

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 09, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from _____ to _____

Commission file number 001-31567

CENTRAL PACIFIC FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Hawaii
(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)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

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filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of registrant’s common stock, no par value, on April 25, 2014 was 35,941,072 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

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

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

	March 31, 2014	December 31, 2013
(Dollars in thousands)		
Assets		
Cash and due from banks	\$ 85,347	\$ 45,092
Interest-bearing deposits in other banks	5,919	4,256
Investment securities:		
Available for sale, at fair value	1,408,124	1,407,999
Held to maturity, at amortized cost (fair value of \$238,782 at March 31, 2014 and \$238,705 at December 31, 2013)	248,788	252,047
Total investment securities	1,656,912	1,660,046
Loans held for sale	11,247	12,370
Loans and leases	2,697,454	2,630,601
Allowance for loan and lease losses	(83,162)	(83,820)
Net loans and leases	2,614,292	2,546,781
Premises and equipment, net	47,992	49,039
Accrued interest receivable	13,507	14,072
Investment in unconsolidated subsidiaries	8,478	9,127
Other real estate	4,829	5,163
Other intangible assets	31,951	32,783
Bank-owned life insurance	150,274	149,604
Federal Home Loan Bank stock	45,592	46,193
Other assets	151,097	166,672
Total assets	\$ 4,827,437	\$ 4,741,198
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 939,138	\$ 891,017
Interest-bearing demand	744,690	728,619
Savings and money market	1,230,480	1,207,016
Time	1,071,459	1,109,521
Total deposits	3,985,767	3,936,173
Short-term borrowings	102,000	8,015
Long-term debt	92,795	92,799
Other liabilities	38,411	44,037
Total liabilities	4,218,973	4,081,024
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and		

outstanding none at March 31, 2014 and December 31, 2013, respectively	-	-
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 38,723,250 and 42,107,633 shares at March 31, 2014 and December 31, 2013, respectively	715,708	784,547
Surplus	76,426	75,498
Accumulated deficit	(177,649)	(184,087)
Accumulated other comprehensive loss	(6,082)	(15,845)
Total shareholders' equity	608,403	660,113
Non-controlling interest	61	61
Total equity	608,464	660,174
Total liabilities and equity	\$ 4,827,437	\$ 4,741,198

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)	Three Months Ended March 31,	
	2014	2013
Interest income:		
Interest and fees on loans and leases	\$ 26,883	\$ 24,443
Interest and dividends on investment securities:		
Taxable interest	9,496	7,031
Tax-exempt interest	994	1,027
Dividends	1	5
Interest on deposits in other banks	7	89
Dividends on Federal Home Loan Bank stock	12	-
Total interest income	37,393	32,595
Interest expense:		
Interest on deposits:		
Demand	90	81
Savings and money market	224	217
Time	630	759
Interest on short-term borrowings	17	-
Interest on long-term debt	636	869
Total interest expense	1,597	1,926
Net interest income	35,796	30,669
Provision (credit) for loan and lease losses	(1,316)	(6,561)
Net interest income after provision for loan and lease losses	37,112	37,230
Other operating income:		
Service charges on deposit accounts	1,993	1,591
Loan servicing fees	1,444	1,543
Other service charges and fees	2,943	2,787
Income from fiduciary activities	1,062	697
Equity in earnings of unconsolidated subsidiaries	52	28
Fees on foreign exchange	114	71
Income from bank-owned life insurance	670	564
Loan placement fees	143	149
Net gain on sales of residential loans	1,239	4,128

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Net gain on sales of foreclosed assets	162	558
Other	322	914
Total other operating income	10,144	13,030
Other operating expense:		
Salaries and employee benefits	17,434	18,535
Net occupancy	3,590	3,227
Equipment	796	958
Amortization of other intangible assets	1,240	2,248
Communication expense	894	950
Legal and professional services	1,812	2,310
Computer software expense	1,358	933
Advertising expense	686	812
Foreclosed asset expense	105	300
Other	4,015	2,480
Total other operating expense	31,930	32,753
Income before income taxes	15,326	17,507
Income tax expense (benefit)	5,518	(119,802)
Net income	\$ 9,808	\$ 137,309
Per common share data:		
Basic earnings per share	\$ 0.23	\$ 3.28
Diluted earnings per share	0.23	3.25
Cash dividends declared	0.08	-
Shares used in computation:		
Basic shares	41,915	41,816
Diluted shares	42,477	42,297

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Net income	\$ 9,808	\$ 137,309
Other comprehensive income, net of tax		
Net change in unrealized gain (loss) on investment securities	9,576	(4,823)
Net change in unrealized loss on derivatives	-	10,993
Minimum pension liability adjustment	187	625
Other comprehensive income, net of tax	9,763	6,795
Comprehensive income	\$ 19,571	\$ 144,104

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Accumulated Surplus (Dollars in thousands, except per share data)	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
Balance at December 31, 2013	\$ -	\$ 784,547	\$ 75,498	\$ (184,087)	\$ (15,845)	\$ 61	\$ 660,174
Net income	-	-	-	9,808	-	-	9,808
Other comprehensive income	-	-	-	-	9,763	-	9,763
Cash dividends (\$0.08 per share)	-	-	-	(3,370)	-	-	(3,370)
3,368 shares of common stock sold by directors' deferred compensation plan	-	34	-	-	-	-	34
3,405,888 shares of common stock repurchased and other related costs	-	(68,873)	-	-	-	-	(68,873)
Share-based compensation	-	-	928	-	-	-	928
Non-controlling interests	-	-	-	-	-	-	-
Balance at March 31, 2014	\$ -	\$ 715,708	\$ 76,426	\$ (177,649)	\$ (6,082)	\$ 61	\$ 608,464
Balance at December 31, 2012	\$ -	\$ 784,512	\$ 70,567	\$ (349,427)	\$ (830)	\$ 9,957	\$ 514,779
Net income	-	-	-	137,309	-	-	137,309
Other comprehensive income	-	-	-	-	6,795	-	6,795
83 shares of common stock sold by directors' deferred compensation plan	-	7	-	-	-	-	7
Share-based compensation	-	-	1,168	-	-	-	1,168
Non-controlling interests	-	-	-	-	-	(6)	(6)
Balance at March 31, 2013	\$ -	\$ 784,519	\$ 71,735	\$ (212,118)	\$ 5,965	\$ 9,951	\$ 660,052

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 9,808	\$ 137,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(1,316)	(6,561)
Depreciation and amortization	1,463	1,518
Write down of other real estate, net of gain on sale	(65)	(584)
Amortization of other intangible assets	1,240	2,248
Net amortization of investment securities	2,191	3,962
Share-based compensation	928	1,168
Net gain on sales of residential loans	(1,239)	(4,128)
Proceeds from sales of loans held for sale	84,989	212,432
Originations of loans held for sale	(82,627)	(187,314)
Equity in earnings of unconsolidated subsidiaries	(52)	(28)
Increase in cash surrender value of bank-owned life insurance	(670)	(564)
Deferred income taxes	5,535	(119,802)
Net change in other assets and liabilities	(1,169)	(6,918)
Net cash provided by operating activities	19,016	32,738
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	32,639	155,045
Purchases of investment securities available for sale	(18,923)	(164,052)
Proceeds from maturities of and calls on investment securities held to maturity	3,171	2,388
Net loan originations	(66,567)	(74,798)
Proceeds from sales of loans originated for investment	-	460
Proceeds from sale of other real estate	771	1,842
Purchases of premises and equipment	(416)	(1,337)
Distributions from unconsolidated subsidiaries	354	550
Contributions to unconsolidated subsidiaries	(60)	(50)
Proceeds from redemption of FHLB stock	601	434
Net cash used in investing activities	(48,430)	(79,518)
Cash flows from financing activities:		
Net increase in deposits	49,594	83,919

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Repayments of long-term debt	(4)	(5)
Net increase in short-term borrowings	93,985	-
Cash dividends paid on common stock	(3,370)	-
Repurchases of common stock and other related costs	(68,873)	-
Net cash provided by financing activities	71,332	83,914
Net increase in cash and cash equivalents	41,918	37,134
Cash and cash equivalents at beginning of period	49,348	177,375
Cash and cash equivalents at end of period	\$ 91,266	\$ 214,509
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,654	\$ 14,048
Income taxes	-	5
Cash received during the period for:		
Income taxes	79	-
Supplemental disclosure of noncash investing and financing activities:		
Net change in common stock held by directors' deferred compensation plan	\$ (34)	\$ (7)
Net reclassification of loans to other real estate	372	640

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the “Company,” “we,” “us” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2013. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders’ equity for any periods presented.

2. REGULATORY MATTERS

On October 9, 2012, the bank entered into a Memorandum of Understanding (the “Compliance MOU”) with the Federal Deposit Insurance Corporation (the “FDIC”) to improve the bank’s compliance management system (“CMS”). Under the Compliance MOU, we are required to, among other things, (i) improve the Board of Directors’ oversight of the bank’s CMS; (ii) ensure the establishment and implementation of the bank’s CMS is commensurate with the complexity of the bank’s operations; (iii) perform a full review of all compliance policy and procedures, then revise and adopt policy and procedures to ensure compliance with all consumer protection regulations; (iv) enhance the bank’s training program relating to consumer protection and fair lending regulations; (v) develop and implement an effective internal monitoring program to ensure compliance with all applicable laws and regulations; (vi) strengthen the compliance audit function to ensure that the compliance audits are appropriately and comprehensively scoped; (vii) develop and implement internal controls for the bank’s third-party payment processing activity; (viii) strengthen the Board of Directors and senior management’s oversight of third-party relationships and (ix) enhance the bank’s overdraft payment program. The bank believes it has already taken substantial steps to comply with the Compliance MOU. In addition to the steps taken to comply with the Compliance MOU, the bank received an “Outstanding” rating in its most recent Community Reinvestment performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

We cannot assure you whether or when the Company and the bank will be in full compliance with the Compliance MOU or whether or when the Compliance MOU will be terminated. Even if terminated, we may still be subject to other agreements with regulators which restrict our activities or may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU are judicially enforceable and the Company or the bank’s failure to comply with such requirements and restrictions may subject the Company and the bank to additional regulatory restrictions including: the imposition of additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank’s deposit insurance or appointment of a conservator or receiver for the bank.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU 2013-11 provide guidance for financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss or a tax credit carryforward exists. The Company has reflected the adoption of this guidance prospectively on January 1, 2014, the effective date of ASU 2013-11. The adoption of this guidance did not have a material impact on our consolidated financial statements.

4. INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
At March 31, 2014:				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	\$ 248,788	\$ -	\$ (10,006)	\$ 238,782
Available for Sale:				
Debt securities:				
States and political subdivisions	\$ 191,556	\$ 861	\$ (7,291)	\$ 185,126
Corporate securities	156,686	2,332	(727)	158,291
Mortgage-backed securities:				
U.S. Government sponsored entities	902,088	6,948	(9,970)	899,066
Non-agency collateralized mortgage obligations	166,535	1,423	(3,099)	164,859
Other	672	110	-	782
Total	\$ 1,417,537	\$ 11,674	\$ (21,087)	\$ 1,408,124
At December 31, 2013:				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	\$ 252,047	\$ -	\$ (13,342)	\$ 238,705
Available for Sale:				
Debt securities:				
States and political subdivisions	\$ 191,158	\$ 305	\$ (12,106)	\$ 179,357
Corporate securities	157,337	1,878	(1,120)	158,095
Mortgage-backed securities:				
U.S. Government sponsored entities	936,144	7,085	(15,603)	927,626
Non-agency collateralized mortgage obligations	147,902	81	(5,937)	142,046
Other	755	120	-	875
Total	\$ 1,433,296	\$ 9,469	\$ (34,766)	\$ 1,407,999

The amortized cost and estimated fair value of investment securities at March 31, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2014	
	Amortized Cost	Estimated Fair Value
(Dollars in thousands)		
Held to Maturity		
Mortgage-backed securities	\$ 248,788	\$ 238,782

Available for Sale

Due in one year or less	\$ 2,188	\$ 2,192
Due after one year through five years	98,528	100,233
Due after five years through ten years	122,509	121,335
Due after ten years	125,017	119,657
Mortgage-backed securities	1,068,623	1,063,925
Other	672	782
Total	\$ 1,417,537	\$ 1,408,124

We did not sell any available for sale securities during the first quarter of 2014 and 2013.

Investment securities of \$847.5 million and \$914.1 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings. None of these securities were pledged to a secured party that has the right to sell or repledge the collateral as of the same periods.

Provided below is a summary of the 283 and 321 investment securities which were in an unrealized loss position at March 31, 2014 and December 31, 2013, respectively.

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)						
At March 31, 2014:						
Debt securities:						
States and political subdivisions	\$ 101,558	\$ (4,194)	\$ 48,502	\$ (3,097)	\$ 150,060	\$ (7,291)
Corporate securities	58,999	(727)	-	-	58,999	(727)
Mortgage-backed securities:						
U.S. Government sponsored entities	802,107	(19,176)	17,192	(800)	819,299	(19,976)
Non-agency collateralized mortgage obligations	78,555	(3,099)	-	-	78,555	(3,099)
Total temporarily impaired securities	\$ 1,041,219	\$ (27,196)	\$ 65,694	\$ (3,897)	\$ 1,106,913	\$ (31,093)
At December 31, 2013:						
Debt securities:						
States and political subdivisions	\$ 137,176	\$ (8,985)	\$ 32,747	\$ (3,121)	\$ 169,923	\$ (12,106)
Corporate securities	75,368	(1,120)	-	-	75,368	(1,120)
Mortgage-backed securities:						
U.S. Government sponsored entities	909,585	(28,386)	4,848	(559)	914,433	(28,945)
Non-agency collateralized mortgage obligations	129,991	(5,937)	-	-	129,991	(5,937)
Total temporarily impaired securities	\$ 1,252,120	\$ (44,428)	\$ 37,595	\$ (3,680)	\$ 1,289,715	\$ (48,108)

Other-Than-Temporary Impairment (“OTTI”)

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

- The length of time and the extent to which fair value has been less than the amortized cost basis;

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

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

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

5. LOANS AND LEASES

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

	March 31, 2014	December 31, 2013
	(Dollars in thousands)	
Commercial, financial and agricultural	\$ 435,692	\$ 398,365
Real estate:		
Construction	86,958	75,927
Mortgage - residential	1,178,533	1,135,155
Mortgage - commercial	684,546	703,800
Consumer	306,440	311,670
Leases	5,338	6,241
	2,697,507	2,631,158
Unearned income	(53)	(557)
Total loans and leases	\$ 2,697,454	\$ 2,630,601

During the three months ended March 31, 2014, we transferred one loan with a carrying value of \$0.4 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold or purchased during the three months ended March 31, 2014.

During the three months ended March 31, 2013, we transferred two loans with a carrying value of \$0.6 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold or purchased during the three months ended March 31, 2013.

Impaired Loans

The following table presents by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company's impairment measurement method as of March 31, 2014 and December 31, 2013:

	Commercial, Financial & Agricultural	Construction	Real Estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
	(Dollars in thousands)						
March 31, 2014							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ 3,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,492
Collectively evaluated for impairment	9,294	14,940	17,812	25,925	5,687	12	73,670
	12,786	14,940	17,812	25,925	5,687	12	77,162
Unallocated							6,000
Total ending balance	\$ 12,786	\$ 14,940	\$ 17,812	\$ 25,925	\$ 5,687	\$ 12	\$ 83,162
Loans and leases:							
Individually evaluated for impairment	\$ 17,462	\$ 5,309	\$ 36,313	\$ 15,922	\$ -	\$ -	\$ 75,006
Collectively evaluated for impairment	418,230	81,649	1,142,220	668,624	306,440	5,338	2,622,501
	435,692	86,958	1,178,533	684,546	306,440	5,338	2,697,507
Unearned income	552	(303)	1,559	(993)	(868)	-	(53)
Total ending balance	\$ 436,244	\$ 86,655	\$ 1,180,092	\$ 683,553	\$ 305,572	\$ 5,338	\$ 2,697,454
December 31, 2013							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ 349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 349
Collectively evaluated for impairment	12,847	2,774	25,272	29,947	6,576	55	77,471

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	13,196	2,774	25,272	29,947	6,576	55	77,820
Unallocated							6,000
Total ending							
balance	\$ 13,196	\$ 2,774	\$ 25,272	\$ 29,947	\$ 6,576	\$ 55	\$ 83,820
Loans and leases:							
Individually							
evaluated for							
impairment	\$ 3,939	\$ 8,065	\$ 36,779	\$ 16,271	\$ -	\$ -	\$ 65,054
Collectively							
evaluated for							
impairment	394,426	67,862	1,098,376	687,529	311,670	6,241	2,566,104
	398,365	75,927	1,135,155	703,800	311,670	6,241	2,631,158
Unearned income	351	(311)	1,418	(1,033)	(982)	-	(557)
Total ending							
balance	\$ 398,716	\$ 75,616	\$ 1,136,573	\$ 702,767	\$ 310,688	\$ 6,241	\$ 2,630,601

The following table presents by class, impaired loans as of March 31, 2014 and December 31, 2013:

	Unpaid Principal Balance	Recorded Investment (Dollars in thousands)	Allowance Allocated
March 31, 2014			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	\$ 3,389	\$ 3,389	\$ -
Real estate:			
Construction	11,695	5,309	-
Mortgage - residential	40,370	36,313	-
Mortgage - commercial	22,003	15,922	-
Total impaired loans with no related allowance recorded	77,457	60,933	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	15,571	14,073	3,492
Total impaired loans with an allowance recorded	15,571	14,073	3,492
Total	\$ 93,028	\$ 75,006	\$ 3,492
December 31, 2013			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	\$ 1,069	\$ 1,040	\$ -
Real estate:			
Construction	14,451	8,065	-
Mortgage - residential	41,117	36,779	-
Mortgage - commercial	22,353	16,271	-
Total impaired loans with no related allowance recorded	78,990	62,155	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,367	2,899	349
Total impaired loans with an allowance recorded	4,367	2,899	349
Total	\$ 83,357	\$ 65,054	\$ 349

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of March 31, 2014 and 2013:

	Three Months Ended March 31,			
	2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
Commercial, financial & agricultural	\$ 8,417	\$ 5	\$ 4,091	\$ 6
Real estate:				
Construction	6,822	32	43,643	176
Mortgage - residential	36,407	163	41,795	131
Mortgage - commercial	16,045	39	17,730	90

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Leases	-	-	82	-
Total	\$ 67,691	\$ 239	\$ 107,341	\$ 403

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following table presents by class, the aging of the recorded investment in past due loans and leases as of March 31, 2014 and December 31, 2013:

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
(Dollars in thousands)							
March 31, 2014							
Commercial, financial & agricultural	\$ 706	\$ 69	\$ 7	\$ 17,067	\$ 17,849	\$ 418,395	\$ 436,244
Real estate:							
Construction	-	-	-	379	379	86,276	86,655
Mortgage - residential	2,887	-	-	18,161	21,048	1,159,044	1,180,092
Mortgage - commercial	159	-	-	13,610	13,769	669,784	683,553
Consumer	770	200	23	-	993	304,579	305,572
Leases	-	-	-	-	-	5,338	5,338
Total	\$ 4,522	\$ 269	\$ 30	\$ 49,217	\$ 54,038	\$ 2,643,416	\$ 2,697,454
December 31, 2013							
Commercial, financial & agricultural	\$ 50	\$ -	\$ -	\$ 3,533	\$ 3,583	\$ 395,133	\$ 398,716
Real estate:							
Construction	-	120	-	4,015	4,135	71,481	75,616
Mortgage - residential	3,898	1,885	-	20,271	26,054	1,110,519	1,136,573
Mortgage - commercial	544	-	-	13,769	14,313	688,454	702,767
Consumer	577	92	-	-	669	310,019	310,688
Leases	-	-	15	-	15	6,226	6,241
Total	\$ 5,069	\$ 2,097	\$ 15	\$ 41,588	\$ 48,769	\$ 2,581,832	\$ 2,630,601

Modifications

Troubled debt restructurings (“TDRs”) included in nonperforming assets at March 31, 2014 consisted of 44 Hawaii residential mortgage loans with a combined principal balance of \$10.1 million, a U.S. Mainland commercial mortgage loan with a principal balance of \$9.0 million, a Hawaii commercial loan with a principal balance of \$0.5 million, and two Hawaii construction and development loans with a combined principal balance of \$0.3 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these

borrowers. There were \$21.8 million of TDRs still accruing interest at March 31, 2014, none of which were more than 90 days delinquent. At December 31, 2013, there were \$23.3 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Some loans modified in a TDR may already be on nonaccrual status and partial charge-offs may have already been taken against the outstanding loan balance. Thus, these loans have already been identified as impaired and have already been evaluated under the Company's allowance for loan and lease losses (the "Allowance") methodology. As a result, some loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan. The loans modified in a TDR did not have a material effect to our provision for loan and lease losses expense (the "Provision") and the Allowance during the three months ended March 31, 2014.

The following table presents by class, information related to loans modified in a TDR during the three months ended March 31, 2014 and 2013:

	Number of Contracts	Recorded Investment (as of Period End) (Dollars in thousands)	Increase in the Allowance
Three Months Ended March 31, 2014			
Real estate mortgage - residential	9	\$ 613	\$ -
Three Months Ended March 31, 2013			
Commercial, financial & agricultural	1	\$ 1,500	\$ -

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014		2013	
	Number of Contracts	Recorded Investment (as of Period End) (Dollars in thousands)	Number of Contracts	Recorded Investment (as of Period End)
Real estate:				
Construction	1	\$ 175	5	\$ 1,574
Mortgage - residential	-	-	1	354
Total	1	\$ 175	6	\$ 1,928

Credit Quality Indicators

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

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

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

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current

existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

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

Loans and leases not meeting the criteria above are considered to be pass rated loans and leases. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of March 31, 2014 and December 31, 2013:

	Pass	Special Mention	Substandard	Less: Unearned Income	Total
	(Dollars in thousands)				
March 31, 2014					
Commercial, financial & agricultural	\$ 398,105	\$ 17,003	\$ 20,584	\$ (552)	\$ 436,244
Real estate:					
Construction	78,568	4,948	3,442	303	86,655
Mortgage - residential	1,159,844	228	18,461	(1,559)	1,180,092
Mortgage - commercial	635,915	20,495	28,136	993	683,553
Consumer	306,417	-	23	868	305,572
Leases	5,338	-	-	-	5,338
Total	\$ 2,584,187	\$ 42,674	\$ 70,646	\$ 53	\$ 2,697,454
December 31, 2013					
Commercial, financial & agricultural	\$ 371,285	\$ 21,511	\$ 5,569	\$ (351)	\$ 398,716
Real estate:					
Construction	67,435	4,477	4,015	311	75,616
Mortgage - residential	1,113,363	361	21,431	(1,418)	1,136,573
Mortgage - commercial	651,761	20,690	31,349	1,033	702,767
Consumer	311,670	-	-	982	310,688
Leases	6,241	-	-	-	6,241
Total	\$ 2,521,755	\$ 47,039	\$ 62,364	\$ 557	\$ 2,630,601

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At March 31, 2014 and December 31, 2013, we did not have any loans that we considered to be subprime.

6. ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage Residential	Mortgage Commercial	Consumer	Leases	Unallocated	Total
(Dollars in thousands)								
Three Months Ended March 31, 2014								
Beginning balance	\$ 13,196	\$ 2,774	\$ 25,272	\$ 29,947	\$ 6,576	\$ 55	\$ 6,000	\$ 83,820
Provision (credit) for loan and lease losses	(943)	11,764	(7,517)	(4,035)	(548)	(37)	-	(1,316)
Charge-offs	12,253	14,538	17,755	25,912	6,028	18	6,000	82,504
Recoveries	73	-	37	-	580	8	-	698
Net charge-offs (recoveries)	606	402	94	13	239	2	-	1,356
Ending balance	(533)	(402)	(57)	(13)	341	6	-	(658)
	\$ 12,786	\$ 14,940	\$ 17,812	\$ 25,925	\$ 5,687	\$ 12	\$ 6,000	\$ 83,162
Three Months Ended March 31, 2013								
Beginning balance	\$ 4,987	\$ 4,510	\$ 27,836	\$ 50,574	\$ 2,421	\$ 85	\$ 6,000	\$ 96,413
Provision (credit) for loan and lease losses	3,406	(971)	311	(9,838)	542	(11)	-	(6,561)
Charge-offs	8,393	3,539	28,147	40,736	2,963	74	6,000	89,852
Recoveries	244	78	414	3,674	315	-	-	4,725
Net charge-offs (recoveries)	492	485	231	254	216	1	-	1,679
Ending balance	(248)	(407)	183	3,420	99	(1)	-	3,046
	\$ 8,641	\$ 3,946	\$ 27,964	\$ 37,316	\$ 2,864	\$ 75	\$ 6,000	\$ 86,806

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

Our Provision was a credit of \$1.3 million in the three months ended March 31, 2014, compared to a credit of \$6.6 million in the three months ended March 31, 2013. The decrease in our Allowance is directly attributable to continued improvement in our credit risk profile as evidenced by net recoveries of \$0.7 million in the first three months ended March 31, 2014 compared to net charge-offs of \$3.0 million in the same prior year period.

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

7. SECURITIZATIONS

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

All unsold mortgage-backed securities from prior securitizations were categorized as available for sale securities and were therefore recorded at their fair value of \$3.8 million at March 31, 2014 and December 31, 2013. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of \$0.2 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income ("AOCI") at March 31, 2014 and December 31, 2013.

8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the three months ended March 31, 2014:

	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
Balance, beginning of period	\$ 12,704	\$ 20,079	\$ 32,783
Additions	-	408	408
Amortization	(669)	(571)	(1,240)
Balance, end of period	\$ 12,035	\$ 19,916	\$ 31,951

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled \$0.4 million and \$0.9 million for the three months ended March 31, 2014 and 2013, respectively. Amortization of mortgage servicing rights was \$0.6 million and \$1.6 million for the three months ended March 31, 2014 and 2013, respectively.

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

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Fair market value, beginning of period	\$ 21,399	\$ 22,356
Fair market value, end of period	20,832	21,595
Weighted average discount rate	8.0 %	8.0 %
Weighted average prepayment speed assumption	14.1	14.1

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

	March 31, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
	(Dollars in thousands)					
Core deposit premium	\$ 44,642	\$ (32,607)	\$ 12,035	\$ 44,642	\$ (31,938)	\$ 12,704
Mortgage servicing rights	54,849	(34,933)	19,916	54,441	(34,362)	20,079
	\$ 99,491	\$ (67,540)	\$ 31,951	\$ 99,083	\$ (66,300)	\$ 32,783

Based on the core deposit premium and mortgage servicing rights held as of March 31, 2014, estimated amortization expense for the remainder of fiscal 2014, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
2014 (remainder)	\$ 2,006	\$ 1,720	\$ 3,726
2015	2,674	1,860	4,534
2016	2,674	1,445	4,119
2017	2,674	1,146	3,820
2018	2,007	887	2,894
2019	-	678	678
Thereafter	-	12,180	12,180
	\$ 12,035	\$ 19,916	\$ 31,951

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

9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as 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.

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 March 31, 2014, we were a party to interest rate lock and forward sale commitments on \$44.0 million and \$18.4 million of mortgage loans, respectively.

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

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value at March 31, 2014	Fair Value at December 31, 2013	Fair Value at March 31, 2014	Fair Value at December 31, 2013
(Dollars in thousands)					
Interest rate contracts	Other assets / other liabilities	\$ 179	\$ 425	\$ 139	\$ 146

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

Derivatives in Cash Flow Hedging Relationship	Amount of Loss Reclassified from AOCI into Earnings (Effective Portion) (Dollars in thousands)
Three Months Ended March 31, 2014	
Interest rate contracts	\$ -
Three Months Ended March 31, 2013	
Interest rate contracts	(394)

Amounts recognized in AOCI are net of income taxes. Amounts reclassified from AOCI into income are included in interest income in the consolidated statements of income. The ineffective portion has been recognized as other operating income in the consolidated statements of income.

Derivatives Not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives (Dollars in thousands)
Three Months Ended March 31, 2014		
Interest rate contracts	Other operating income	\$ (60)
Three Months Ended March 31, 2013		
Interest rate contracts	Other operating income	370

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2014, our bank maintained a \$45.7 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of March 31, 2014, certain commercial and commercial real estate loans totaling \$78.5 million have been 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.

The bank is a member of and maintained an \$827.4 million line of credit with the Federal Home Loan Bank of Seattle (the "FHLB") as of March 31, 2014. Long-term borrowings under this arrangement totaled \$10,000 at March 31, 2014, compared to \$14,000 at December 31, 2013. Short-term borrowings under this arrangement totaled \$102.0 million and \$8.0 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014 the bank's pledged assets to the FHLB included investment securities with a fair value of \$2.1 million and certain real estate loans totaling \$1.4 billion.

On August 20, 2009, we began deferring regularly scheduled interest payments on our outstanding junior subordinated debentures relating to our trust preferred securities. The terms of the junior subordinated debentures and the trust documents allow us to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. During the deferral period, the respective trusts suspended the declaration and payment of dividends on the trust preferred securities. Also during the deferral period, we may not, among other things and with limited exceptions, pay cash dividends on or repurchase our common stock or make any payment on outstanding debt obligations that rank equally with or junior to the junior subordinated debentures. During the deferral period, we continued to accrue, and reflect in our consolidated financial statements, the deferred interest payments on our junior subordinated debentures. In March 2013, the Company elected to pay all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resume quarterly payments for each outstanding trust. As a result, the deferred accrued interest in the amount of \$13.0 million was paid in full.

In June 2013, the Company was notified that \$10.0 million of the \$15.0 million in trust preferred securities of CPB Capital Trust I (the "Trust") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. CPF placed a bid of \$9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of \$9.0 million was less than the \$10.0 million carrying value, we recognized a gain of \$1.0 million related to this transaction on October 7, 2013, when these securities were called. The Company determined that its investment in the Trust did not represent a variable interest and therefore the Company is not the primary beneficiary of the Trust. As a result, consolidation of the Trust by the Company was not required. In October 2013, the Company called the remaining \$5.0 million in trust preferred securities of the Trust. As of March 31, 2014, \$0.5 million in common stock of the Trust were still outstanding.

11. EQUITY

In June 2013, the U.S. Treasury held a private auction to sell its warrant positions in several financial institutions which included the Company's warrant to purchase up to 79,288 shares of our common stock at a purchase price of \$10 per share. On June 6, 2013, we were notified that we were the winning bidder of the warrant at our bid of \$752 thousand. The warrant was being carried as a derivative liability on our balance sheet at \$828 thousand at March 31, 2013. Accordingly, we recorded a credit to other noninterest expense of \$76 thousand during the first quarter of 2013 related to the gain on the purchase of the warrant. After the completion of this transaction, the U.S. Treasury no longer holds any outstanding shares of our common stock, or any warrants to purchase our common stock they received in connection with our participation in the Troubled Assets Relief Program.

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

On November 23, 2010, our board declared a dividend of preferred share purchase rights ("Rights") in respect to our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the "Tax Benefits Preservation Plan"), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for \$6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of 4.99% or more of our common stock (a "Threshold Holder"). On January 29, 2014, our Board of Directors approved an amendment to the Tax Benefits Preservation Plan to extend it for up to an additional two years (until February 18, 2016).

To further protect our tax benefits, on January 26, 2011, our board approved an amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the "Protective Charter Amendment"). At our annual meeting of shareholders on April 27, 2011, we proposed the amendment which shareholders approved. On January 29, 2014, our Board of Directors approved an amendment to the Protective Charter Amendment to extend it for up to an additional two years (until May 2, 2016) subject to approval by our shareholders. Our shareholders approved the Protective Charter Amendment on April 25, 2014. There is no guarantee, however, that the Tax Benefits Preservation Plan or the Protective Charter Amendment will prevent the Company from experiencing an ownership change.

In 2009, our Board of Directors suspended the payment of all cash dividends on our common stock. Our ability to pay dividends with respect to common stock was restricted until our obligations under our trust preferred securities were brought current. Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of March 31, 2014, the bank had Statutory Retained Earnings of \$126.2 million. In 2013, in light of the Company's improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company's outstanding common shares.

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.

On February 21, 2014, we announced a tender offer to purchase for cash up to \$68.8 million in value of shares of our common stock at a price not greater than \$21.00 nor less than \$18.50 per share (the “Tender Offer”).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of \$20.20 per share (“Purchase Price”). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of \$68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the “Repurchase Agreements”) with each of Carlyle Financial Services Harbor, L.P. (“Carlyle”) and ACMO-CPF, L.L.C. (“Anchorage” and together with Carlyle, the “Lead Investors”), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to \$28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the “Private Repurchases”) (or an aggregate of \$56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of \$56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling \$125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

In January 2008, our Board of Directors authorized the repurchase and retirement of up to 60,000 shares of the Company’s common stock (the “2008 Repurchase Plan”). Repurchases under the 2008 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. A total of 55,000 shares remained available for repurchase under the 2008 Repurchase Plan at December 31, 2013. In January 2014, the 2008 Repurchase Plan and the remaining 55,000 shares were superseded by the Tender Offer and Repurchase Agreements with our Lead Investors.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the three months ended March 31, 2014:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	835,904	\$ 14.75
Changes during the period:		
Granted	70,965	19.42
Vested	(52,221)	15.45
Forfeited	(14,410)	14.71
Nonvested at March 31, 2014	840,238	15.10

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income for the three months ended March 31, 2014 and 2013, by component:

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Three Months Ended March 31, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	\$ 15,944	\$ 6,368	\$ 9,576
Defined benefit plans:			
Amortization of net actuarial losses	305	123	182
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	314	127	187
Other comprehensive income	\$ 16,258	\$ 6,495	\$ 9,763
Three Months Ended March 31, 2013			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	\$ (4,823)	\$ -	\$ (4,823)
Net unrealized gains on derivatives:			
Reclassification adjustment for losses realized in net income	394	(10,599)	10,993
Defined benefit plans:			
Amortization of net actuarial losses	616	-	616
Amortization of net transition obligation	4	-	4
Amortization of prior service cost	5	-	5
Defined benefit plans, net	625	-	625
Other comprehensive income	\$ (3,804)	\$ (10,599)	\$ 6,795

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The following table presents the changes in each component of AOCI, net of tax, for the three months ended March 31, 2014 and 2013:

	Investment Securities	Derivatives	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)			
Three Months Ended March 31, 2014				
Balance at beginning of period	\$ (9,125)	\$ -	\$ (6,720)	\$ (15,845)
Other comprehensive income before reclassifications	9,576	-	-	9,576
Amounts reclassified from AOCI	-	-	187	187
Total other comprehensive income	9,576	-	187	9,763
Balance at end of period	\$ 451	\$ -	\$ (6,533)	\$ (6,082)
Three Months Ended March 31, 2013				
Balance at beginning of period	\$ 22,740	\$ (10,993)	\$ (12,577)	\$ (830)
Other comprehensive loss before reclassifications	(4,823)	-	-	(4,823)
Amounts reclassified from AOCI	-	10,993	625	11,618
Total other comprehensive income (loss)	(4,823)	10,993	625	6,795
Balance at end of period	\$ 17,917	\$ -	\$ (11,952)	\$ 5,965

The following table presents the amounts reclassified out of each component of AOCI for the three months ended March 31, 2014 and 2013:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended March 31, 2014 2013		Affected Line Item in the Statement Where Net Income is Presented
	(Dollars in thousands)		
Unrealized losses on derivatives	\$ -	\$ (394)	Interest income
	-	(10,599)	Tax expense
	\$ -	\$ (10,993)	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	\$ (305)	\$ (616)	(1)
Net transition obligation	(4)	(4)	(1)
Prior service cost	(5)	(5)	(1)

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	(314)	(625)	Total before tax
	127	-	Tax benefit
	\$ (187)	\$ (625)	Net of tax
Total reclassifications for			
the period	\$ (187)	\$ (11,618)	Net of tax

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

14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

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

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Interest cost	\$ 366	\$ 348
Expected return on assets	(524)	(470)
Amortization of net actuarial losses	304	599
Net periodic cost	\$ 146	\$ 477

Our bank also established Supplemental Executive Retirement Plans (“SERPs”), which provide certain officers of our bank with supplemental retirement benefits. The following table sets forth the components of net periodic benefit cost for the SERPs:

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Interest cost	\$ 113	\$ 103
Amortization of net transition obligation	4	4
Amortization of prior service cost	5	5
Amortization of net actuarial losses	1	18
Net periodic cost	\$ 123	\$ 130

15. INCOME AND FRANCHISE TAXES

In assessing the need for a valuation allowance on our deferred tax assets (“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 DTA 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.

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios, and the expectation of continued profitability, the Company determined that it was more likely than not that a significant

portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of \$119.8 million in the first quarter of 2013.

The Company recorded income tax expense of \$5.5 million in the first quarter of 2014. As of March 31, 2014, the remaining valuation allowance on our net DTA totaled \$2.9 million. Net of this valuation allowance, as of March 31, 2014, the Company's net DTA totaled \$125.3 million, compared to \$137.2 million as of December 31, 2013, and is included in other assets on our consolidated balance sheets.

16. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended March 31,	
	2014	2013
Net income	\$ 9,808	\$ 137,309
Weighted average shares outstanding - basic	41,915	41,816
Dilutive effect of employee stock options and awards	562	447
Dilutive effect of deferred salary restricted stock units	-	5
Dilutive effect of Treasury warrants	-	29
Weighted average shares outstanding - diluted	42,477	42,297
Basic earnings per share	\$ 0.23	\$ 3.28
Diluted earnings per share	\$ 0.23	\$ 3.25

A total of 23,624 and 26,256 potentially dilutive securities have been excluded from the dilutive share calculation for the three months ended March 31, 2014 and 2013, respectively, as their effect was antidilutive.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

Investment Securities

The fair value of investment securities is based on market price quotations received from securities dealers. Where quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company's various loan types and are derived from available market information, as well as specific borrower information. The fair value of loans are

not based on the notion of exit price.

Loans Held for Sale

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

Other Interest Earning Assets

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

Deposit Liabilities

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

Short-Term Borrowings and Long-Term Debt

The fair value for a portion of our short-term borrowings is estimated by discounting scheduled cash flows using rates currently offered for securities of similar remaining maturities. The fair value of our long-term debt is estimated by discounting scheduled cash flows over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

Off-Balance Sheet Financial Instruments

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

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

Limitations

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

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

	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2014					
Financial assets					
Cash and due from banks	\$ 85,347	\$ 85,347	\$ 85,347	\$ -	\$ -
Interest-bearing deposits in other banks	5,919	5,919	5,919	-	-
Investment securities	1,656,912	1,646,906	782	1,634,336	11,788
Loans held for sale	11,247	11,247	-	-	11,247
Net loans and leases	2,614,292	2,511,947	-	71,514	2,440,433
Accrued interest receivable	13,507	13,507	13,507	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	939,138	939,138	939,138	-	-
Interest-bearing demand and savings deposits	1,975,170	1,975,170	1,975,170	-	-
Time deposits	1,071,459	1,072,383	-	-	1,072,383
Short-term debt	102,000	102,000	-	102,000	-
Long-term debt	92,795	37,992	-	37,992	-
Accrued interest payable (included in other liabilities)	983	983	983	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	663,708	3,319	-	3,319	-
Standby letters of credit and financial guarantees written	19,910	149	-	149	-
Interest rate options	43,984	14	-	14	-
Forward interest rate contracts	18,383	26	-	26	-
December 31, 2013					
Financial assets					
Cash and due from banks	\$ 45,092	\$ 45,092	\$ 45,092	\$ -	\$ -
Interest-bearing deposits in other banks	4,256	4,256	4,256	-	-
Investment securities	1,660,046	1,646,704	875	1,635,311	10,518
Loans held for sale	12,370	12,370	-	-	12,370
Net loans and leases	2,546,781	2,430,282	-	64,705	2,365,577
Accrued interest receivable	14,072	14,072	14,072	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	891,017	891,017	891,017	-	-
	1,935,635	1,935,635	1,935,635	-	-

Interest-bearing demand and savings deposits					
Time deposits	1,109,521	1,111,319	-	-	1,111,319
Short-term debt	8,015	8,015	-	8,015	-
Long-term debt	92,799	39,446	-	39,446	-
Accrued interest payable (included in other liabilities)	1,040	1,040	1,040	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	652,717	3,264	-	3,264	-
Standby letters of credit and financial guarantees written	1,023	8	-	8	-
Interest rate options	37,093	69	-	69	-
Forward interest rate contracts	24,244	210	-	210	-

Fair Value Measurements

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

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

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

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

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the three months ended March 31, 2014.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

		Fair Value at Reporting Date Using		
	Fair Value	Quoted Prices	Significant	Significant
		in Active	Other	Unobservable
		Markets for	Observable	Inputs
		Identical	Inputs	(Level 3)
		Assets	(Level 2)	(Level 3)
		(Level 1)		
		(Dollars in thousands)		
March 31, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	\$ 185,126	\$ -	\$ 173,338	\$ 11,788
Corporate securities	158,291	-	158,291	-
Mortgage-backed securities:				
U.S. Government sponsored entities	899,066	-	899,066	-
Non-agency collateralized mortgage obligations	164,859	-	164,859	-
Other	782	782	-	-
Derivatives:				
Interest rate contracts	40	-	40	-
Total	\$ 1,408,164	\$ 782	\$ 1,395,594	\$ 11,788
December 31, 2013				
Available for sale securities:				
Debt securities:				
States and political subdivisions	\$ 179,357	\$ -	\$ 168,839	\$ 10,518
Corporate securities	158,095	-	158,095	-
Mortgage-backed securities:				
U.S. Government sponsored entities	927,626	-	927,626	-
Non-agency collateralized mortgage obligations	142,046	-	142,046	-
Other	875	875	-	-
Derivatives:				
Interest rate contracts	279	-	279	-
Total	\$ 1,408,278	\$ 875	\$ 1,396,885	\$ 10,518

For the three months ended March 31, 2014 and 2013, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Available for Sale States and Political Subdivisions Debt Securities (Dollars in thousands)
Balance at December 31, 2013	\$ 10,518
Principal payments received	(71)
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Unrealized net gain included in other comprehensive income		
Purchases		1,042
Balance at March 31, 2014	\$	11,788
Balance at December 31, 2012	\$	12,826
Principal payments received		(100)
Unrealized net loss included in other comprehensive income		
Purchases		(86)
Balance at March 31, 2013	\$	12,713

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

The significant unobservable input used in the fair value measurement of the Company's mortgage revenue bonds is the weighted average discount rate. As of March 31, 2014, the weighted average discount rate utilized was 3.89%, which was derived by incorporating a credit spread over the FHLB Fixed-Rate Advance curve. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at March 31, 2014 and December 31, 2013, the following table provides the level of valuation assumptions used to determine the respective fair values:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
March 31, 2014				
Impaired loans (1)	\$ 71,514	\$ -	\$ 71,514	\$ -
Other real estate (2)	4,829	-	4,829	-
December 31, 2013				
Impaired loans (1)	\$ 64,705	\$ -	\$ 64,705	\$ -
Other real estate (2)	5,163	-	5,163	-

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

(2) Represents other real estate that is carried at the lower of carrying value or fair value less costs to sell.

Fair value is generally based upon independent market prices or appraised values of the collateral.

18. SEGMENT INFORMATION

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

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

owned properties.

The accounting policies of the segments are consistent with the Company's accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC. The majority of the Company's net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

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

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

	Banking Operations	Treasury	All Others	Total
	(Dollars in thousands)			
Three Months Ended March 31, 2014:				
Net interest income	\$ 26,187	\$ 9,609	\$ -	\$ 35,796
Intersegment net interest income (expense)	6,007	(6,612)	605	-
Credit for loan and lease losses	1,316	-	-	1,316
Other operating income	5,649	745	3,750	10,144
Other operating expense	(15,318)	(551)	(16,061)	(31,930)
Administrative and overhead expense allocation	(13,804)	(272)	14,076	-
Income taxes	(3,614)	(1,051)	(853)	(5,518)
Net income	\$ 6,423	\$ 1,868	\$ 1,517	\$ 9,808
Three Months Ended March 31, 2013:				
Net interest income	\$ 24,046	\$ 6,623	\$ -	\$ 30,669
Intersegment net interest income (expense)	3,852	(6,311)	2,459	-
Credit for loan and lease losses	6,561	-	-	6,561
Other operating income	7,939	603	4,488	13,030
Other operating expense	(14,119)	(450)	(18,184)	(32,753)
Administrative and overhead expense allocation	(16,274)	(266)	16,540	-
Income taxes	120,712	127	(1,037)	119,802
Net income	\$ 132,717	\$ 326	\$ 4,266	\$ 137,309
At March 31, 2014:				
Investment securities	\$ -	\$ 1,656,912	\$ -	\$ 1,656,912
Loans and leases (including loans held for sale)	2,708,701	-	-	2,708,701
Other	116,464	263,456	81,904	461,824
Total assets	\$ 2,825,165	\$ 1,920,368	\$ 81,904	\$ 4,827,437
At December 31, 2013:				
Investment securities	\$ -	\$ 1,660,046	\$ -	\$ 1,660,046
Loans and leases (including loans held for sale)	2,642,971	-	-	2,642,971
Other	117,655	256,807	63,719	438,181
Total assets	\$ 2,760,626	\$ 1,916,853	\$ 63,719	\$ 4,741,198

19. LEGAL PROCEEDINGS

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

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

Overview

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

Central Pacific Bank is a full-service community bank with 36 branches and 115 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

Following our successful capital raises in 2011, we have accomplished a number of key performance objectives through March 31, 2014:

- Completed a tender offer to purchase 3,405,888 shares of common stock at a purchase price of \$20.20 per share for a total cost of \$68.8 million, excluding fees and expenses. The tender offer was completed on March 28, 2014. We also entered into repurchase agreements to privately purchase up to \$28.1 million in common stock from each of our two largest shareholders at a purchase price of \$20.20 per share for an aggregate cost of \$56.2 million, excluding fees and expenses. The private repurchases were completed on April 7, 2014, and are not reflected in our first quarter financials.
- We have continued to maintain a strong capital position with tier 1 risk-based capital, total risk-based capital, and leverage capital ratios as of March 31, 2014 of 18.63%, 19.90%, and 12.62%, respectively, from 20.30%, 21.57%, and 13.68%, respectively, as of December 31, 2013. The decline in the Company's capital levels from December 31, 2013 was primarily the result of the repurchase of our common stock in the tender offer described above. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.
- We reported thirteen consecutive profitable quarters with net income totaling \$9.8 million in the first quarter of 2014 and \$172.1 million, \$47.4 million and \$36.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.
- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 3.08% at March 31, 2014, compared to 3.19% at December 31, 2013. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 153.87% at March 31, 2014, compared to 179.29% at December 31, 2013.

We also remain focused on lowering our efficiency ratio and growing market share within our core Hawaii market. In connection with improving our efficiency ratio, we have begun several initiatives, including (i) outsourcing the data center and hardware for our core information technology system to Fiserv, which is our existing core software application provider; (ii) designing, developing, and implementing our data warehouse and customer relationship management programs; and (iii) implementing a staff right-sizing plan.

Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The following discussion should also be read in conjunction with the Company's Annual Report on Form 10-K for the year

ended December 31, 2013 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 28, 2014.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

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

For loans classified as impaired, an estimated impairment loss is calculated. To estimate loan charge-offs on other loans, we evaluate the level and trend of nonperforming and potential problem loans and historical loss experience. We also consider other relevant economic conditions and borrower-specific risk characteristics, including current repayment patterns of our borrowers, the fair value of collateral securing specific loans, changes in our lending and underwriting standards and general economic factors, nationally and in the markets we serve, including the real estate market generally and the residential and commercial construction markets in particular. Estimated loss rates are determined by loan category and risk profile, and an overall required Allowance is calculated, which includes amounts for imprecision and uncertainty. Based on our estimate of the level of Allowance required, a corresponding charge or credit to the provision for loan and lease losses (the “Provision”) is recorded to maintain the Allowance at an appropriate level.

Our policy is to charge a loan off in the period in which the loan is deemed to be uncollectible. 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.

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

In the first quarter of 2014, we recorded a credit to the Provision of \$1.3 million. We had an Allowance as a percentage of total loans and leases of 3.08% at March 31, 2014, compared to 3.19% at December 31, 2013. Although other factors of our overall risk profile have improved in recent years and general economic trends and market conditions have stabilized, as further described in the “Material Trends” section below, concerns over the global and U.S. economies still remain. Accordingly, it is possible that the real estate markets for which we have exposure to 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 and lease charge-offs, and our Allowance. 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, 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 real estate loans.

Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine the Allowance and Provision. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our Allowance. The determination of the Allowance requires us to make estimates of losses that are highly uncertain and involves a high degree of judgment. Accordingly, actual results could differ from those estimates. Changes in the estimate of the Allowance and related Provision could materially affect our operating results.

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 both in Hawaii and the U.S. Mainland that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis while the non-residential Hawaii and U.S. Mainland loans are recorded at the lower of cost or fair value on an individual basis.

When a non-residential mortgage loan is transferred to the held for sale category, the loan is recorded at the lower of cost or fair value. Any reduction in the loan's value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the Allowance. In subsequent periods, if the fair value of a loan classified as held for sale is less than its cost basis, a valuation adjustment is recognized in our consolidated statement of income in other operating expense and the carrying value of the loan is adjusted accordingly. The valuation adjustment may be recovered in the event that the fair value increases, which is also recognized in our consolidated statement of income in other operating expense.

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of the non-residential mortgage loans net of applicable selling costs on our consolidated balance sheets. At March 31, 2014 and December 31, 2013, all of our loans held for sale were Hawaii residential mortgage loans.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a “whole-loan” basis to government-sponsored entities (“GSEs” or “Agencies”) Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur 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. We establish mortgage repurchase reserves related to various representations and warranties that reflect management’s estimate for which we have a repurchase obligation. The reserves are established by a charge to other operating expense in our consolidated statements of operation. At March 31, 2014 and December 31, 2013, this reserve totaled \$3.1 million and \$2.9 million, respectively, and is included in other liabilities on our consolidated balance sheets.

The repurchase reserve is applicable to loans we originated and sold with representations and warranties, which is representative of the entire sold portfolio. Originations for agency and non-agency for vintages 2005 through March 31, 2014 were approximately \$4.5 billion and \$3.9 billion, respectively. Representations and warranties relating to borrower fraud generally are enforceable for the life of the loan, whereas early payment default clauses generally expire after 90 days, depending on the sales contract. We estimate that loans outstanding and sold that have early payment default clauses as of March 31, 2014 approximate \$72.9 million.

The repurchase loss liability is estimated by origination year to capture certain characteristics of each vintage. To the extent that repurchase demands are made by investors, we may be able to successfully appeal such repurchase demands. However, our appeals success may be affected by the reasons for repurchase demands, the quality of the demands, and our appeals strategies. Repurchase and loss estimates are stratified by vintage, based on actual experience and certain assumptions relative to potential investor demand volume, appeals success rates, and losses recognized on successful repurchase demands.

Loans repurchased during the three months ended March 31, 2014 totaled approximately \$0.3 million. In 2012, additional reserves were established as an unallocated component in recognition of the emergence of make-whole demands. The establishment of an unallocated component considers anticipated future losses and our lack of historical experience with the make-whole demands. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appeals, Repurchased and Pending Resolution [1]
Three Months Ended March 31, 2014

Vintage	Government Sponsored Entities				Non-GSE Investors			
	Repurchase Demands	Appealed	Repurchased	Pending Resolution	Repurchase Demands	Appealed	Repurchased	Pending Resolution
2005 and prior	2	-	1	1	-	-	-	-

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2006	1	-	1	-	-	-	-	-
2007	-	-	-	-	-	-	-	-
2008	2	1	1	-	1	1	-	-
2009	-	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
Total	5	1	3	1	1	1	-	-

[1] Based on repurchase requests received between January 1, 2014 and March 31, 2014.

The reserve for residential mortgage loan repurchase losses of \$3.1 million at March 31, 2014 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents an increase of \$0.1 million from December 31, 2013. The table below shows changes in the repurchase losses liability since initial establishment.

	Three Months Ended	
	March 31,	
	2014	2013
	(Dollars in thousands)	
Balance, beginning of period	\$ 2,949	\$ 3,552
Change in estimate	455	(632)
Utilizations	(328)	100
Balance, end of period	\$ 3,076	\$ 3,020

We believe that our capacity to estimate repurchase losses is improving as we record additional experience. Repurchase losses depend upon economic factors and other external conditions that may change over the life of the underlying loans. Additionally, lack of access to the servicing records of loans sold on a service released basis adds difficulty to the estimation process, thus requiring considerable management judgment. To the extent that future investor repurchase demand and appeals success differ from past experience, we could have increased demands and increased loss severities on repurchases, causing future additions to the repurchase reserve.

Other Intangible Assets

Other intangible assets include a core deposit premium and mortgage servicing rights.

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

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

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

and national prepayment speeds. Many of these assumptions are subjective and require a high level of management judgment. Our mortgage servicing rights portfolio and valuation assumptions are periodically reviewed by management.

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.

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

Deferred Tax Assets and Tax Contingencies

Deferred tax assets (“DTAs”) and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In the third quarter of 2009, we established a full valuation allowance against our net DTAs. See “— Results of Operations — Income Taxes” below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance.

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

Impact of Recently Issued Accounting Pronouncements on Future Filings

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-01, “Investments – Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects.” The provisions of ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The ASU permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. ASU 2014-01 is effective for the Company’s reporting period beginning on January 1, 2015. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, “Receivables – Troubled Debt Restructurings by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The provisions of ASU 2014-04 provide guidance on when an in substance repossession or foreclosure occurs, which is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. ASU 2014-04 is effective for the Company’s reporting period beginning on January 1, 2015. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Financial Summary

Net income for the first quarter of 2014 was \$9.8 million, or \$0.23 per diluted share, compared to \$137.3 million, or \$3.25 per diluted share, for the first quarter of 2013. Net income in the first quarter of 2013 included a non-cash income tax benefit of \$119.8 million related to the reversal of a significant portion of a valuation allowance that was established on the Company's net DTAs during the third quarter of 2009. Excluding this income tax benefit, net income for the quarter was \$17.5 million, or \$0.41 per diluted share.

The following table shows our net income and diluted earnings per share calculated on a GAAP basis, and then excluding our income tax benefit, which is a non-GAAP disclosure. Management believes that this financial disclosure which excludes the impact of our tax benefit provides useful supplemental information for investors regarding our ongoing operating results.

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2014	2013
GAAP net income	\$ 9,808	\$ 137,309
Non-GAAP adjustment:		
Release of valuation allowance on net deferred tax assets	-	(119,802)
Non-GAAP net income	\$ 9,808	\$ 17,507
GAAP diluted earnings per share	\$ 0.23	\$ 3.25
Non-GAAP adjustment:		
Release of valuation allowance on net deferred tax assets	-	(2.84)
Non-GAAP diluted earnings per share	\$ 0.23	\$ 0.41

Total credit costs, which includes the Provision, gains on sales of foreclosed assets, write-downs of foreclosed assets, and the change in the reserve for unfunded commitments, amounted to a credit of \$2.1 million in the first quarter of 2014, compared to a credit of \$8.7 million in the first quarter of 2013.

The following table presents annualized returns on average assets, average shareholders' equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders' equity less average intangible assets, which excludes mortgage servicing rights. Average intangible assets were \$12.4 million and \$15.1 million for the three months ended March 31, 2014 and 2013, respectively.

	Three Months Ended March 31,	
	2014	2013
Return on average assets	0.82 %	12.41 %
Return on average shareholders' equity	5.79	105.33
Return on average tangible equity	5.90	108.48
Basic earnings per common share	\$ 0.23	\$ 3.28
Diluted earnings per common share	0.23	3.25

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, we believe the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system beginning in 2007.

Despite this stabilization, growing U.S. government indebtedness, elevated unemployment rates, a large budget deficit and periodic concerns over the federal debt ceiling continue to add to the uncertainty surrounding a sustained economic recovery. In addition, downgrades of ratings in U.S. and foreign debt instruments could raise borrowing costs and adversely impact the mortgage and housing markets.

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

Hawaii's general economic conditions continued to improve in 2013 and the Hawaii Department of Business Economic Development & Tourism ("DBEDT") expects continued economic growth in 2014 led by a strong tourism industry, a growing construction industry, and low unemployment. Hawaii's visitor industry broke records for arrivals and visitor spending for two consecutive years in 2012 and 2013. Although tourism continues to be Hawaii's center of strength and its most significant economic driver, its growth is stabilizing. According to the Hawaii Tourism Authority ("HTA"), 2.1 million visitors visited the state in the first three months of 2014. This was a decrease of 3.2% from the number of visitor arrivals in the first three months of 2013. The HTA also reported that total spending by visitors decreased to \$3.8 billion in the first three months of 2014, a decrease of \$120.4 million, or 3.1%, from the first three months of 2013. According to DBEDT, total visitor arrivals and visitor spending are expected to gain 1.7% and 3.4% in 2014, respectively.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 4.5% in March 2014, compared to 4.8% in March 2013. In addition, Hawaii's unemployment rate in March 2014 remained below the national seasonally adjusted unemployment rate of 6.7%. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate to continue to improve to 4.2% in 2014.

DBEDT projects real personal income and real gross state product to grow by 2.8% and 2.6%, respectively, in 2014. Based on recent developments in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state and growth of personal income and tax revenues, DBEDT expects Hawaii's economy will continue positive growth in 2014.

Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii's real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased 3.5% for single-family homes and 1.7% for condominiums for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. The median sales price for single-family homes on Oahu for the month ended March 31, 2014 was \$657,000, representing an increase of 2.7% from the prior year. The median sales price for condominiums on Oahu for the month ended March 31, 2014 was \$350,000, representing an increase of 2.9% compared to the same prior year period. We believe the Hawaii real estate market will continue to show improvements in 2014, however, there can be no assurance that this will occur.

As we have seen in the past, our operating results are significantly impacted by: (i) the economy in Hawaii, and to a significantly lesser extent, California, and (ii) the composition of our loan portfolio. Loan demand, deposit growth, Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in 2008 through 2010, our results of operations would be negatively impacted.

Results of Operations

Net Interest Income

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 an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis (“net interest income”) for the three months ended March 31, 2014 and 2013 is set forth below.

	Three Months Ended March 31,					
	Average Balance	2014 Average Yield/Rate	Amount of Interest	Average Balance	2013 Average Yield/Rate	Amount of Interest
(Dollars in thousands)						
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	\$ 11,585	0.24 %	\$ 7	\$ 144,773	0.25 %	\$ 89
Taxable investment securities (1)	1,508,213	2.52	9,497	1,477,887	1.90	7,036
Tax-exempt investment securities (1)	178,005	3.44	1,529	175,850	3.59	1,580
Loans and leases, including loans held for sale (2)	2,665,825	4.07	26,883	2,258,951	4.36	24,443
Federal Home Loan Bank stock	46,072	0.10	12	47,860	-	-
Total interest earning assets	4,409,700	3.46	37,928	4,105,321	3.25	33,148
Nonearning assets	372,155			320,727		
Total assets	\$ 4,781,855			\$ 4,426,048		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 735,730	0.05 %	\$ 90	\$ 673,662	0.05 %	\$ 81
Savings and money market deposits	1,218,087	0.07	224	1,171,953	0.08	217
Time deposits under \$100,000	263,479	0.41	267	300,992	0.51	375
Time deposits \$100,000 and over	840,595	0.17	363	710,221	0.22	384
Short-term borrowings	25,295	0.28	17	-	-	-
Long-term debt	92,796	2.78	636	108,278	3.25	869
Total interest-bearing liabilities	3,175,982	0.20	1,597	2,965,106	0.28	1,926
Noninterest-bearing deposits	885,568			821,213		
Other liabilities	42,479			110,276		
Total liabilities	4,104,029			3,896,595		
Shareholders' equity	677,765			519,498		
Non-controlling interests	61			9,955		
Total equity	677,826			529,453		
Total liabilities and equity	\$ 4,781,855			\$ 4,426,048		
Net interest income			\$ 36,331			\$ 31,222
Net interest margin		3.31 %			3.06 %	

- (1) At amortized cost.
- (2) Includes nonaccrual loans.

Net interest income expressed on a taxable-equivalent basis of \$36.3 million for the first quarter of 2014, increased by \$5.1 million, or 16.4%, from the first quarter of 2013. The increase was primarily attributable to a significant increase in average loans and leases and a 62 basis point (“bp”) increase in average yields earned on our taxable investment securities, partially offset by the 29 bp decline in average yields earned on our loans and leases. The increase in net interest income for the current quarter also reflects a 21 bp increase in average yields earned on our interest-earning assets and an 8 bp decline in average rates paid on our interest-bearing liabilities.

In the fourth quarter of 2013, we executed a bond swap where we sold \$271.5 million in lower-yielding available-for-sale agency debentures and agency mortgage-backed securities with an average net yield of 1.87% and a weighted average life of 2.9 years and reinvested the majority of the proceeds in \$242.5 million of higher-yielding agency mortgage-backed securities, non-agency commercial mortgage-backed securities, and corporate bond securities with an average yield of 3.21% and a weighted average life of 7.4 years. This transaction contributed to the significant increase in average yields earned on our taxable investment securities.

Interest Income

Taxable-equivalent interest income of \$37.9 million for the first quarter of 2014 increased by \$4.8 million, or 14.4%, from the first quarter of 2013. The increase was primarily attributable to a significant increase in average loans and leases and a significant increase in average yields earned on our taxable investment securities, partially offset by a decrease in average yields earned on our loans and leases balances as described above. Average loans and leases increased by \$406.9 million compared to the first quarter of 2013, accounting for approximately \$4.4 million of the current quarter’s increase. Average yields earned on taxable investment securities increased by 62 bp in the current quarter, increasing interest income by approximately \$2.3 million, while average yields earned on loans and leases decreased by 29 bp in the current quarter, lowering interest income by approximately \$1.6 million.

Interest Expense

Interest expense of \$1.6 million for the first quarter of 2014 decreased by \$0.3 million, or 17.1%, from the comparable prior year quarter. The decrease was attributable to the overall decline in average rates paid on interest-bearing liabilities. The 47 bp, 5 bp, and 10 bp decline in average rates paid on long-term debt, time deposits \$100,000 and over, and time deposits under \$100,000, respectively, each contributed to \$0.1 million of the current quarter decrease in interest expense. The \$15.5 million decline in average long-term debt also contributed to \$0.1 million of the current quarter decrease in interest expense.

Net Interest Margin

Our net interest margin was 3.31% for the first quarter of 2014, compared to 3.06% for the first quarter of 2013. As described above, the increase in the net interest margin reflected the bond swap in the fourth quarter of 2013, and the increase in average loans and leases.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the first quarter of 2014. While we expect the target Fed Funds rate to remain low, the yield curve had begun to steepen in 2013 and is expected to continue in 2014. Thus we expect our net interest margin to expand modestly over the near term as we expect asset yields to adjust higher more quickly than rates paid for liabilities.

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

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

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	March 31, 2014		December 31, 2013	
	(Dollars in thousands)			
Nonperforming Assets				
Nonaccrual loans (including loans held for sale):				
Commercial, financial and agricultural	\$ 17,067		\$ 3,533	
Real estate:				
Construction	379		4,015	
Mortgage-residential	18,161		20,271	
Mortgage-commercial	13,610		13,769	
Total nonaccrual loans	49,217		41,588	
Other real estate				
Real estate:				
Construction	3,770		3,770	
Mortgage - residential	901		1,184	
Mortgage - commercial	158		209	
Other real estate	4,829		5,163	
Total nonperforming assets	54,046		46,751	
Accruing loans delinquent for 90 days or more:				
Commercial, financial and agricultural	7		-	
Consumer	23		-	
Leases	-		15	
Total accruing loans delinquent for 90 days or more	30		15	
Restructured loans still accruing interest:				
Commercial, financial and agricultural	395		406	
Real estate:				
Construction	970		3,857	
Mortgage-residential	18,152		16,508	
Mortgage-commercial	2,312		2,502	
Total restructured loans still accruing interest	21,829		23,273	
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest				
	\$ 75,905		\$ 70,039	
Total nonaccrual loans as a percentage of loans and leases and loans held for sale				
	1.82	%	1.57	%
Total nonperforming assets as a percentage of loans and leases, loans held for sale and other real estate				
	1.99	%	1.77	%
Total nonperforming assets and accruing loans delinquent for 90 days or more as a percentage of loans and leases, loans held for sale and other real estate				
	1.99	%	1.77	%

Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans

still accruing interest as a percentage of loans and leases, loans held for sale and other real estate

2.80 % 2.64 %

Quarter-to-Quarter changes in nonperforming assets:

Balance at beginning of quarter	\$ 46,751	\$ 59,049
Additions	15,000	7,099
Reductions		
Payments	(2,282)	(16,654)
Return to accrual status	(4,749)	(1,145)
Sales of foreclosed real estate	(623)	(1,496)
Charge-offs/writedowns	(51)	(102)
Total reductions	(7,705)	(19,397)
Balance at end of quarter	\$ 54,046	\$ 46,751

Nonperforming assets, which includes nonaccrual loans and leases, nonperforming loans classified as held for sale and foreclosed real estate, totaled \$54.0 million at March 31, 2014, compared to \$46.8 million at December 31, 2013. The increase from December 31, 2013 was attributable to \$15.0 million in gross additions, partially offset by \$2.3 million in repayments, \$4.7 million in loans restored to accrual status, \$0.6 million in sales of foreclosed properties, and \$0.1 million in charge-offs.

Net changes to nonperforming assets by category included the addition of two U.S. Mainland commercial loans to a single borrower to nonaccrual status totaling \$13.6 million. Partially offsetting this net increase were decreases in Hawaii construction and development assets totaling \$3.6 million, Hawaii residential mortgage assets totaling \$2.4 million, and Hawaii commercial mortgage assets totaling \$0.2 million.

Restructured loans included in nonperforming assets at March 31, 2014 consisted of 44 Hawaii residential mortgage loans with a combined principal balance of \$10.1 million, a U.S. Mainland commercial mortgage loan with a principal balance of \$9.0 million, a Hawaii commercial loan with a principal balance of \$0.5 million, and two Hawaii construction and development loans with a combined principal balance of \$0.3 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these restructured loans matured and/or were in default at the time of restructuring and we have no commitments to lend additional funds to any of these borrowers. There were \$21.8 million of restructured loans still accruing interest at March 31, 2014, none of which were more than 90 days delinquent.

Provision and Allowance for Loan and Lease Losses

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

	Three Months Ended March 31,	
	2014	2013
	(Dollars in thousands)	
Allowance for loan and lease losses:		
Balance at beginning of period	\$ 83,820	\$ 96,413
Provision (credit) for loan and lease losses	(1,316)	(6,561)
Charge-offs:		
Commercial, financial and agricultural	73	244
Real estate:		
Construction	-	78
Mortgage-residential	37	414
Mortgage-commercial	-	3,674
Consumer	580	315
Leases	8	-
Total charge-offs	698	4,725
Recoveries:		
Commercial, financial and agricultural	606	492
Real estate:		
Construction	402	485
Mortgage-residential	94	231

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Mortgage-commercial	13	254
Consumer	239	216
Leases	2	1
Total recoveries	1,356	1,679
Net charge-offs (recoveries)	(658)	3,046
Balance at end of period	\$ 83,162	\$ 86,806
Annualized ratio of net charge-offs (recoveries) to average loans and leases	(0.10)%	0.54 %

Our Allowance at March 31, 2014 totaled \$83.2 million, a decrease of \$0.7 million, or 0.8%, from year-end 2013. The decrease in our Allowance was a direct result of a credit to the Provision of \$1.3 million, offset by \$0.7 million in net loan recoveries.

Our Provision was a credit of \$1.3 million during the first quarter of 2014, compared to a credit of \$6.6 million in the first quarter of 2013. Our net recoveries were \$0.7 million during the first quarter of 2014, compared to net charge-offs of \$3.0 million in the first quarter of 2013.

Our Allowance as a percentage of our total loan portfolio decreased from 3.19% at December 31, 2013 to 3.08% at March 31, 2014. Our Allowance as a percentage of our nonperforming assets increased from 179.29% at December 31, 2013 to 153.87% at March 31, 2014.

Depending on the overall performance of the local and national economies, the strength of the Hawaii commercial real estate markets and the accuracy of our assumptions and judgments concerning our loan portfolio, further adverse credit migration may continue due to the upcoming maturity of additional loans, the possibility of further declines in collateral values and the potential impact of continued financial stress on our borrowers, sponsors and guarantors as they attempt to endure the challenges of the current economic environment. While we have seen signs of stabilization, we cannot determine when, or if, the challenging economic conditions that we experienced over the past four years will improve and whether or not recent signs of an economic recovery will continue.

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

Other Operating Income

Total other operating income of \$10.1 million for the first quarter of 2014 decreased by \$2.9 million, or 22.1%, from the comparable prior year period. The decrease from the year-ago quarter was primarily due to lower net gains on sales of residential mortgage loans of \$2.9 million, lower unrealized gains on loans held for sale and interest rate locks of \$0.4 million, and lower gains on sales of foreclosed assets of \$0.4 million, partially offset by higher service charges on deposit accounts of \$0.4 million and higher income from fiduciary activities of \$0.4 million.

Other Operating Expense

Total other operating expense for the first quarter of 2014 was \$31.9 million, compared to \$32.8 million in the comparable prior year period. The decrease from the year-ago quarter was primarily due to lower salaries and employee benefits of \$1.1 million, lower amortization of intangible assets of \$1.0 million, and lower legal and professional services of \$0.5 million, partially offset by a lower credit to the reserve for unfunded loan commitments of \$1.1 million and a higher provision for losses on residential mortgage loan repurchases of \$1.1 million.

Income Taxes

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios, and the expectation of continued profitability, the Company determined that it was more likely than not that a significant portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of \$119.8 million in the first quarter of 2013.

In the first quarter of 2014, the Company recorded income tax expense of \$5.5 million. As of March 31, 2014, the remaining valuation allowance on our net DTA totaled \$2.9 million. Net of this valuation allowance, as of March 31, 2014, the Company's net DTA totaled \$125.3 million, compared to a fully reserved net deferred tax asset of \$137.2 million as of December 31, 2013, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets at March 31, 2014 of \$4.8 billion increased by \$86.2 million from \$4.7 billion at December 31, 2013.

Loans and Leases

Loans and leases, net of unearned income, of \$2.7 billion at March 31, 2014, increased by \$66.9 million, or 2.5%, from December 31, 2013. The increase was due to an increase in the residential mortgage, commercial, and construction and development loan portfolios of \$43.5 million, \$37.5 million, and \$11.0 million, respectively, partially offset by a decrease in the commercial mortgage loan, consumer loan, and leases portfolios of \$19.2 million, \$5.1 million, and \$0.9 million, respectively. The net increase in the portfolio also reflect the transfer of one portfolio loan to other real estate totaling \$0.4 million and charge-offs of loans and leases totaling \$0.7 million.

Deposits

Total deposits of \$4.0 billion at March 31, 2014 reflected an increase of \$49.6 million, or 1.3%, from December 31, 2013. The increase was primarily attributable to increases in non-interest bearing demand deposits, savings and money market deposits and interest-bearing demand deposits of \$48.1 million, \$23.5 million and \$16.1 million, respectively. These increases were partially offset by a decrease in time deposits of \$38.1 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than \$100,000, totaled \$3.2 billion at March 31, 2014 and increased by \$81.4 million from December 31, 2013.

Capital Resources

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

Common Stock

Shareholders' equity totaled \$608.4 million at March 31, 2014, compared to \$660.1 million at December 31, 2013. The decrease in total shareholders' equity was attributable to the purchase of 3,405,888 shares for a total cost of \$68.8 million, excluding fees and expenses related to the Tender Offer, partially offset by \$9.8 million each in net income and other comprehensive income recognized during the first quarter of 2014.

Trust Preferred Securities

We have five statutory trusts, CPB Capital Trust I, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of \$105.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

We began deferring interest and dividend payments on the subordinated debentures and the trust preferred securities in the third quarter of 2009. In March 2013, the Company elected to pay all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resume quarterly payments for each outstanding trust. As a result, the deferred accrued interest in the amount of \$13.0 million was paid in full in March 2013 and the Company resumed quarterly payments on all five statutory trusts.

In June 2013, the Company was notified that \$10.0 million of the \$15.0 million in trust preferred securities of CPB Capital Trust I (“Trust I”) would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. The Company placed a bid of \$9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of \$9.0 million was less than the \$10.0 million carrying value, we recognized a gain of \$1.0 million related to this transaction on October 7, 2013, when these securities were called. The Company determined that its investment in Trust I did not represent a variable interest and therefore the Company was not the primary beneficiary of Trust I. As a result, consolidation of Trust I by the Company was not required. In October 2013, the Company called the remaining \$5.0 million in trust preferred securities of Trust I. As of March 31, 2014, \$0.5 million in common stock of Trust I were still outstanding, however, on April 7, 2014, these securities were called.

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. CPF deferred the payment of dividends on our TARP preferred stock and trust preferred securities (along with interest on the related junior subordinated debentures) beginning in the third quarter of 2009. As mentioned in the previous section, in March 2013, the Company elected to resume quarterly payments for each outstanding trust and all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities were paid in full.

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 March 31, 2014, the bank had Statutory Retained Earnings of \$126.2 million. In 2013, in light of the Company’s improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company’s outstanding common shares. CPF had sufficient cash on hand to fund these dividends, thus the bank did not pay a dividend to CPF. On April 23, 2014, the Company’s Board of Directors declared a fourth consecutive quarterly cash dividend of \$0.08 per share on the Company’s outstanding common shares, payable on June 16, 2014 to shareholders of record at the close of business on May 30, 2014.

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.

On February 21, 2014, we announced a tender offer to purchase for cash up to \$68.8 million in value of shares of our common stock at a price not greater than \$21.00 nor less than \$18.50 per share (the “Tender Offer”).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of \$20.20 per share (“Purchase Price”). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of \$68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the “Repurchase Agreements”) with each of Carlyle Financial Services Harbor, L.P. (“Carlyle”) and ACOMO-CPF, L.L.C. (“Anchorage” and together with Carlyle, the “Lead Investors”), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to \$28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the “Private Repurchases”) (or an aggregate of \$56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of \$56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling \$125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

On March 21, 2014, CPF received its first dividend from the bank since September 2008 of \$125.0 million in order to meet its obligations under the Tender Offer and Private Repurchases. As of March 31, 2014, on a stand-alone basis, CPF had an available cash balance of approximately \$72.4 million in order to meet its ongoing obligations.

Capital Ratios

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization to be rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our Form 10-K “Business — Supervision and Regulation.”

FDIC-insured institutions must maintain leverage, Tier 1 and total risk-based capital ratios of at least 5%, 6% and 10%, respectively, and not be subject to a regulatory capital directive to be considered “well capitalized” under the prompt corrective action provisions of the FDIC Improvement Act of 1991. The Company’s and the bank’s leverage capital, Tier 1 and total risk-based capital ratios as of March 31, 2014 were above the levels required for a “well capitalized” regulatory designation.

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

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Company						
At March 31, 2014:						
Leverage capital	\$ 590,262	12.6 %	\$ 187,144	4.0 %	\$ 233,929	5.0 %
Tier 1 risk-based capital	590,262	18.6	126,707	4.0	190,060	6.0
Total risk-based capital	630,461	19.9	253,413	8.0	316,767	10.0
At December 31, 2013:						
Leverage capital	\$ 632,724	13.7 %	\$ 184,995	4.0 %	\$ 231,244	5.0 %
Tier 1 risk-based capital	632,724	20.3	124,671	4.0	187,007	6.0
Total risk-based capital	672,317	21.6	249,343	8.0	311,678	10.0
Central Pacific Bank						
At March 31, 2014:						
Leverage capital	\$ 518,722	11.1 %	\$ 187,009	4.0 %	\$ 233,762	5.0 %
Tier 1 risk-based capital	518,722	16.4	126,595	4.0	189,892	6.0
Total risk-based capital	558,838	17.7	253,189	8.0	316,486	10.0
At December 31, 2013:						
Leverage capital	\$ 610,753	13.2 %	\$ 184,736	4.0 %	\$ 230,920	5.0 %
Tier 1 risk-based capital	610,753	19.6	124,425	4.0	186,637	6.0
Total risk-based capital	650,216	20.9	248,850	8.0	311,062	10.0

Liquidity and Borrowing Arrangements

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

Core deposits have historically provided us with a sizeable 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, federal funds borrowings and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these alternative funding sources, access to these sources is not guaranteed and may be influenced by market conditions, our financial position, and the terms of the respective agreements with such sources, as discussed below.

The bank is a member of and maintained an \$827.4 million line of credit with the FHLB as of March 31, 2014. Short-term and long-term borrowings under this arrangement totaled \$102.0 million and \$10,000 at March 31, 2014, respectively, compared to \$8.0 million and \$14,000 at December 31, 2013, respectively.

As of March 31, 2014, the bank's pledged assets to the FHLB included investment securities with a fair value of \$2.1 million and certain real estate loans totaling \$1.4 billion. These assets can be used to secure future advances in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB.

Besides its line of credit with the FHLB, the bank also maintained a \$45.7 million line of credit with the Federal Reserve discount window. There were no borrowings under this arrangement at March 31, 2014 and December 31, 2013. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value of \$78.5 million at March 31, 2014. The Federal Reserve does not have the right to sell or repledge these loans.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to improve our risk profile, maintain our capital base, and comply with the provisions of our agreement with the regulators. Beyond the challenges specific to our situation, our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes in our contractual obligations since December 31, 2013.

Regulatory Matters

On October 9, 2012, the bank entered into a Memorandum of Understanding (the "Compliance MOU") with the FDIC to improve the bank's compliance management system ("CMS"). Under the Compliance MOU, we are required to, among other things, (i) improve the Board of Directors' oversight of the bank's CMS; (ii) ensure the establishment and implementation of the bank's CMS is commensurate with the complexity of the bank's operations; (iii) perform a full review of all compliance policy and procedures, then revise and adopt policy and procedures to ensure compliance with all consumer protection regulations; (iv) enhance the bank's training program relating to consumer protection and fair lending regulations; (v) develop and implement an effective internal monitoring program to ensure compliance with all applicable laws and regulations; (vi) strengthen the compliance audit function to ensure that the compliance audits are appropriately and comprehensively scoped; (vii) develop and implement internal controls for the bank's third-party payment processing activity; (viii) strengthen the Board of Directors and senior management's oversight of third-party relationships and (ix) enhance the bank's overdraft payment program. The bank believes it has already taken substantial steps to comply with the Compliance MOU. In addition to the steps taken to comply with the Compliance MOU, the bank received an "Outstanding" rating in its most recent Community Reinvestment performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

We cannot provide any assurance on whether or when the Company and the bank will be in full compliance with the Compliance MOU or whether or when the Compliance MOU will be terminated. Even if terminated, we may still be subject to other agreements with regulators that restrict our activities and may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU are judicially enforceable and the Company or the bank's failure to comply with such requirements and restrictions may subject the Company and the bank to additional regulatory restrictions including: the imposition of additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank's deposit insurance or appointment of a conservator or receiver for the bank.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at March 31, 2014 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company's management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation and the identification of a material weakness in the Company's internal control over financial reporting as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, the Company's Chief Executive Officer and Principal Financial and Accounting Officer have concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were not effective. See further discussion below.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as follows. The Company previously reported a material weakness in internal control over financial reporting as of December 31, 2013, as reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Subsequent to management's determination of the material weakness, management promptly began taking the following remedial actions to address the reported material weakness:

- The Company has created a step-by-step checklist of the key elements of the allowance for loan and lease losses methodology with references to appropriate data sources to ensure the completeness and accuracy of all inputs;
- The Company has established a more comprehensive review and approval procedure for the allowance for loan and lease losses calculation, including a detailed review of the completeness and accuracy of all inputs and the resulting calculation; and
- The Company has continued to engage an independent third-party to review the allowance for loan and lease losses methodology and calculation for conformity with U.S. generally accepted accounting principles and regulatory

compliance and to validate the accuracy of the information used in the analysis.

Management anticipates that these remedial actions will strengthen the Company's internal control over financial reporting and will, over time, address the material weakness that was identified as of December 31, 2013. Because some of these remedial actions will continue to take place on a quarterly basis, their successful implementation may need to be evaluated over several quarters before management is able to conclude that the material weakness has been remediated.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 28, 2014.

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

On February 21, 2014, we publicly announced our Tender Offer. The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of \$20.20 per share. In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of \$68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

On February 20, 2014, we also entered into repurchase agreements (the “Repurchase Agreements”) with each of Carlyle Financial Services Harbor, L.P. (“Carlyle”) and ACMO-CPF, L.L.C. (“Anchorage” and together with Carlyle, the “Lead Investors”), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to \$28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the “Private Repurchases”) (or an aggregate of \$56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of \$56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer. Because the Private Repurchases closed after the period covered by this Quarterly Report on Form 10-Q, the Private Repurchases are not reflected in the table below.

Issuer Purchases of Equity Securities

Period	Total		Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program
	Number of Shares Purchased	Average Price Paid per Share		
January 1-31	—	\$ —	—	—
February 1-28	—	—	—	—
March 1-31	3,405,888	20.20	3,405,888	—
T Total	3,405,888	\$ 20.20	3,405,888	—

Item 6. Exhibits

Exhibit No.	Document
3.1	Restated Articles of Incorporation of Central Pacific Financial Corp., as amended to date *
4.1	Amendment No. 1 to Tax Preservation Plan, dated January 31, 2014, between Central Pacific Financial Corp. and Wells Fargo Bank, National Association (1)
10.1	Repurchase Agreement, entered into as of February 20, 2014, by and between Central Pacific Financial Corp. and ACMO-CPF, L.L.C. (2)
10.2	Repurchase Agreement, entered into as of February 20, 2014, by and between Central Pacific Financial Corp. and Carlyle Financial Services Harbor, L.P. (2)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith.

** Furnished herewith.

(1) Filed on January 31, 2014 as Exhibit 3.1 with the Company's Current Report on Form 8-K and incorporated herein by reference.

(2) Filed on February 24, 2014 as Exhibits 10.1 and 10.2, respectively, with the Company's Current Report on Form 8-K and incorporated herein by reference.

SIGNATURES

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

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)

Date: May 9, 2014

/s/ John C. Dean
John C. Dean
President and Chief Executive Officer

Date: May 9, 2014

/s/ Denis K. Isono
Denis K. Isono
Executive Vice President and Chief Financial
Officer

Central Pacific Financial Corp.
Exhibit Index

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4.1	Amendment No. 1 to Tax Preservation Plan, dated January 31, 2014, between Central Pacific Financial Corp. and Wells Fargo Bank, National Association (1)
10.1	Repurchase Agreement, entered into as of February 20, 2014, by and between Central Pacific Financial Corp. and ACMO-CPF, L.L.C. (2)
10.2	Repurchase Agreement, entered into as of February 20, 2014, by and between Central Pacific Financial Corp. and Carlyle Financial Services Harbor, L.P. (2)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(1) Filed on January 31, 2014 as Exhibit 3.1 with the Company's Current Report on Form 8-K and incorporated herein by reference.

(2) Filed on February 24, 2014 as Exhibits 10.1 and 10.2, respectively, with the Company's Current Report on Form 8-K and incorporated herein by reference.

