

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 07, 2013

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 September 30, 2013

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 October 30, 2013 was 42,091,180 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: the effect of, and our failure to comply with all of the requirements of any regulatory orders or regulatory agreements we are or may become subject to; our ability to continue making progress on our recovery plan; oversupply of inventory and adverse conditions in the Hawaii and California real estate markets and weakness in the construction industry; adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, deterioration in asset quality and losses in our loan portfolio; 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; the impact of international economic conditions, including issues associated with the European debt crisis; deterioration or malaise in economic conditions, including destabilizing factors 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; 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; 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)

	September 30, 2013	December 31, 2012
(Dollars in thousands)		
Assets		
Cash and due from banks	\$ 59,400	\$ 56,473
Interest-bearing deposits in other banks	37,499	120,902
Investment securities:		
Available for sale, at fair value	1,501,948	1,536,745
Held to maturity (fair value of \$245,519 at September 30, 2013 and \$162,528 at December 31, 2012)	255,663	161,848
Total investment securities	1,757,611	1,698,593
Loans held for sale	12,437	38,283
Loans and leases	2,484,318	2,203,944
Less allowance for loan and lease losses	85,228	96,413
Net loans and leases	2,399,090	2,107,531
Premises and equipment, net	48,151	48,759
Accrued interest receivable	13,765	13,896
Investment in unconsolidated subsidiaries	18,558	10,975
Other real estate	5,761	10,686
Other intangible assets	33,621	37,499
Bank-owned life insurance	148,903	147,411
Federal Home Loan Bank stock	46,626	47,928
Other assets	163,061	31,432
Total assets	\$ 4,744,483	\$ 4,370,368
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 878,262	\$ 843,292
Interest-bearing demand	739,421	672,838
Savings and money market	1,212,488	1,186,011
Time	1,076,093	978,631
Total deposits	3,906,264	3,680,772
Short-term borrowings	28,000	-
Long-term debt	108,268	108,281
Other liabilities	48,415	66,536
Total liabilities	4,090,947	3,855,589
Equity:		
Preferred stock, no par value, authorized 1,100,000 shares, issued and outstanding none at September 30, 2013 and December 31, 2012, respectively	-	-

Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 42,091,180 and 41,867,046 shares at September 30, 2013 and December 31, 2012, respectively	784,473	784,512
Surplus	73,735	70,567
Accumulated deficit	(191,014)	(349,427)
Accumulated other comprehensive loss	(13,718)	(830)
Total shareholders' equity	653,476	504,822
Non-controlling interest	60	9,957
Total equity	653,536	514,779
Total liabilities and equity	\$ 4,744,483	\$ 4,370,368

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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on loans and leases	\$ 26,414	\$ 24,241	\$ 77,362	\$ 73,642
Interest and dividends on investment securities:				
Taxable interest	8,114	6,641	22,518	21,844
Tax-exempt interest	992	704	3,059	1,347
Dividends	5	4	16	11
Interest on deposits in other banks	21	84	178	212
Dividends on Federal Home Loan Bank stock	12	-	12	-
Total interest income	35,558	31,674	103,145	97,056
Interest expense:				
Interest on deposits:				
Demand	91	83	259	258
Savings and money market	227	232	663	783
Time	671	869	2,150	2,904
Interest on short-term borrowings	3	-	3	-
Interest on long-term debt	795	930	2,457	2,790
Total interest expense	1,787	2,114	5,532	6,735
Net interest income	33,771	29,560	97,613	90,321
Provision (credit) for loan and lease losses	(3,189)	(4,982)	(9,977)	(16,602)
Net interest income after provision for loan and lease losses	36,960	34,542	107,590	106,923
Other operating income:				
Service charges on deposit accounts	1,776	2,130	4,950	6,719
Other service charges and fees	4,931	4,538	13,904	13,115
Income from fiduciary activities	724	662	2,107	1,930
Equity in earnings of unconsolidated subsidiaries	513	171	733	386
Fees on foreign exchange	149	165	348	447
Investment securities gains	-	789	-	789
Loan placement fees	81	114	408	547

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Net gain on sales of residential loans	1,476	4,713	8,492	11,084
Net gain on sales of foreclosed assets	276	1,109	8,528	1,109
Income from bank-owned life insurance	611	741	1,492	2,274
Other	1,393	1,906	1,810	5,484
Total other operating income	11,930	17,038	42,772	43,884
Other operating expense:				
Salaries and employee benefits	19,167	17,256	55,944	51,511
Net occupancy	3,802	3,629	10,651	10,159
Equipment	952	1,030	2,788	3,008
Amortization of other intangible assets	1,637	2,698	5,994	7,490
Communication expense	907	872	2,727	2,542
Legal and professional services	2,155	2,772	6,410	10,635
Computer software expense	1,056	959	3,182	2,852
Advertising expense	601	906	2,141	2,632
Foreclosed asset expense	(12)	3,972	993	6,467
Write down of assets	-	827	-	2,586
Other	6,247	5,938	13,435	15,914
Total other operating expense	36,512	40,859	104,265	115,796
Income before income taxes	12,378	10,721	46,097	35,011
Income tax expense (benefit)	2,174	-	(115,683)	-
Net income	\$ 10,204	\$ 10,721	\$ 161,780	\$ 35,011
Per common share data:				
Basic earnings per share	\$ 0.24	\$ 0.26	\$ 3.86	\$ 0.84
Diluted earnings per share	0.24	0.26	3.83	0.83
Cash dividends declared	0.08	-	0.08	-
Shares used in computation:				
Basic shares	42,028	41,764	41,934	41,704
Diluted shares	42,421	42,016	42,263	41,961

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income	\$ 10,204	\$ 10,721	\$ 161,780	\$ 35,011
Other comprehensive income (loss), net of tax				
Net unrealized gain (loss) on investment securities	2,667	8,062	(25,256)	6,278
Net unrealized gain (loss) on derivatives	-	(3)	10,993	(934)
Defined benefit plans	375	588	1,375	1,765
Other comprehensive income (loss), net of tax	3,042	8,647	(12,888)	7,109
Comprehensive income	\$ 13,246	\$ 19,368	\$ 148,892	\$ 42,120

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, 2012	\$ -	\$ 784,512	\$ 70,567	\$ (349,427)	\$ (830)	\$ 9,957	\$ 514,779
Net income	-	-	-	161,780	-	-	161,780
Other							
comprehensive loss	-	-	-	-	(12,888)	-	(12,888)
Cash dividends							
(\$0.08 per share)	-	-	-	(3,367)	-	-	(3,367)
1,782 net shares of common stock purchased by directors' deferred compensation plan	-	(39)	-	-	-	-	(39)
Share-based compensation	-	-	3,168	-	-	-	3,168
Non-controlling interests	-	-	-	-	-	(9,897)	(9,897)
Balance at							
September 30, 2013	\$ -	\$ 784,473	\$ 73,735	\$ (191,014)	\$ (13,718)	\$ 60	\$ 653,536
Balance at							
December 31, 2011	\$ -	\$ 784,539	\$ 66,585	\$ (396,848)	\$ 2,164	\$ 9,980	\$ 466,420
Net income	-	-	-	35,011	-	-	35,011
Other							
comprehensive income	-	-	-	-	7,109	-	7,109
4,291 net shares of common stock purchased by directors' deferred compensation plan	-	(27)	-	-	-	-	(27)
Share-based compensation	-	-	2,509	-	-	-	2,509
Non-controlling interests	-	-	-	-	-	(17)	(17)
Balance at							
September 30, 2012	\$ -	\$ 784,512	\$ 69,094	\$ (361,837)	\$ 9,273	\$ 9,963	\$ 511,005

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 161,780	\$ 35,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(9,977)	(16,602)
Depreciation and amortization	4,528	4,760
Write down of assets	-	2,586
Write down of other real estate, net of gain on sale	(7,989)	3,032
Amortization of other intangible assets	5,994	7,490
Net amortization of investment securities	10,766	11,764
Share-based compensation	3,168	2,509
Net gain on investment securities	-	(789)
Net gain on sales of residential loans	(8,492)	(11,084)
Proceeds from sales of loans held for sale	545,199	675,799
Originations of loans held for sale	(510,861)	(650,920)
Equity in earnings of unconsolidated subsidiaries	(733)	(386)
Increase in cash surrender value of bank-owned life insurance	(1,492)	(4,203)
Deferred income taxes	(115,683)	-
Premium paid on repurchases of preferred stock of subsidiaries	1,895	-
Net change in other assets and liabilities	(8,425)	(16,279)
Net cash provided by operating activities	69,678	42,688
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	387,409	315,723
Proceeds from sales of investment securities available for sale	-	130,076
Purchases of investment securities available for sale	(501,502)	(457,041)
Proceeds from maturities of and calls on investment securities held to maturity	9,980	689

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Purchases of investment securities held to maturity	(4,595)	(163,498)
Net loan originations	(258,612)	(58,467)
Purchases of loan portfolios	(37,104)	-
Proceeds from sales of loans originated for investment	10,679	10,340
Proceeds from sale of other real estate	16,375	14,960
Proceeds from bank-owned life insurance	-	1,997
Purchases of premises and equipment	(3,920)	(2,770)
Distributions from unconsolidated subsidiaries	553	455
Contributions to unconsolidated subsidiaries	(9,050)	-
Proceeds from redemption of FHLB stock	1,302	434
Net cash used in investing activities	(388,485)	(207,102)
Cash flows from financing activities:		
Net increase in deposits	225,492	178,062
Repayments of long-term debt	(13)	(50,013)
Net increase (decrease) in short-term borrowings	28,000	(34)
Cash dividends paid on common stock	(3,367)	-
Repurchases of preferred stock of subsidiaries	(11,781)	-
Net cash provided by financing activities	238,331	128,015
Net decrease in cash and cash equivalents	(80,476)	(36,399)
Cash and cash equivalents at beginning of period	177,375	257,072
Cash and cash equivalents at end of period	\$ 96,899	\$ 220,673
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 17,436	\$ 4,489
Income taxes	5	1
Cash received during the period for:		
Income taxes	-	396
Supplemental disclosure of noncash investing and financing activities:		
Net change in common stock held by directors' deferred compensation plan	\$ 39	\$ 27
Net reclassification of loans to other real estate	3,461	2,973
Net reclassification of loans held for sale to other real estate	-	716

Net transfer of loans to loans held for sale	-	1,487
Net transfer of investment securities available for sale to held to maturity	101,669	-

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, 2012. 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, Central Pacific Bank (“the bank” or “our 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’ (“Board”) 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 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 a 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 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 December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-11, “Disclosures about Offsetting Assets and Liabilities.” ASU 2011-11 expands the disclosure requirements for certain financial instruments and derivatives that are subject to enforceable master netting agreements or similar arrangements. The disclosures are required regardless of whether the instruments have been offset (or netted) in the balance sheet. Under ASU 2011-11, companies must describe the nature of offsetting arrangements and provide quantitative information about those agreements, including the gross and net amounts of financial instruments that are recognized in the balance sheet. In January 2013, the FASB issued ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” which clarifies the scope of ASU 2011-11 by limiting the disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent they are subject to an enforceable master netting or similar arrangement. The provisions of ASU 2011-11 and ASU 2013-01 were effective for the Company’s reporting period beginning on January 1, 2013, with retrospective application required. We adopted ASU 2011-11 and ASU 2013-01 effective January 1, 2013 and the adoption did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment." The provisions of ASU 2012-02 permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test, as is currently required by GAAP. ASU 2012-02 is effective for annual and interim impairment tests performed for the Company's reporting period beginning on January 1, 2013. We adopted this ASU effective January 1, 2013. As the Company does not have any indefinite-lived assets, the adoption of this guidance did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Amendments to Topic 220, Other Comprehensive Income." The amendments in ASU 2013-02 supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments would require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. ASU 2013-02 is effective for the Company's reporting period beginning on January 1, 2013. We adopted this ASU effective January 1, 2013. As the Company provided these required disclosures in the notes to the consolidated financial statements, the adoption of this guidance had no impact on the Company's consolidated balance sheets and statements of income. See Note 13 for the disclosures required by ASU 2013-02.

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)				
September 30, 2013				
Available for Sale				
Debt securities:				
U.S. Government sponsored entities	\$ 127,124	\$ 1,268	\$ -	\$ 128,392
States and political subdivisions	190,715	383	(11,074)	180,024
Corporations	140,119	1,586	(1,702)	140,003
Mortgage-backed securities:				
U.S. Government sponsored entities	974,008	11,221	(11,884)	973,345
Non-agency collateralized mortgage obligations	83,449	273	(4,376)	79,346
Other	742	96	-	838
Total	\$ 1,516,157	\$ 14,827	\$ (29,036)	\$ 1,501,948
Held to Maturity				
Mortgage-backed securities - U.S. Government sponsored entities	\$ 255,663	\$ 19	\$ (10,163)	\$ 245,519
December 31, 2012				
Available for Sale				
Debt securities:				
U.S. Government sponsored entities	\$ 278,198	\$ 2,741	\$ -	\$ 280,939
States and political subdivisions	184,274	2,831	(1,194)	185,911
Corporations	125,649	2,360	(63)	127,946
Mortgage-backed securities:				

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U.S. Government sponsored entities	925,018	17,548	(1,523)	941,043
Other	866	40	-	906
Total	\$ 1,514,005	\$ 25,520	\$ (2,780)	\$ 1,536,745

Held to Maturity

Mortgage-backed securities - U.S. Government sponsored entities	\$ 161,848	\$ 695	\$ (15)	\$ 162,528
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The amortized cost and estimated fair value of investment securities at September 30, 2013 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.

	September 30, 2013	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Available for Sale		
Due in one year or less	\$ 70,174	\$ 70,587
Due after one year through five years	136,515	138,509
Due after five years through ten years	119,674	116,767
Due after ten years	131,595	122,556
Mortgage-backed securities	1,057,457	1,052,691
Other	742	838
Total	\$ 1,516,157	\$ 1,501,948
Held to Maturity		
Mortgage-backed securities	\$ 255,663	\$ 245,519

We did not sell any available for sale securities during the first nine months of 2013.

During the three and nine months ended September 30, 2012, we sold certain available for sale investment securities for gross proceeds of \$127.4 million and \$130.1 million, respectively. Gross realized gains and losses on the sales of the available for sale investment securities were \$1.7 million and \$0.9 million, respectively, during the three and nine months ended September 30, 2012. The specific identification method was also used as the basis for determining the cost of all securities sold.

Investment securities of \$901.3 million and \$905.5 million at September 30, 2013 and December 31, 2012, respectively, were pledged to secure public funds on deposit, securities sold under agreements to repurchase 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 280 and 118 investment securities which were in an unrealized loss position at September 30, 2013 and December 31, 2012, 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 September 30, 2013:						
Debt securities:						
States and political subdivisions	\$ 171,260	\$ (11,074)	\$ -	\$ -	\$ 171,260	\$ (11,074)
Corporations	68,445	(1,702)	-	-	68,445	(1,702)
Mortgage-backed securities:						

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U.S. Government sponsored entities	697,996	(22,047)	-	-	697,996	(22,047)
Non-agency collateralized mortgage obligations	59,187	(4,376)	-	-	59,187	(4,376)
Total temporarily impaired securities	\$ 996,888	\$ (39,199)	\$ -	\$ -	\$ 996,888	\$ (39,199)

At December 31, 2012:

Debt securities:

States and political subdivisions	\$ 73,128	\$ (1,194)	\$ -	\$ -	\$ 73,128	\$ (1,194)
Corporations	23,205	(63)	-	-	23,205	(63)

Mortgage-backed securities:

U.S. Government sponsored entities	206,981	(1,538)	-	-	206,981	(1,538)
Total temporarily impaired securities	\$ 303,314	\$ (2,795)	\$ -	\$ -	\$ 303,314	\$ (2,795)

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 and disruptions in the credit and financial markets, and not due to the credit quality of the investment securities. 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:

	September 30, 2013	December 31, 2012
	(Dollars in thousands)	
Commercial, financial and agricultural	\$ 367,923	\$ 246,278
Real estate:		
Construction	73,387	96,240
Mortgage - residential	1,195,847	1,035,273
Mortgage - commercial	614,860	673,506
Consumer	226,338	143,387
Leases	6,539	10,504
	2,484,894	2,205,188
Unearned income	(576)	(1,244)
Total loans and leases	\$ 2,484,318	\$ 2,203,944

During the nine months ended September 30, 2013, we transferred nine loans with a carrying value of \$3.5 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category during the nine months ended

September 30, 2013. In June 2013, we purchased an auto loan portfolio for \$21.6 million, which represented a \$0.8 million premium over the \$20.8 million outstanding balance. At the time of purchase, the auto loan portfolio had a weighted average remaining term of 76 months. During the nine months ended September 30, 2013, we also purchased participation interests in student loans totaling \$15.5 million, which represented the outstanding balance. At the time of purchases, the student loans had a weighted average remaining term of 122 months.

During the nine months ended September 30, 2012, we transferred three loans, two of which was non-performing, to the held-for-sale category. In addition, we transferred 15 loans with a carrying value of \$3.0 million to other real estate. No portfolio loans were purchased during the nine months ended September 30, 2012.

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 September 30, 2013 and December 31, 2012:

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
	(Dollars in thousands)						
September 30, 2013							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ 403	\$ 1,576	\$ -	\$ -	\$ -	\$ -	\$ 1,979
Collectively evaluated for impairment	12,534	2,945	26,782	30,112	4,820	56	77,249
	12,937	4,521	26,782	30,112	4,820	56	79,228
Unallocated							6,000
Total ending balance	\$ 12,937	\$ 4,521	\$ 26,782	\$ 30,112	\$ 4,820	\$ 56	\$ 85,228
Loans and leases:							
Individually evaluated for impairment	\$ 3,945	\$ 20,638	\$ 36,298	\$ 20,418	\$ -	\$ -	\$ 81,299
Collectively evaluated for impairment	363,978	52,749	1,159,549	594,442	226,338	6,539	2,403,595
	367,923	73,387	1,195,847	614,860	226,338	6,539	2,484,894
Unearned income	307	(184)	1,116	(1,065)	(750)	-	(576)
Total ending balance	\$ 368,230	\$ 73,203	\$ 1,196,963	\$ 613,795	\$ 225,588	\$ 6,539	\$ 2,484,318
December 31, 2012							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	\$ 882	\$ 1,582	\$ 272	\$ 270	\$ -	\$ 5	\$ 3,011
Collectively evaluated for impairment	4,105	2,928	29,638	48,230	2,421	80	87,402
	4,987	4,510	29,910	48,500	2,421	85	90,413

Unallocated							6,000
Total ending							
balance	\$ 4,987	\$ 4,510	\$ 29,910	\$ 48,500	\$ 2,421	\$ 85	\$ 96,413
Loans and leases:							
Individually							
evaluated for							
impairment	\$ 3,957	\$ 48,264	\$ 42,865	\$ 15,911	\$ -	\$ 95	\$ 111,092
Collectively							
evaluated for							
impairment	242,321	47,976	992,408	657,595	143,387	10,409	2,094,096
	246,278	96,240	1,035,273	673,506	143,387	10,504	2,205,188
Unearned income	(60)	(46)	124	(1,258)	(4)	-	(1,244)
Total ending							
balance	\$ 246,218	\$ 96,194	\$ 1,035,397	\$ 672,248	\$ 143,383	\$ 10,504	\$ 2,203,944

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The following table presents by class, impaired loans as of September 30, 2013 and December 31, 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
(Dollars in thousands)			
September 30, 2013			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	\$ 980	\$ 980	\$ -
Real estate:			
Construction	15,429	9,043	-
Mortgage - residential	42,191	36,298	-
Mortgage - commercial	26,395	20,418	-
Total impaired loans with no related allowance recorded	84,995	66,739	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,445	2,965	403
Real estate:			
Construction	13,672	11,595	1,576
Total impaired loans with an allowance recorded	18,117	14,560	1,979
Total	\$ 103,112	\$ 81,299	\$ 1,979
December 31, 2012			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	\$ 1,225	\$ 526	\$ -
Real estate:			
Construction	52,352	36,664	-
Mortgage - residential	47,364	41,894	-
Mortgage - commercial	13,616	13,211	-
Total impaired loans with no related allowance recorded	114,557	92,295	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,807	3,431	882
Real estate:			
Construction	13,678	11,600	1,582
Mortgage - residential	1,935	971	272
Mortgage - commercial	3,939	2,700	270
Leases	95	95	5
Total impaired loans with an allowance recorded	24,454	18,797	3,011
Total	\$ 139,011	\$ 111,092	\$ 3,011

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of September 30, 2013 and 2012:

Three Months Ended September 30,		Nine Months Ended September 30,	
2013	2012	2013	2012

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	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
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(Dollars in thousands)

Commercial, financial & agricultural	\$4,104	\$ 6	\$3,956	\$ 1	\$4,189	\$ 18	\$3,304	\$ 30
Real estate:								
Construction	20,812	942	48,412	83	28,149	1,409	58,893	728
Mortgage - residential	36,228	24	46,036	120	38,909	352	48,418	298
Mortgage - commercial	19,436	441	17,994	162	22,286	623	19,589	330
Leases	-	-	252	-	43	-	135	-
Total	\$80,580	\$ 1,413	\$116,650	\$ 366	\$93,576	\$ 2,402	\$130,339	\$ 1,386

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 September 30, 2013 and December 31, 2012:

	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)							
September 30, 2013							
Commercial, financial & agricultural	\$ 245	\$ 104	\$ -	\$ 3,529	\$ 3,878	\$ 364,352	\$ 368,230
Real estate:							
Construction	-	-	-	16,497	16,497	56,706	73,203
Mortgage - residential	485	1,893	19	20,703	23,100	1,173,863	1,196,963
Mortgage - commercial	240	-	-	12,559	12,799	600,996	613,795
Consumer	528	140	18	-	686	224,902	225,588
Leases	-	-	-	-	-	6,539	6,539
Total	\$ 1,498	\$ 2,137	\$ 37	\$ 53,288	\$ 56,960	\$ 2,427,358	\$ 2,484,318
December 31, 2012							
Commercial, financial & agricultural	\$ 123	\$ 139	\$ -	\$ 3,510	\$ 3,772	\$ 242,446	\$ 246,218
Real estate:							
Construction	124	-	-	38,742	38,866	57,328	96,194
Mortgage - residential	8,330	590	387	27,499	36,806	998,591	1,035,397
Mortgage - commercial	219	-	-	9,487	9,706	662,542	672,248
Consumer	249	169	116	-	534	142,849	143,383
Leases	-	-	-	94	94	10,410	10,504
Total	\$ 9,045	\$ 898	\$ 503	\$ 79,332	\$ 89,778	\$ 2,114,166	\$ 2,203,944

Modifications

Troubled debt restructurings (“TDRs”) included in nonperforming assets at September 30, 2013 consisted of 45 Hawaii residential mortgage loans with a combined principal balance of \$13.7 million, a U.S Mainland commercial mortgage loan with a principal balance of \$9.1 million, three Hawaii construction loans with a combined principal balance of \$1.3 million, and a Hawaii commercial loan with a principal balance of \$0.6 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers.

There were \$27.8 million of TDRs still accruing interest at September 30, 2013, none of which were more than 90 days delinquent. At December 31, 2012, there were \$31.8 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Loans modified in a TDR are typically on nonaccrual status. 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, 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 and nine months ended September 30, 2013.

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The following table presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2013 and 2012:

	Number of Contracts	Recorded Investment (as of period end) (Dollars in thousands)	Increase in the Allowance
Three months ended September 30, 2013			
Real estate:			
Mortgage - residential	1	\$ 241	\$ -
Mortgage - commercial	1	9,099	-
Total	2	\$ 9,340	\$ -
Three months ended September 30, 2012			
Commercial, financial & agricultural	1	\$ 457	\$ -
Real estate:			
Construction	4	9,838	-
Mortgage - residential	3	1,226	155
Total	8	\$ 11,521	\$ 155
Nine months ended September 30, 2013			
Commercial, financial & agricultural	1	\$ 564	\$ -
Real estate:			
Construction	1	184	-
Mortgage - residential	4	1,860	-
Mortgage - commercial	1	9,099	-
Total	7	\$ 11,707	\$ -
Nine months ended September 30, 2012			
Real estate:			
Construction	2	\$ 10,593	\$ 3,014
Mortgage - residential	26	9,635	447
Total	28	\$ 20,228	\$ 3,461

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three and nine months ended September 30, 2013 and 2012:

Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
2013		2012		2013		2012	
Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)
(Dollars in thousands)							

Commercial, financial & agricultural	-	\$ -	-	\$ -	1	\$ 564	-	\$ -
Real estate:								
Construction	-	-	3	4,668	1	184	7	6,207
Mortgage - residential	-	-	1	93	3	1,330	4	878
Mortgage - commercial	-	-	-	-	-	-	2	6,212
Total	-	\$ -	4	\$ 4,761	5	\$ 2,078	13	\$ 13,297

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 loans and leases with an outstanding balance greater than \$0.5 million and 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 by the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

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

Loans and leases not meeting the criteria above are considered to be pass rated loans and leases. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of September 30, 2013 and December 31, 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Less: Unearned Income	Total
(Dollars in thousands)							
September 30, 2013							
Commercial, financial & agricultural	\$ 355,519	\$ 6,308	\$ 6,096	\$ -	\$ -	\$ (307)	\$ 368,230
Real estate:							
Construction	53,736	-	19,651	-	-	184	73,203
Mortgage - residential	1,171,598	1,044	23,205	-	-	(1,116)	1,196,963
Mortgage - commercial	555,679	24,081	35,100	-	-	1,065	613,795
Consumer	226,301	-	37	-	-	750	225,588
Leases	6,539	-	-	-	-	-	6,539
Total	\$ 2,369,372	\$ 31,433	\$ 84,089	\$ -	\$ -	\$ 576	\$ 2,484,318
December 31, 2012							
Commercial, financial & agricultural	\$ 232,062	\$ 6,609	\$ 7,607	\$ -	\$ -	\$ 60	\$ 246,218
Real estate:							
Construction	42,619	9,635	43,986	-	-	46	96,194
Mortgage - residential	1,003,268	1,109	30,896	-	-	(124)	1,035,397
Mortgage - commercial	577,638	65,114	30,754	-	-	1,258	672,248
Consumer	143,258	-	129	-	-	4	143,383
Leases	9,860	274	370	-	-	-	10,504
Total	\$ 2,008,705	\$ 82,741	\$ 113,742	\$ -	\$ -	\$ 1,244	\$ 2,203,944

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 September 30, 2013 and December 31, 2012, 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 September 30, 2013								
Beginning balance	\$ 9,653	\$ 6,460	\$ 25,613	\$ 35,461	\$ 3,848	\$ 70	\$ 6,000	\$ 87,105
Provision (credit) for loan and lease losses	3,385	(2,505)	1,141	(6,486)	1,292	(16)	-	(3,189)
Charge-offs	13,038	3,955	26,754	28,975	5,140	54	6,000	83,916
Recoveries	360	3	63	-	466	-	-	892
Recoveries	259	569	91	1,137	146	2	-	2,204
Net charge-offs (recoveries)	101	(566)	(28)	(1,137)	320	(2)	-	(1,312)
Ending balance	\$ 12,937	\$ 4,521	\$ 26,782	\$ 30,112	\$ 4,820	\$ 56	\$ 6,000	\$ 85,228
Three Months Ended September 30, 2012								
Beginning balance	\$ 6,262	\$ 12,331	\$ 29,821	\$ 47,242	\$ 2,008	\$ 150	\$ 6,000	\$ 103,814
Provision (credit) for loan and lease losses	(465)	(3,127)	2,981	(4,780)	434	(25)	-	(4,982)
Charge-offs	5,797	9,204	32,802	42,462	2,442	125	6,000	98,832
Recoveries	476	1,813	757	-	398	-	-	3,444
Recoveries	208	353	236	472	269	2	-	1,540
Net charge-offs (recoveries)	268	1,460	521	(472)	129	(2)	-	1,904
Ending balance	\$ 5,529	\$ 7,744	\$ 32,281	\$ 42,934	\$ 2,313	\$ 127	\$ 6,000	\$ 96,928
Nine Months Ended September 30, 2013								
Beginning balance	\$ 4,987	\$ 4,510	\$ 29,910	\$ 48,500	\$ 2,421	\$ 85	\$ 6,000	\$ 96,413
Provision (credit) for loan and lease losses	9,230	(2,432)	(2,836)	(16,808)	2,903	(34)	-	(9,977)
Charge-offs	14,217	2,078	27,074	31,692	5,324	51	6,000	86,436
Recoveries	2,201	358	857	3,674	1,023	-	-	8,113
Recoveries	921	2,801	565	2,094	519	5	-	6,905
Net charge-offs (recoveries)	1,280	(2,443)	292	1,580	504	(5)	-	1,208
Ending balance	\$ 12,937	\$ 4,521	\$ 26,782	\$ 30,112	\$ 4,820	\$ 56	\$ 6,000	\$ 85,228

Nine Months Ended September 30, 2012

Beginning balance	\$ 6,110	\$ 28,630	\$ 32,736	\$ 47,729	\$ 2,335	\$ 553	\$ 4,000	\$ 122,093
Provision (credit) for loan and lease losses	1,661	(15,255)	60	(4,951)	286	(403)	2,000	(16,602)
	7,771	13,375	32,796	42,778	2,621	150	6,000	105,491
Charge-offs	3,552	7,154	1,130	320	1,147	28	-	13,331
Recoveries	1,310	1,523	615	476	839	5	-	4,768
Net charge-offs (recoveries)	2,242	5,631	515	(156)	308	23	-	8,563
Ending balance	\$ 5,529	\$ 7,744	\$ 32,281	\$ 42,934	\$ 2,313	\$ 127	\$ 6,000	\$ 96,928

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 \$3.2 million and \$10.0 million in the third quarter and first nine months of 2013, respectively, compared to a credit of \$5.0 million and \$16.6 million in the third quarter and first nine months of 2012. The decrease in our Allowance is directly attributable to continued improvement in our credit risk profile as evidenced by declines in nonperforming assets and lower levels of net charge-offs.

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 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. The fair value of the servicing assets was determined using a discounted cash flow model based on market value assumptions at the time of securitization and is amortized in proportion to and over the period of net servicing income.

All unsold mortgage-backed securities were categorized as available for sale securities and were therefore recorded at their fair value of \$4.0 million and \$6.3 million at September 30, 2013 and December 31, 2012, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of \$0.2 million and \$0.4 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income ("AOCI") at September 30, 2013 and December 31, 2012, respectively.

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 nine months ended September 30, 2013:

	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
Balance, beginning of period	\$ 15,378	\$ 22,121	\$ 37,499
Additions	-	2,116	2,116
Amortization	(2,006)	(3,988)	(5,994)
Balance, end of period	\$ 13,372	\$ 20,249	\$ 33,621

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled \$0.5 million and \$2.1 million for the three and nine months ended September 30, 2013, respectively, compared to \$1.8 million and \$4.3 million for the three and nine months ended September 30, 2012, respectively. Amortization of mortgage servicing rights was \$1.0 million and \$4.0 million for the three and nine months ended September 30, 2013, respectively, compared to \$2.0 million and \$4.5 million for the three and nine months ended September 30, 2012, respectively.

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

Nine Months Ended September 30,
2013 2012
(Dollars in thousands)

Fair market value, beginning of period	\$	22,356		\$	23,149
Fair market value, end of period		20,763			22,894
Weighted average discount rate		8.0	%		8.0 %
Weighted average prepayment speed assumption		14.2			14.4

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

	September 30, 2013			December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
			(Dollars in thousands)			
Core deposit premium	\$ 44,642	\$ (31,270)	\$ 13,372	\$ 44,642	\$ (29,264)	\$ 15,378
Mortgage servicing rights	53,855	(33,606)	20,249	51,739	(29,618)	22,121
Customer relationships	-	-	-	1,400	(1,400)	-
Non-compete agreements	-	-	-	300	(300)	-
	\$ 98,497	\$ (64,876)	\$ 33,621	\$ 98,081	\$ (60,582)	\$ 37,499

Based on the core deposit premium and mortgage servicing rights held as of September 30, 2013, estimated amortization expense for the remainder of fiscal 2013, the next five succeeding fiscal years are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
			(Dollars in thousands)
2013 (remainder)	\$ 669	\$ 756	\$ 1,425
2014	2,674	2,574	5,248
2015	2,674	1,821	4,495
2016	2,674	1,268	3,942
2017	2,674	837	3,511
2018	2,007	505	2,512
Thereafter	-	12,488	12,488
	\$ 13,372	\$ 20,249	\$ 33,621

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 September 30, 2013, we were a party to interest rate lock and forward sale commitments on \$40.1 million and \$41.5 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	Asset Derivatives		Liability Derivatives		
	Balance Sheet Location	Fair Value at September 30, 2013	Fair Value at December 31, 2012	Fair Value at September 30, 2013	Fair Value at December 31, 2012
Interest rate contracts	Other assets / other liabilities	\$ 986	\$ 303	\$ 732	\$ 551

(Dollars in thousands)

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 Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion)
	(Dollars in thousands)
Three Months Ended September 30, 2013	
Interest rate contracts	\$ -
Three Months Ended September 30, 2012	
Interest rate contracts	3
Nine Months Ended September 30, 2013	
Interest rate contracts	(394)
Nine Months Ended September 30, 2012	
Interest rate contracts	934

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 Recognized in Earnings on Derivatives	Amount of Gain Recognized in Earnings on Derivatives (Dollars in thousands)
Three Months Ended September 30, 2013		
Interest rate contracts	Other operating income	\$ 1,034
Three Months Ended September 30, 2012		
Interest rate contracts	Other operating income	488
Nine Months Ended September 30, 2013		
Interest rate contracts	Other operating income	503
Nine Months Ended September 30, 2012		
Interest rate contracts	Other operating income	1,217

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At September 30, 2013, our bank maintained a \$47.3 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of September 30, 2013, certain commercial and commercial real estate loans totaling \$81.5 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 a \$907.8 million line of credit with the Federal Home Loan Bank of Seattle (the "FHLB") as of September 30, 2013. Short-term and long-term borrowings under this arrangement totaled \$28.0 million and \$18,500 at September 30, 2013, respectively, compared to \$32,000 of long-term borrowings at December 31, 2012. There were no short-term borrowings under this arrangement at December 31, 2012. At September 30, 2013 the bank's pledged assets to the FHLB included investment securities with a fair value of \$64.8 million and certain real estate loans totaling \$1.3 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 paid all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resumed quarterly payments for each outstanding trust. As a result, deferred accrued interest totaling \$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. 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. The investment is currently recorded at \$9 million and is included in investments in unconsolidated subsidiaries on the Company's consolidated balance sheet. In October 2013, the Company purchased the remaining \$5.0 million in trust preferred securities and \$0.5 million in common stock of the Trust. On October 7, 2013, the Company called these securities.

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 quarter 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").

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. 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.

As set forth above, our ability to pay dividends with respect to common stock was restricted until our obligations under our trust preferred securities were brought current which occurred in March 2013. 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 September 30, 2013, the bank had Statutory Retained Earnings of \$175.5 million. In light of the Company's improved capital position and financial condition, our Board and management, in consultation with our regulators, declared a quarterly cash dividend of \$0.08 per share on the Company's outstanding common shares on October 29, 2013. The dividend will be payable on December 16, 2013 to shareholders of record at the close of business on November 29, 2013. This represents our second consecutive quarterly cash dividend.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the nine months ended September 30, 2013:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	1,098,806	\$ 14.61
Changes during the period:		
Granted	111,542	15.69
Vested	(279,104)	14.65
Forfeited	(53,967)	14.68
Nonvested at September 30, 2013	877,277	14.73

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012, by component:

	Before Tax	Tax Effect	Net of Tax
	(Dollars in thousands)		
Three Months Ended September 30, 2013			
Net unrealized gain on investment securities:			
Net unrealized gain arising during the period	\$ 5,476	\$ 2,809	\$ 2,667
Net unrealized gain on investment securities	5,476	2,809	2,667
Defined benefit plans:			
Amortization of accumulated benefit plan losses	617	248	369
Amortization of unrecognized transition obligations	4	1	3
Amortization of prior service cost	5	2	3
Defined benefit plans, net	626	251	375
Other comprehensive income	\$ 6,102	\$ 3,060	\$ 3,042
Three Months Ended September 30, 2012			
Net unrealized gain on investment securities:			
Net unrealized gain arising during the period	\$ 9,444	\$ -	\$ 9,444
Less: Reclassification adjustment for gain realized in net income	(1,382)	-	(1,382)
Net unrealized gain on investment securities	8,062	-	8,062
Net unrealized loss on derivatives:			
Reclassification adjustment for gain realized in net income	(3)	-	(3)
Net unrealized loss on derivatives	(3)	-	(3)
Defined benefit plans:			
Amortization of accumulated benefit plan losses	580	-	580
Amortization of unrecognized transition obligations	4	-	4
Amortization of prior service cost	4	-	4
Defined benefit plans, net	588	-	588
Other comprehensive income	\$ 8,647	\$ -	\$ 8,647

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	Before Tax	Tax Effect	Net of Tax
	(Dollars in thousands)		
Nine Months Ended September 30, 2013			
Net unrealized loss on investment securities:			
Net unrealized loss arising during the period	\$ (38,924)	\$ (13,668)	\$ (25,256)
Net unrealized loss on investment securities	(38,924)	(13,668)	(25,256)
Net unrealized gain on derivatives:			
Reclassification adjustment for loss realized in net income	394	(10,599)	10,993
Net unrealized gain on derivatives	394	(10,599)	10,993
Defined benefit plans:			
Amortization of accumulated benefit plan losses	1,851	496	1,355
Amortization of unrecognized transition obligations	12	3	9
Amortization of prior service cost	15	4	11
Defined benefit plans, net	1,878	503	1,375
Other comprehensive loss	\$ (36,652)	\$ (23,764)	\$ (12,888)
Nine Months Ended September 30, 2012			
Net unrealized gain on investment securities:			
Net unrealized gain arising during the period	\$ 7,660	\$ -	\$ 7,660
Less: Reclassification adjustment for gain realized in net income	(1,382)	-	(1,382)
Net unrealized gain on investment securities	6,278	-	6,278
Net unrealized loss on derivatives:			
Reclassification adjustment for gain realized in net income	(934)	-	(934)
Net unrealized loss on derivatives	(934)	-	(934)
Defined benefit plans:			
Amortization of accumulated benefit plan losses	1,740	-	1,740
Amortization of unrecognized transition obligations	12	-	12
Amortization of prior service cost	13	-	13
Defined benefit plans, net	1,765	-	1,765
Other comprehensive income	\$ 7,109	\$ -	\$ 7,109

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2013 and 2012:

	Investment Securities	Derivatives	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)			
Three Months Ended September 30, 2013				
Balance at beginning of period	\$ (5,183)	\$ -	\$ (11,577)	\$ (16,760)
Other comprehensive income before reclassifications	2,667	-	-	2,667
Amounts reclassified from AOCI	-	-	375	375
Total other comprehensive income	2,667	-	375	3,042
Balance at end of period	\$ (2,516)	\$ -	\$ (11,202)	\$ (13,718)
Three Months Ended September 30, 2012				
Balance at beginning of period	\$ 22,227	\$ (11,490)	\$ (10,111)	\$ 626
Other comprehensive income before reclassifications	9,444	-	-	9,444
Amounts reclassified from AOCI	(1,382)	(3)	588	(797)
Total other comprehensive income (loss)	8,062	(3)	588	8,647
Balance at end of period	\$ 30,289	\$ (11,493)	\$ (9,523)	\$ 9,273
Nine Months Ended September 30, 2013				
Balance at beginning of period	\$ 22,740	\$ (10,993)	\$ (12,577)	\$ (830)
Other comprehensive loss before reclassifications	(25,256)	-	-	(25,256)
Amounts reclassified from AOCI	-	10,993	1,375	12,368
Total other comprehensive income (loss)	(25,256)	10,993	1,375	(12,888)
Balance at end of period	\$ (2,516)	\$ -	\$ (11,202)	\$ (13,718)
Nine Months Ended September 30, 2012				
Balance at beginning of period	\$ 24,011	\$ (10,559)	\$ (11,288)	\$ 2,164
Other comprehensive income before reclassifications	7,660	-	-	7,660
Amounts reclassified from AOCI	(1,382)	(934)	1,765	(551)
Total other comprehensive income (loss)	6,278	(934)	1,765	7,109
Balance at end of period	\$ 30,289	\$ (11,493)	\$ (9,523)	\$ 9,273

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012:

Details about AOCI Components	Amount Reclassified		Affected Line Item in the Statement Where Net Income is Presented
	from AOCI		
(Dollars in thousands)	Three months ended September 30,		
	2013	2012	
Sale of investment securities available for sale			
	\$ -	\$ 1,382	Investment securities gain
	-	-	Tax expense
	\$ -	\$ 1,382	Net of tax
Unrealized gain on derivatives			
	\$ -	\$ 3	Interest income
	-	-	Tax expense
	\$ -	\$ 3	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	\$ (617)	\$ (580)	(1)
Transition obligations	(4)	(4)	(1)
Prior service cost	(5)	(4)	(1)
	(626)	(588)	Total before tax
	251	-	Tax benefit
	\$ (375)	\$ (588)	Net of tax
Total reclassifications for the period			
	\$ (375)	\$ 797	Net of tax
Nine months ended September 30,			
	2013	2012	
Sale of investment securities available for sale			
	\$ -	\$ 1,382	Investment securities gain
	-	-	Tax expense
	\$ -	\$ 1,382	Net of tax
Unrealized gain (loss) on derivatives			
	\$ (394)	\$ 934	Interest income
	(10,599)	-	Tax expense
	\$ (10,993)	\$ 934	Net of tax

Amortization of defined benefit plan items			
Net actuarial losses	\$ (1,851)	\$ (1,740)	(1)
Transition obligations	(12)	(12)	(1)
Prior service cost	(15)	(13)	(1)
	(1,878)	(1,765)	Total before tax
	503	-	Tax benefit
	\$ (1,375)	\$ (1,765)	Net of tax
Total reclassifications for the period			
	\$ (12,368)	\$ 551	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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Interest cost	\$ 348	\$ 398	\$ 1,044	\$ 1,194
Expected return on assets	(470)	(447)	(1,410)	(1,341)
Amortization of unrecognized loss	599	581	1,797	1,743
Net periodic cost	\$ 477	\$ 532	\$ 1,431	\$ 1,596

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	103	107	309	321
Amortization of unrecognized transition obligation	4	4	12	12
Amortization of prior service cost	5	5	15	15
Amortization of unrecognized (gain) loss	18	(1)	54	(3)
Net periodic cost	\$ 130	\$ 115	\$ 390	\$ 345

15. INCOME AND FRANCHISE TAXES

In assessing the realizability of 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.

In the second quarter and third quarter of 2013, the Company recorded income tax expense of \$1.9 million and \$2.2 million, respectively.

As of September 30, 2013, the remaining valuation allowance on our net DTA totaled \$7.5 million. Net of this valuation allowance, the Company's net DTA totaled \$139.3 million as of September 30, 2013, compared to a fully reserved net DTA of \$147.5 million as of December 31, 2012. Our net DTA 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income	\$ 10,204	\$ 10,721	\$ 161,780	\$ 35,011
Weighted average shares outstanding - basic	42,028	41,764	41,934	41,704
Dilutive effect of employee stock options and awards	393	166	309	172
Dilutive effect of deferred salary restricted stock units	-	64	2	64
Dilutive effect of Treasury warrants	-	22	18	21
Weighted average shares outstanding - diluted	42,421	42,016	42,263	41,961
Basic earnings per share	\$ 0.24	\$ 0.26	\$ 3.86	\$ 0.84
Diluted earnings per share	\$ 0.24	\$ 0.26	\$ 3.83	\$ 0.83

A total of 24,937 potentially dilutive securities have been excluded from the dilutive share calculation for the three and nine months ended September 30, 2013, as their effect was antidilutive, compared to 300,713 and 300,869 for the three and nine months ended September 30, 2012, respectively.

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 of 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.

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	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)					
September 30, 2013					
Financial assets					
Cash and due from banks	\$ 59,400	\$ 59,400	\$ 59,400	\$ -	\$ -
Interest-bearing deposits in other banks	37,499	37,499	37,499	-	-
Investment securities	1,757,611	1,747,467	838	1,737,054	9,575
Loans held for sale	12,437	12,437	-	-	12,437
Net loans and leases	2,399,090	2,240,519	-	79,320	2,161,199
Accrued interest receivable	13,765	13,765	13,765	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	878,262	878,262	878,262	-	-
Interest-bearing demand and savings deposits	1,951,909	1,951,909	1,951,909	-	-
Time deposits	1,076,093	1,077,758	-	-	1,077,758
Short-term debt	28,000	28,000	-	28,000	-
Long-term debt	108,268	43,853	-	43,853	-
Accrued interest payable (included in other liabilities)	1,277	1,277	1,277	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	600,240	3,001	-	3,001	-
Standby letters of credit and financial guarantees written	18,864	141	-	141	-
Interest rate options	40,090	914	-	914	-
Forward interest rate contracts	41,492	(660)	-	(660)	-
December 31, 2012					
Financial assets					
Cash and due from banks	\$ 56,473	\$ 56,473	\$ 56,473	\$ -	\$ -
Interest-bearing deposits in other banks	120,902	120,902	120,902	-	-
Investment securities	1,698,593	1,699,273	906	1,685,541	12,826
Loans held for sale	38,283	38,283	-	-	38,283
Net loans and leases	2,107,531	2,083,514	-	108,081	1,975,433
Accrued interest receivable	13,896	13,896	13,896	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	843,292	843,292	843,292	-	-

Interest-bearing demand and savings deposits	1,858,849	1,858,849	1,858,849	-	-
Time deposits	978,631	981,059	-	-	981,059
Long-term debt	108,281	43,156	-	43,156	-
Accrued interest payable (included in other liabilities)	13,131	13,131	13,131	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	554,477	2,772	-	2,772	-
Standby letters of credit and financial guarantees written	13,813	104	-	104	-
Interest rate options	67,072	106	-	106	-
Forward interest rate contracts	49,222	(353)	-	(353)	-

Fair Value Measurements

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

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

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

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

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the three and nine months ended September 30, 2013.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
September 30, 2013				
Available for sale securities:				
Debt securities:				
U.S. Government sponsored entities	\$ 128,392	\$ -	\$ 128,392	\$ -
States and political subdivisions	180,024	-	170,449	9,575
Corporations	140,003	-	140,003	-
Mortgage-backed securities:				
U.S. Government sponsored entities	973,345	-	973,345	-
Non-agency collateralized mortgage obligations	79,346	-	79,346	-
Other	838	838	-	-
Derivatives:				
Interest rate contracts	254	-	254	-
Total	\$ 1,502,202	\$ 838	\$ 1,491,789	\$ 9,575
December 31, 2012				
Available for sale securities:				
Debt securities:				
U.S. Government sponsored entities	\$ 280,939	\$ -	\$ 280,939	\$ -
States and political subdivisions	185,911	-	173,085	12,826
Corporations	127,946	-	127,946	-
Mortgage-backed securities:				
U.S. Government sponsored entities	941,043	-	941,043	-
Other	906	906	-	-
Derivatives:				
Interest rate contracts	(248)	-	(248)	-
Amended TARP warrant	(819)	-	(819)	-
Total	\$ 1,535,678	\$ 906	\$ 1,521,946	\$ 12,826

For the nine months ended September 30, 2013 and 2012, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Available for sale debt securities - States and political subdivisions (Dollars in thousands)
Balance at December 31, 2012	\$ 12,826
Principal payments received	(2,736)

Unrealized net loss included in other comprehensive income		(589)
Purchases, sales, issuances and settlements, net		74	
Balance at September 30, 2013	\$	9,575	
Balance at December 31, 2011	\$	12,994	
Principal payments received		(285)
Unrealized net gain included in other comprehensive income		304	
Balance at September 30, 2012	\$	13,013	

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 \$9.6 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 September 30, 2013, the weighted average discount rate utilized was 4.84%, 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 September 30, 2013 and December 31, 2012, 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)				
September 30, 2013				
Impaired loans (1)	\$ 79,320	\$ -	\$ 79,320	\$ -
Other real estate (2)	5,761	-	5,761	-
December 31, 2012				
Impaired loans (1)	\$ 108,081	\$ -	\$ 108,081	\$ -
Other real estate (2)	10,686	-	10,686	-

(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 and servicing, 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, 2012 filed with the SEC. The majority of the Company's net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

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

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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 September 30, 2013:				
Net interest income	\$ 25,653	\$ 8,118	\$ -	\$ 33,771
Intersegment net interest income (expense)	2,635	(5,547)	2,912	-
Credit for loan and lease losses	3,189	-	-	3,189
Other operating income	10,578	969	383	11,930
Other operating expense	(19,615)	(2,535)	(14,362)	(36,512)
Administrative and overhead expense allocation	(14,018)	(227)	14,245	-
Income taxes	(1,090)	28	(1,112)	(2,174)
Net income	\$ 7,332	\$ 806	\$ 2,066	\$ 10,204
Three months ended September 30, 2012:				
Net interest income	\$ 23,296	\$ 6,264	\$ -	\$ 29,560
Intersegment net interest income (expense)	5,222	(6,801)	1,579	-
Credit for loan and lease losses	4,982	-	-	4,982
Other operating income	14,071	1,719	139	15,929
Other operating expense	(25,801)	(494)	(13,455)	(39,750)
Administrative and overhead expense allocation	(13,425)	(202)	13,627	-
Net income	\$ 8,345	\$ 486	\$ 1,890	\$ 10,721
Nine months ended September 30, 2013:				
Net interest income	\$ 75,445	\$ 22,168	\$ -	\$ 97,613
Intersegment net interest income (expense)	9,852	(18,935)	9,083	-
Credit for loan and lease losses	9,977	-	-	9,977
Other operating income	39,762	2,506	504	42,772
Other operating expense	(59,490)	(3,474)	(41,301)	(104,265)
Administrative and overhead expense allocation	(40,421)	(654)	41,075	-
Income taxes	118,628	331	(3,276)	115,683
Net income	\$ 153,753	\$ 1,942	\$ 6,085	\$ 161,780
Nine months ended September 30, 2012:				
Net interest income	\$ 69,527	\$ 20,794	\$ -	\$ 90,321
Intersegment net interest income (expense)	27,697	(17,769)	(9,928)	-
Credit for loan and lease losses	16,602	-	-	16,602
Other operating income	38,772	4,257	(254)	42,775

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Other operating expense	(69,322)	(1,392)	(43,973)	(114,687)
Administrative and overhead expense allocation	(42,950)	(664)	43,614	-
Net income (loss)	\$ 40,326	\$ 5,226	\$ (10,541)	\$ 35,011

At September 30, 2013:

Investment securities	\$ -	\$ 1,757,611	\$ -	\$ 1,757,611
Loans and leases (including loans held for sale)	2,496,755	-	-	2,496,755
Other	112,442	303,422	74,253	490,117
Total assets	\$ 2,609,197	\$ 2,061,033	\$ 74,253	\$ 4,744,483

At December 31, 2012:

Investment securities	\$ -	\$ 1,698,593	\$ -	\$ 1,698,593
Loans and leases (including loans held for sale)	2,242,227	-	-	2,242,227
Other	(7,267)	363,815	73,000	429,548
Total assets	\$ 2,234,960	\$ 2,062,408	\$ 73,000	\$ 4,370,368

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.

20. SEVERANCE CHARGE

The Company began implementing a staff right-sizing plan in the third quarter of 2013. We estimate we will incur charges of \$4.0 million in total employee severance benefits as a result of the right-sizing plan. We have accrued for employee severance benefit charges of \$1.3 million in the third quarter of 2013 which is reflected in salaries and employee benefits in our consolidated statements of income for the third quarter of 2013. The estimated severance charge for future periods is \$1.6 million and \$1.1 million in the fourth quarter of 2013 and the year-ended December 31, 2014 respectively.

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

Overview

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

Central Pacific Bank is a full-service community bank with 35 branches and 112 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.

We adopted and implemented a recovery plan in March 2010 to improve our financial health by completing a significant recapitalization, reducing our credit risk exposure and returning to profitability by focusing on our core businesses and traditional markets in Hawaii.

We have continued to accomplish a number of key milestones in our recovery plan, including:

- 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 September 30, 2013 of 21.3%, 22.6%, and 14.0%, respectively, compared to 22.5%, 23.8%, and 14.3%, respectively, as of December 31, 2012. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.
- We reported eleven consecutive profitable quarters with net income totaling \$10.2 million and \$161.8 million in the third quarter and first nine months of 2013, respectively, and \$47.4 million and \$36.6 million for the years ended December 31, 2012 and 2011, respectively.
- On October 29, 2013, declared a quarterly cash dividend of \$0.08 per share on the Company's outstanding common shares payable on December 16, 2013 to shareholders of record at the close of business on November 29, 2013. This represents our second consecutive quarterly cash dividend.
- Recorded an income tax benefit of \$119.8 million in the first quarter of 2013 resulting from the reversal of a significant portion of a valuation allowance that was established against the Company's net deferred tax assets in the third quarter of 2009.
- We reduced our nonperforming assets by \$31.0 million to \$59.0 million at September 30, 2013 from \$90.0 million at December 31, 2012.
- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 3.43% at September 30, 2013, compared to 4.37% at December 31, 2012. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 144.33% at September 30, 2013, compared to 107.10% at December 31, 2012.

In addition, on February 12, 2013, the Written Agreement (the "Written Agreement") that we entered into with the Federal Reserve Bank of San Francisco and the Hawaii Division of Financial Institutions in July 2010 was terminated.

Supplementing the progress we have made with respect to improving our credit risk profile, strengthening our capital position, and returning to profitability, 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 centers and hardware for our core information technology system to Fiserv, which is our existing core software application provider, and designing, developing, and implementing our data warehouse and customer relationship management programs; and (ii) commencing a staff right-sizing plan which is expected to eliminate approximately 100 full time employee positions through a voluntary early retirement program and the reduction of select positions.

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, 2012 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 28, 2013.

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 commitments is consistent with our process for determining the Allowance and is adjusted for estimated loan funding probabilities. Reserves for unfunded commitments are 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 third quarter of 2013, we recorded a credit to the Provision of \$3.2 million. We had an Allowance as a percentage of total loans and leases of 3.43% at September 30, 2013, compared to 4.37% at December 31, 2012. Although other factors of our overall risk profile have improved in recent quarters and general economic trends and

market conditions have shown signs of stabilization to some degree, 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 begin to deteriorate. If this occurs, it would result in an increase in loan delinquencies, an increase in loan charge-offs or a need for additional increases in 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 and Provision, due to the elevated risk still inherent in our existing loan portfolio resulting from our high concentration of commercial real estate and construction 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) Hawaii and U.S. Mainland construction and commercial real estate loans 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 Hawaii and U.S. Mainland construction and commercial real estate loans are recorded at the lower of cost or fair value on an individual basis.

When a construction or commercial real estate 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 Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

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 could have repurchase obligations. The reserves are established by a charge to other operating expense in our consolidated statements of income. At September 30, 2013 and December 31, 2012, this reserve totaled \$3.4 million and \$3.6 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 September 30, 2013 were approximately \$4.3 billion and \$3.7 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 September 30, 2013 approximate \$132.0 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.

We repurchased \$2.2 million and \$4.0 million of loans during the three and nine months ended September 30, 2013, respectively. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appealed, Repurchased and Pending Resolution [1]
Nine Months Ended September 30, 2013

Vintage	Government Sponsored Entities				Non-GSE Investors			
	Repurchase Demands	Appealed	Repurchased	Pending Resolution	Repurchase Demands	Appealed	Repurchased	Pending Resolution
2005 and prior	-	-	-	-	-	-	-	-
2006	1	1	-	-	-	-	-	-
2007	6	1	5	-	-	-	-	-
2008	10	6	3	1	-	-	-	-
2009	2	1	1	-	-	-	-	-
2010	1	1	-	-	-	-	-	-
2011	5	1	-	4	-	-	-	-
2012	3	2	1	-	2	1	1	-
2013	-	-	-	-	-	-	-	-
Total	28	13	10	5	2	1	1	-

[1] Based on repurchase requests received between January 1, 2013 and September 30, 2013.

The reserve for residential mortgage loan repurchase losses of \$3.4 million at September 30, 2013 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 a decrease of \$0.2 million from December 31, 2012. The table below shows changes in the repurchase losses liability for the periods shown.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance, beginning of period	\$ 3,925	\$ 5,806	\$ 3,552	\$ 6,802
Change in estimate	(327)	(1,263)	5	(1,421)
Utilizations	(226)	(243)	(185)	(1,081)
Balance, end of period	\$ 3,372	\$ 4,300	\$ 3,372	\$ 4,300

Our capacity to estimate repurchase losses is advancing 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.

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.

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.

Financial Summary

During the third quarter of 2013, we reported net income of \$10.2 million, or \$0.24 per diluted share, compared to \$10.7 million, or \$0.26 per diluted share, reported in the third quarter of 2012. Net income for the first nine months of 2013 was \$161.8 million, or \$3.83 per diluted share, compared to \$35.0 million, or \$0.83 per diluted share, for the first nine months of 2012. Net income in the first nine months 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 against the Company's net DTA during the third quarter of 2009. Excluding this income tax benefit, net income for the first nine months of 2013 was \$42.0 million, or \$1.00 per diluted share.

The following table shows our net income 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 September 30,		Nine Months Ended September 30,	
	2013	Diluted EPS	2013	Diluted EPS
GAAP net income	\$ 10,204	\$ 0.24	\$ 161,780	\$ 3.83
Non-GAAP adjustment:				
Release of valuation allowance on net deferred tax assets	-	-	(119,802)	(2.83)
Non-GAAP net income	\$ 10,204	\$ 0.24	\$ 41,978	\$ 1.00

Our net income in the three and nine months ended September 30, 2013 was also driven by a significant reduction in our total credit costs as we experienced continued improvement in our credit risk profile. Total credit costs, which includes the Provision, write-downs of loans classified as held for sale, write-downs of foreclosed property, gains on sales of foreclosed properties and the change in the reserve for unfunded commitments, were reduced from a credit of \$0.2 million and \$13.0 million in the three months and nine months ended September 30, 2012, respectively, to a credit of \$3.5 million and \$20.7 million in the three and nine months ended September 30, 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 includes goodwill, core deposit premium, customer relationships and non-compete agreements. Average intangible assets were \$13.7 million and \$14.4 million for the three and nine months ended September 30, 2013, respectively, and \$16.4 million and \$17.7 million for the comparable prior year periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Return on average assets	0.87 %	1.00 %	4.73 %	1.12 %
Return on average shareholders' equity	6.34	8.73	35.51	9.81
Return on average tangible equity	6.48	9.04	36.37	10.19
Basic earnings per common share	\$ 0.24	\$ 0.26	\$ 3.86	\$ 0.84
Diluted earnings per common share	0.24	0.26	3.83	0.83

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system in 2008.

Despite recent signs of stabilization, concerns about the global and U.S. economies still remain, including concerns over the European sovereign debt crisis. Growing U.S. government indebtedness, elevated unemployment rates, a large budget deficit and ongoing 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.

Thus far through 2013, Hawaii's general economic conditions continue to improve. Tourism remains Hawaii's center of strength and its most significant economic driver. According to the Hawaii Tourism Authority ("HTA"), 5.7 million visitors visited the state in the first eight months of 2013. This was an increase of 5.1% from the number of visitor arrivals in the first eight months of 2012. The HTA also reported that total spending by visitors increased to \$10.0 billion in the first eight months of 2013, an increase of \$482.1 million, or 5.1%, from the first eight months of 2012. According to the Hawaii Department of Business Economic Development & Tourism ("DBEDT"), total visitor arrivals and visitor spending are expected to gain 4.3% and 5.3% in 2013, respectively.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 4.3% in August 2013, compared to 5.7% in August 2012. In addition, Hawaii's unemployment rate in August 2013 remained below the national seasonally adjusted unemployment rate of 7.3%. Hawaii's unemployment rate is projected to be 4.8% in 2013 and 4.5% in 2014. DBEDT projects real personal income and real gross state product to both grow by 2.6% in 2013. DBEDT expects that Hawaii's economy will continue its positive growth for the remainder of 2013 and into 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.

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 11.6% for single-family homes and 18.9% for condominiums for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The median sales price for single-family homes on Oahu for the month ended September 30, 2013 was \$675,000, representing an increase of 6.0% from the comparable prior year period. The median sales price for condominiums on Oahu for the month ended September 30, 2013 was \$348,000, representing an increase of 8.9% compared to the same prior year period. While some economists and real estate professionals believe that the Hawaii real estate market will continue to show improvements for the remainder of 2013, 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 and nine months ended September 30, 2013 and 2012 is set forth below.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Average Yield/Rate	Amount of Interest (Dollars in thousands)	Average Balance	Average Yield/Rate	Amount of Interest
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	\$ 33,973	0.25 %	\$ 21	\$ 133,963	0.25 %	\$ 84
Taxable investment securities (1)	1,588,412	2.04	8,119	1,527,572	1.74	6,645
Tax-exempt investment securities (1)	177,319	3.44	1,526	106,623	4.06	1,083
Loans and leases, including loans held for sale (2)	2,439,459	4.31	26,414	2,132,775	4.53	24,241
Federal Home Loan Bank stock	46,989	0.10	12	48,764	-	-
Total interest earning assets	4,286,152	3.36	36,092	3,949,697	3.24	32,053
Nonearning assets	385,384			320,800		
Total assets	\$ 4,671,536			\$ 4,270,497		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 730,534	0.05 %	\$ 91	\$ 630,209	0.05 %	\$ 83
Savings and money market deposits	1,197,911	0.08	227	1,172,065	0.08	232
Time deposits under \$100,000	278,583	0.43	302	320,516	0.55	446
Time deposits \$100,000 and over	793,136	0.18	369	680,632	0.25	423
Short-term borrowings	3,648	0.32	3	-	-	-
Long-term debt	108,269	2.92	795	108,287	3.42	930
Total interest-bearing liabilities	3,112,081	0.23	1,787	2,911,709	0.29	2,114
Noninterest-bearing deposits	856,410			788,743		
Other liabilities	57,083			69,068		
Total liabilities	4,025,574			3,769,520		
Shareholders' equity	643,874			491,011		
Non-controlling interests	2,088			9,966		
Total equity	645,962			500,977		
Total liabilities and equity	\$ 4,671,536			\$ 4,270,497		
Net interest income			\$ 34,305			\$ 29,939
Net interest margin		3.19 %			3.02 %	

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Nine Months Ended September 30,

2013

2012

	Average Balance	Average Yield/Rate	Amount of Interest (Dollars in thousands)	Average Balance	Average Yield/Rate	Amount of Interest
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	\$ 95,381	0.25 %	\$ 178	\$ 113,968	0.25 %	\$ 212
Taxable investment securities (1)	1,528,169	1.97	22,534	1,531,785	1.90	21,855
Tax-exempt investment securities (1)	177,636	3.53	4,706	58,859	4.69	2,072
Loans and leases, including loans held for sale (2)	2,341,500	4.41	77,362	2,116,636	4.64	73,642
Federal Home Loan Bank stock	47,433	0.03	12	48,786	-	-
Total interest earning assets	4,190,119	3.34	104,792	3,870,034	3.37	97,781
Nonearning assets	374,846			308,950		
Total assets	\$ 4,564,965			\$ 4,178,984		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	\$ 702,662	0.05 %	\$ 259	\$ 604,990	0.06 %	\$ 258
Savings and money market deposits	1,183,101	0.07	663	1,159,000	0.09	783
Time deposits under \$100,000	289,420	0.47	1,015	332,221	0.62	1,531
Time deposits \$100,000 and over	746,241	0.20	1,135	658,245	0.28	1,373
Short-term borrowings	1,230	0.32	3	4	0.76	-
Long-term debt	108,273	3.04	2,457	110,298	3.38	2,790
Total interest-bearing liabilities	3,030,927	0.24	5,532	2,864,758	0.31	6,735
Noninterest-bearing deposits	841,663			756,428		
Other liabilities	77,548			71,902		
Total liabilities	3,950,138			3,693,088		
Shareholders' equity	607,525			475,924		
Non-controlling interests	7,302			9,972		
Total equity	614,827			485,896		
Total liabilities and equity	\$ 4,564,965			\$ 4,178,984		
Net interest income			\$ 99,260			\$ 91,046
Net interest margin		3.16 %			3.14 %	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Net interest income expressed on a taxable-equivalent basis of \$34.3 million for the third quarter of 2013, increased by \$4.4 million, or 14.6%, from the third quarter of 2012, while taxable-equivalent net interest income for the first nine months of 2013 increased by \$8.2 million, or 9.0%, to \$99.3 million from the comparable prior year period. As further discussed below, the current quarter increase was primarily attributable to the significant increase in average loans and leases and investment securities and the 30 basis point (“bp”) increase in average yields earned on our taxable

investment securities, partially offset by the 22 bp and 62 bp declines in average yields earned on our loans and leases and tax-exempt securities portfolios.

Consistent with the quarter, the year-to-date increase in taxable-equivalent net interest income was primarily attributable to the significant increase in average loans and leases and investment securities and the 7 bp increase in average yields earned on our taxable investment securities, partially offset by the 23 bp and 116 bp declines in average yields earned on our loans and leases and tax-exempt securities portfolios.

Interest Income

Taxable-equivalent interest income of \$36.1 million for the third quarter of 2013 increased by \$4.0 million, or 12.6%, from the third quarter of 2012. The increase was primarily attributable to significant increases in average loans and leases, tax-exempt investment securities, and taxable investment securities of \$306.7 million, \$70.7 million, and \$60.8 million, respectively, compared to the third quarter of 2012, accounting for approximately \$3.5 million, \$0.7 million, and \$0.3 million of the current quarter's increase in interest income, respectively. In addition, average yields earned on taxable investment securities increased by 30 bp, which contributed to \$1.1 million of the current quarter's increase in interest income. Offsetting these increases were decreases in average yields earned on loans and leases and tax-exempt investment securities of 22bp and 62 bp, respectively, compared to the third quarter of 2012, lowering interest income by \$1.2 million and \$0.2 million, respectively.

For the nine months ended September 30, 2013, taxable-equivalent interest income increased by \$7.0 million, or 7.2%, from the nine months ended September 30, 2012. The increase was primarily attributable to the significant increases in average loans and leases and tax-exempt investment securities of \$224.9 million and \$118.8 million, respectively, compared to the same prior year period, accounting for approximately \$7.8 million and \$4.2 million, of the current year's increase in interest income, respectively. Average yields earned on taxable investment securities increased by 7 bp, which contributed to \$0.8 million of the current year's increase in interest income. Also contributing to the increase was the recovery of interest on loans previously placed on nonaccrual status totaling \$2.7 million in the nine months ended September 30, 2013, compared to \$0.8 million in the comparable prior year period. Average yields earned on loans and leases and tax-exempt investment securities decreased by 23 bp and 116 bp, respectively, in the nine months ended September 30, 2013, lowering interest income by approximately \$3.7 million and \$0.5 million, respectively.

Interest Expense

Interest expense of \$1.8 million for the third quarter of 2013 decreased by \$0.3 million, or 15.5%, from the comparable prior year quarter. The decrease was attributable to the overall decline in average rates paid on interest-bearing liabilities. The 50 bp, 12 bp, and 7 bp decline in average rates paid on long-term debt, time deposits under \$100,000, and time deposits \$100,000 and over, respectively, each contributed to \$0.1 million of the current quarter decrease in interest expense.

For the nine months ended September 30, 2013, interest expense decreased by \$1.2 million, or 17.9%, from the nine months ended September 30, 2012. The decrease was attributable to the 8 bp, 15 bp, 34 bp, and 2 bp decline in average rates paid on time deposits \$100,000 and over, time deposits under \$100,000, long-term debt, and savings and money market deposits, respectively, which contributed to \$0.4 million, \$0.4 million, \$0.3 million, and \$0.2 million, respectively, of the decrease in interest expense from the comparable prior year period.

Net Interest Margin

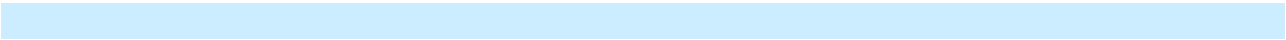
Our net interest margin was 3.19% for the third quarter of 2013, compared to 3.02% for the third quarter of 2012. Our net interest margin for the first nine months of 2013 was 3.16%, compared to 3.14% in the comparable prior year period. As described above, the increases in the net interest margin for the third quarter and the nine months ended September 30, 2013 compared to the comparable prior year periods reflected our deployment of excess liquidity into higher yielding loans and leases and investment securities and an overall reduction in our funding costs.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the third quarter of 2013.

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.

	September 30, 2013	December 31, 2012		
	(Dollars in thousands)			
Nonperforming Assets				
Nonaccrual loans (including loans held for sale):				
Commercial, financial and agricultural	\$ 3,529	\$ 3,510		
Real estate:				
Construction	16,497	38,742		
Mortgage-residential	20,703	27,499		
Mortgage-commercial	12,559	9,487		
Leases	-	94		
Total nonaccrual loans	53,288	79,332		
Other real estate:				
Real estate:				
Construction	3,769	8,105		
Mortgage-residential	1,783	2,372		
Mortgage-commercial	209	209		
Total other real estate	5,761	10,686		
Total nonperforming assets	59,049	90,018		
Accruing loans delinquent for 90 days or more:				
Real estate:				
Mortgage-residential	19	387		
Consumer	18	116		
Total accruing loans delinquent for 90 days or more	37	503		
Restructured loans still accruing interest:				
Commercial, financial and agricultural	416	447		
Real estate:				
Construction	3,935	9,522		
Mortgage-residential	15,595	15,366		
Mortgage-commercial	7,859	6,425		
Total restructured loans still accruing interest	27,805	31,760		
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	\$ 86,891	\$ 122,281		
Total nonperforming assets as a percentage of loans and leases, loans held for sale and other real estate	2.36	%	4.00	%
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	2.36	%	4.02	%



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	3.47	%	5.43	%
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Nonperforming assets, which includes nonaccrual loans and leases, nonperforming loans classified as held for sale, and foreclosed real estate, totaled \$59.0 million at September 30, 2013, compared to \$90.0 million at December 31, 2012. The decrease from December 31, 2012 was attributable to \$28.3 million in repayments, \$16.1 million in loans restored to accrual status, \$4.8 million in sales of foreclosed properties, \$1.8 million in charge-offs, and \$0.4 million in write-downs, partially offset by \$20.6 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland construction assets totaling \$24.7 million, Hawaii residential mortgage assets totaling \$7.4 million, Hawaii construction assets totaling \$1.9 million, and Hawaii leasing assets totaling \$0.1 million. Partially offsetting these net decreases were net increases in U.S. Mainland commercial mortgage assets totaling \$1.6 million, Hawaii commercial mortgage assets totaling \$1.5 million, and Hawaii commercial assets totaling \$19,000.

Restructured loans included in nonperforming assets at September 30, 2013 consisted of 45 Hawaii residential mortgage loans with a combined principal balance of \$13.7 million, a U.S. Mainland commercial mortgage loan with a principal balance of \$9.1 million, three Hawaii construction loans with a combined principal balance of \$1.3 million, and a Hawaii commercial loan with a principal balance of \$0.6 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these 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 \$27.8 million of restructured loans still accruing interest at September 30, 2013, 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	\$ 87,105	\$ 103,814	\$ 96,413	\$ 122,093
Provision (credit) for loan and lease losses	(3,189)	(4,982)	(9,977)	(16,602)
Charge-offs:				
Commercial, financial and agricultural	360	476	2,201	3,552
Real estate:				
Construction	3	1,813	358	7,154
Mortgage-residential	63	757	857	1,130
Mortgage-commercial	-	-	3,674	320
Consumer	466	398	1,023	1,147
Leases	-	-	-	28
Total charge-offs	892	3,444	8,113	13,331
Recoveries:				
Commercial, financial and agricultural	259	208	921	1,310
Real estate:				
Construction	569	353	2,801	1,523

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Mortgage-residential	91	236	565	615
Mortgage-commercial	1,137	472	2,094	476
Consumer	146	269	519	839
Leases	2	2	5	5
Total recoveries	2,204	1,540	6,905	4,768
Net charge-offs (recoveries)	(1,312)	1,904	1,208	8,563
Balance at end of period	\$ 85,228	\$ 96,928	\$ 85,228	\$ 96,928
Annualized ratio of net charge-offs (recoveries) to average loans	(0.22)%	0.36 %	0.07 %	0.54 %

Our Allowance at September 30, 2013 totaled \$85.2 million, a decrease of \$11.2 million, or 11.6%, from year-end 2012. The decrease in our Allowance was a direct result of a credit to the Provision of \$10.0 million and \$1.2 million in net loan charge-offs.

Our Provision was a credit of \$3.2 million and \$10.0 million during the third quarter and first nine months of 2013, respectively, compared to a credit of \$5.0 million and \$16.6 million in the third quarter and first nine months of 2012, respectively. Our net recoveries were \$1.3 million during the third quarter of 2013, compared to net charge-offs of \$1.9 million in the comparable prior year period. Our net charge-offs were \$1.2 million during the first nine months of 2013, compared to \$8.6 million in the comparable prior year period.

Our Allowance as a percentage of our total loan portfolio decreased from 4.37% at December 31, 2012 to 3.43% at September 30, 2013. Our Allowance as a percentage of our nonperforming assets increased from 107.10% at December 31, 2012 to 144.33% at September 30, 2013.

The decrease in the Allowance is consistent with our improved credit risk profile as evidenced by a decrease in our nonperforming assets, lower net loan charge-off activity, and is consistent with our belief that we have begun to see signs of stabilization in our loan portfolio, the overall economy and the commercial real estate markets both in Hawaii and on the U.S. Mainland.

Depending on the overall performance of the local and national economies, the strength of the Hawaii and California 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 further 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 \$11.9 million for the third quarter of 2013 decreased by \$5.1 million, or 30.0%, from the comparable prior year period. The decrease was primarily due to lower net gains on sales of residential loans of \$3.2 million, lower rental income from foreclosed properties of \$1.1 million, lower gains on sales of foreclosed assets of \$0.8 million, and lower investment securities gains of \$0.8 million, partially offset by higher unrealized gains on interest rate locks of \$0.5 million.

For the nine months ended September 30, 2013, total other operating income of \$42.8 million decreased by \$1.1 million, or 2.5%, from the comparable prior year period. The decrease was primarily due to lower rental income from foreclosed properties of \$3.2 million, lower gains on sales of residential loans of \$2.6 million, lower service charges on deposit accounts of \$1.8 million, lower investment securities gains of \$0.8 million, lower income from bank-owned life insurance of \$0.8 million, and lower unrealized gains on interest rate locks of \$0.7 million, partially offset by higher gains on sales of foreclosed assets of \$7.4 million and higher other service charges and fees of \$0.8 million.

Other Operating Expense

Total other operating expense for the third quarter of 2013 was \$36.5 million, compared to \$40.9 million in the comparable prior year period. The decrease was primarily attributable to lower net credit-related charges of \$7.0 million (which include write-downs of loans held for sale, foreclosed asset expense, and changes in the reserve for

unfunded commitments), lower amortization of other intangible assets of \$1.1 million, lower legal and professional fees of \$0.6 million, and lower Federal Deposit Insurance Corporation (“FDIC”) insurance expense of \$0.6 million, partially offset by higher salaries and employee benefits of \$1.9 million, a premium paid on the repurchase of preferred stock of two subsidiaries of \$1.9 million, and a higher provision for repurchased residential mortgage loans of \$0.9 million. The increase in salaries and employee benefits in the current quarter was due to severance, early retirement and retention benefits totaling \$1.3 million, which were related to an efficiency initiative that we have begun, which includes a voluntary early retirement program and a reduction of select positions. As a result of this initiative, as well as our efforts to outsource our core information technology system, and designing, developing, and implementing our data warehouse and customer relationship management programs, we may experience system transactional or reporting errors and delays, short-term reduced productivity, undesired personnel turnover, and loss of key customer relationships, any of which could have an adverse effect on our results of operations in future periods.

For the nine months ended September 30, 2013, total other operating expense of \$104.3 million decreased by \$11.5 million, or 10.0%, from the comparable prior year period. The decrease was primarily attributable to lower net credit-related charges of \$10.0 million, lower legal and professional fees of \$4.2 million, lower FDIC insurance expense of \$1.8 million, an accrual totaling \$1.8 million related to the settlement of a legal proceeding against the Company recorded in the second quarter of 2012, and lower amortization of other intangible assets of \$1.5 million, partially offset by higher salaries and employee benefits of \$4.4 million, the aforementioned premium paid on the repurchase of preferred stock of two subsidiaries of \$1.9 million, and a higher provision for repurchased residential mortgage loans of \$1.4 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 second and third quarter of 2013, the Company recorded income tax expense of \$2.2 million and \$1.9 million, respectively.

As of September 30, 2013, the remaining valuation allowance on our net DTA totaled \$7.5 million. Net of this valuation allowance, the Company's net DTA totaled \$139.3 million as of September 30, 2013, compared to a fully reserved net DTA of \$147.5 million as of December 31, 2012.

Financial Condition

Total assets at September 30, 2013 of \$4.7 billion increased by \$374.1 million from \$4.4 billion at December 31, 2012.

Investment Securities

Investment securities of \$1.8 billion at September 30, 2013, increased by \$59.0 million, or 3.5%, from December 31, 2012. The increase was primarily due to net increases in mortgage-backed securities issued by U.S. Government sponsored entities, non-agency collateralized mortgage obligations, and corporate debt securities totaling \$126.1 million, \$79.3 million, and \$12.1 million respectively, partially offset by a net reduction in debt securities issued by U.S Government sponsored entities and states and political subdivisions of \$152.5 million and \$5.9 million, respectively.

Loans and Leases

Loans and leases, net of unearned income, of \$2.5 billion at September 30, 2013, increased by \$280.4 million, or 12.7%, from December 31, 2012. The increase was primarily due to net changes in the residential mortgage, commercial, and consumer loan portfolios totaling \$161.6 million, \$122.0 million, and \$82.2 million, respectively, partially offset by a net reduction in the commercial mortgage loan, construction loan, and leases portfolios totaling \$58.5 million, \$23.0 million, and \$4.0 million, respectively. The net increases in these portfolios reflect transfers of nine portfolio loans to other real estate totaling \$3.5 million and charge-offs of loans and leases of \$8.1 million.

Deposits

Total deposits of \$3.9 billion at September 30, 2013 reflected an increase of \$225.5 million, or 6.1%, from December 31, 2012. The increase was primarily attributable to increases in non-interest bearing demand deposits, interest-bearing demand deposits, savings and money market deposits, and time deposits of \$35.0 million, \$66.6 million, \$26.5 million, and \$97.5 million, respectively.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than \$100,000, totaled \$3.1 billion at September 30, 2013 and increased by \$97.6 million from December 31, 2012.

Capital Resources

Common Stock

Shareholders' equity totaled \$653.5 million at September 30, 2013, compared to \$504.8 million at December 31, 2012. The increase in total shareholders' equity was attributable to the \$161.8 million in net income recognized during the first nine months of 2013.

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 quarter 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.

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 (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 expect to recognize a gain of \$1.0 million related to this transaction during the fourth quarter of 2013, which represents the next available date that these securities can be 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. The investment is currently recorded at \$9.0 million and is included in investments in unconsolidated subsidiaries on the Company's consolidated balance sheet. In October 2013, the Company purchased the remaining \$5.0 million in trust preferred securities and \$0.5 million in common stock of the Trust. On October 7, 2013, the Company called these securities.

Holding Company Capital Resources

CPF is required to act as a source of strength to the bank under the Dodd-Frank Act. As described above, CPF deferred the payment of dividends on our 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.

In the past, CPF has primarily relied upon dividends from the bank for its cash flow needs. CPF has not received dividends from the bank since September 2008. 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 September 30, 2013, the bank had Statutory Retained Earnings of \$175.5 million. In light of the Company's improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, declared a quarterly cash dividend of \$0.08 per share on the Company's outstanding common shares on October 29, 2013. The dividend will be payable on December 16, 2013 to shareholders of record at the close of business on November 29, 2013. This represents our second consecutive quarterly cash dividend. 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.

As of September 30, 2013, on a stand-alone basis, CPF had an available cash balance of approximately \$27.8 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.

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 September 30, 2013 were above the levels required for a “well capitalized” regulatory designation.

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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 September 30, 2013:								
Tier 1 risk-based capital	\$ 636,057	21.3 %	\$ 119,420	4.0 %	\$ 179,130	6.0 %		
Total risk-based capital	674,041	22.6	238,839	8.0	298,549	10.0		
Leverage capital	636,057	14.0	182,294	4.0	227,868	5.0		
At December 31, 2012:								
Tier 1 risk-based capital	\$ 609,394	22.5 %	\$ 108,128	4.0 %	\$ 162,192	6.0 %		
Total risk-based capital	644,044	23.8	216,256	8.0	270,320	10.0		
Leverage capital	609,394	14.3	170,176	4.0	212,720	5.0		
Central Pacific Bank								
At September 30, 2013:								
Tier 1 risk-based capital	\$ 597,527	20.1 %	\$ 118,811	4.0 %	\$ 178,216	6.0 %		
Total risk-based capital	635,280	21.4	237,621	8.0	297,027	10.0		
Leverage capital	597,527	13.1	182,019	4.0	227,523	5.0		
At December 31, 2012:								
Tier 1 risk-based capital	\$ 580,860	21.5 %	\$ 108,229	4.0 %	\$ 162,343	6.0 %		
Total risk-based capital	615,523	22.7	216,457	8.0	270,572	10.0		
Leverage capital	580,860	13.6	170,274	4.0	212,843	5.0		

On July 2, 2013, the FRB approved a final rule to implement in the U.S. the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4%. The final rule emphasizes common

equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity.

On July 9, 2013, the FDIC also approved an interim final rule that is identical in substance to the final rules issued by the FRB.

The phase-in period of the final rules will not begin until January 1, 2015. Full compliance with all of the final rules requirements will be phased in over a multi-year schedule. Management is evaluating the provisions of the final rules and their expected impact to the Company.

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 a \$907.8 million line of credit with the FHLB as of September 30, 2013. Short-term and long-term borrowings under this arrangement totaled \$28.0 million and \$18,500 at September 30, 2013, respectively, compared to \$32,000 of long-term borrowings at December 31, 2012. There were no short-term borrowings under this arrangement at December 31, 2012.

As of September 30, 2013, the bank's pledged assets to the FHLB included investment securities with a fair value of \$64.8 million and certain real estate loans totaling \$1.3 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 \$47.3 million line of credit with the Federal Reserve discount window. There were no borrowings under this arrangement at September 30, 2013 and December 31, 2012. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value of \$81.5 million at September 30, 2013. 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, 2012. There have been no material changes in our contractual obligations since December 31, 2012.

Regulatory Matters

On October 9, 2012, the bank entered into a separate 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 a recently completed 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 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 bank's failure to comply with such requirements and restrictions may subject 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.

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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 September 30, 2013 would not result in a fluctuation of NII that would exceed the established policy limits.

This discussion should be read in conjunction with our financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” above and the information set forth in “Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Asset/Liability Management and Interest Rate Risk” in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

As of the end of the period covered by this report, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Except as described below, there have been no material changes to our Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

We are implementing changes to our operations to improve our efficiency ratio that may adversely impact our results of operations.

We have begun several initiatives to improve our efficiency ratio. The key initiatives include outsourcing the data centers and hardware for our core information technology system to Fiserv, which is our existing core software application provider, and designing, developing, and implementing our data warehouse and customer relationship management programs. Additionally, during the third quarter of 2013, we began to implement a staff right-sizing plan. These initiatives are currently in progress and will continue into 2014. With the assistance of third-party consultants, we have completed comprehensive assessments and plans and are effectively managing and monitoring the execution of these initiatives. However, as a result of the significance of the changes, we could experience adverse effects on our operations. These adverse effects may include system transactional or reporting errors and delays, short-term reduced productivity, undesired personnel turnover, and loss of key customer relationships. If any of these effects were to occur it could have a material adverse impact on our results of operations.

Item 5. Other Information

During the third quarter of 2013, we began implementing a staff right-sizing plan as part of our strategic initiative to improve operational efficiency. To assist with the transition for affected employees and to minimize disruptions to our operations, the right-sizing plan includes various termination dates beginning in the fourth quarter of 2013 and continuing through the fourth quarter of 2014.

We estimate we will incur charges of \$4.0 million in total employee severance benefits as a result of the right-sizing plan. We have accrued for employee severance benefit charges of \$1.3 million in the third quarter of 2013 which is reflected in our financial statements for the third quarter of 2013. The estimated charge for future periods is \$1.6 million and \$1.1 million in the fourth quarter of 2013 and the year-ended December 31, 2014, respectively.

Item 6. Exhibits

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
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.

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: November 7, 2013

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

Date: November 7, 2013

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

Central Pacific Financial Corp.
Exhibit Index

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