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

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

FORM 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number 001-31567

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

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

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

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

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

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

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

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

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

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

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

2. REGULATORY MATTERS

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

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

4. INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

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

Other-Than-Temporary Impairment (“OTTI”)

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

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

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

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

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

5. LOANS AND LEASES

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

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

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

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

Impaired Loans

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

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

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

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

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

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

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

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

Aging Analysis of Accruing and Non-Accruing Loans and Leases

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

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

Modifications

Troubled debt restructurings (“TDRs”) included in nonperforming assets at March 31, 2014 consisted of 44 Hawaii residential mortgage loans with a combined principal balance of $10.1 million, a U.S. Mainland commercial mortgage loan with a principal balance of $9.0 million, a Hawaii commercial loan with a principal balance of $0.5 million, and two Hawaii construction and development loans with a combined principal balance of $0.3 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $21.8 million of TDRs still accruing interest at March 31, 2014, none of which were more than 90 days delinquent. At December 31, 2013, there were $23.3 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

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

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

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

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

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

6. ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

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

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

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

7. SECURITIZATIONS

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

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

8. OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At March 31, 2014, we were a party to interest rate lock and forward sale commitments on $44.0 million and $18.4 million of mortgage loans, respectively.

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

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

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

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

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

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

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2014, our bank maintained a $45.7 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of March 31, 2014, certain commercial and commercial real estate loans totaling $78.5 million have been pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

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

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

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

11. EQUITY

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

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

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

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

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

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

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

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

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

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

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

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

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

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

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

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

The following table presents the changes in each component of AOCI, net of tax, for the three months ended March 31, 204 and 2013:

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

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

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

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

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

14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

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

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

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

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

15. INCOME AND FRANCHISE TAXES

In assessing the need for a valuation allowance on our deferred tax assets (“DTA”), management considers whether it is more likely than not that some portion or all of the DTA will not be realized. The ultimate realization of DTA is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

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

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

16. EARNINGS PER SHARE

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

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

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

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

Investment Securities

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

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company’s various loan types and are derived from available market information, as well as specific borrower information. The fair value of loans are not based on the notion of exit price.

Loans Held for Sale

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

Other Interest Earning Assets

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

Deposit Liabilities

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

Short-Term Borrowings and Long-Term Debt

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

Off-Balance Sheet Financial Instruments

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

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

Limitations

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

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

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

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

Fair Value Measurements

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

- Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that requires the use of significant judgment or estimation.

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

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

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

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

		Fair Value at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
March 31, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 185,126	$ -	$ 173,338	$ 11,788
Corporate securities	158,291	-	158,291	-
Mortgage-backed securities:				
U.S. Government sponsored entities	899,066			