central Pacific Financial Corp.:

Opinion on the Consolidated Financial Statements

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

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

Basis for Opinion

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

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

/s/ KPMG LLP

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

Honolulu, Hawaii
February 28, 2018

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

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

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

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Honolulu, Hawaii
February 28, 2018

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CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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Accumulated deficit	(89,036) (108,941)
Accumulated other comprehensive income (loss)	(1,039) (1,521)
Total shareholders' equity	500,011	504,650	
Non-controlling interest	24	25	
Total equity	500,035	504,675	
Total liabilities and equity	\$5,623,708	\$5,384,236	

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

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Other	16,367	17,346	17,342
Total other operating expense	131,817	133,563	127,042
Income before income taxes	75,056	72,220	72,956
Income tax expense	33,852	25,228	27,088
Net income	\$ 41,204	\$ 46,992	\$ 45,868

Per common share data:

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	(Dollars in thousands, except per share data)							
Balance at December 31, 2014	35,233,674	\$ —	—\$642,205	\$79,716	\$(157,039)	\$ 3,159	\$ —	—\$568,041
Net income	—	—	—	—	45,868	\$ —	—	45,868
Other comprehensive loss	—	—	—	—	—	—	—	—