CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
August 07, 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 June 30, 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	99-0212597
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(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 August 1, 2014 was 35,901,080 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

Table of Contents

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 stock; 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)

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 83,539	$ 45,092
Interest-bearing deposits in other banks	3,480	4,256
Investment securities:		
Available for sale, at fair value	1,226,935	1,407,999
Held to maturity, at amortized cost (fair value of $241,368 at June 30, 2014 and $238,705 at December 31, 2013)	247,206	252,047
Total investment securities	1,474,141	1,660,046
Loans held for sale	8,464	12,370
Loans and leases	2,794,183	2,630,601
Allowance for loan and lease losses	(83,599)	(83,820)
Net loans and leases	2,710,584	2,546,781
Premises and equipment, net	48,703	49,039
Accrued interest receivable	13,253	14,072
Investment in unconsolidated subsidiaries	7,918	9,127
Other real estate	5,247	5,163
Other intangible assets	31,145	32,783
Bank-owned life insurance	151,242	149,604
Federal Home Loan Bank stock	45,011	46,193
Other assets	145,039	166,672
Total assets	$ 4,727,766	$ 4,741,198
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 962,646	$ 891,017
Interest-bearing demand	756,776	728,619
Savings and money market	1,221,253	1,207,016
Time	1,061,903	1,109,521
Total deposits	4,002,578	3,936,173
Short-term borrowings	29,000	8,015
Long-term debt	92,790	92,799
Other liabilities	38,830	44,037
Total liabilities	4,163,198	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 35,901,080 and 42,107,633 shares at June 30, 2014 and December 31, 2013, respectively		655,219		784,547
Surplus		76,311		75,498
Accumulated deficit		(171,380)		(184,087)
Accumulated other comprehensive income (loss)		4,418		(15,845)
Total shareholders' equity		564,568		660,113
Non-controlling interest		-		61
Total equity		564,568		660,174
Total liabilities and equity	$	4,727,766	$	4,741,198

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Amounts in thousands, except per share data)			
Interest income:				
Interest and fees on loans and leases	$ 28,040	$ 26,505	$ 54,923	$ 50,948
Interest and dividends on investment securities:				
Taxable interest	8,476	7,373	17,972	14,404
Tax-exempt interest	1,000	1,040	1,994	2,067
Dividends	1	6	2	11
Interest on deposits in other banks	8	68	15	157
Dividends on Federal Home Loan Bank stock	11	-	23	-
Total interest income	37,536	34,992	74,929	67,587
Interest expense:				
Interest on deposits:				
Demand	91	87	181	168
Savings and money market	223	219	447	436
Time	621	720	1,251	1,479
Interest on short-term borrowings	55	-	72	-
Interest on long-term debt	640	793	1,276	1,662
Total interest expense	1,630	1,819	3,227	3,745
Net interest income	35,906	33,173	71,702	63,842
Provision (credit) for loan and lease losses	1,995	(227)	679	(6,788)
Net interest income after provision for loan and lease losses	33,911	33,400	71,023	70,630
Other operating income:				
Service charges on deposit accounts	1,989	1,583	3,982	3,174
Loan servicing fees	1,448	1,526	2,892	3,069
Other service charges and fees	3,083	3,117	6,026	5,904
Income from fiduciary activities	828	686	1,890	1,383
Equity in earnings of unconsolidated subsidiaries	359	192	411	220
Fees on foreign exchange	119	128	233	199
Investment securities gains	240	-	240	-

Income from bank-owned life insurance	766	317	1,436	881
Loan placement fees	178	178	321	327
Net gain on sales of residential loans	1,227	2,888	2,466	7,016
Net gain on sales of foreclosed assets	582	7,694	744	8,252
Other	1,185	(497)	1,507	417
Total other operating income	12,004	17,812	22,148	30,842
Other operating expense:				
Salaries and employee benefits	16,550	18,242	33,984	36,777
Net occupancy	3,734	3,622	7,324	6,849
Equipment	945	878	1,741	1,836
Amortization of other intangible assets	1,318	2,109	2,558	4,357
Communication expense	874	870	1,768	1,820
Legal and professional services	2,228	1,945	4,040	4,255
Computer software expense	1,575	1,193	2,933	2,126
Advertising expense	678	728	1,364	1,540
Foreclosed asset expense	(17)	705	88	1,005
Other	5,003	4,708	9,018	7,188
Total other operating expense	32,888	35,000	64,818	67,753
Income before income taxes	13,027	16,212	28,353	33,719
Income tax expense (benefit)	3,877	1,945	9,395	(117,857)
Net income	$ 9,150	$ 14,267	$ 18,958	$ 151,576
Per common share data:				
Basic earnings per share	$ 0.25	$ 0.34	$ 0.49	$ 3.62
Diluted earnings per share	0.25	0.34	0.48	3.59
Cash dividends declared	0.08	-	0.16	-
Shares used in computation:				
Basic shares	36,117	41,957	39,000	41,886
Diluted shares	36,656	42,320	39,405	42,235

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Net income	$ 9,150	$ 14,267	$ 18,958	$ 151,576
Other comprehensive income (loss), net of tax				
Net change in unrealized gain (loss) on investment securities	10,310	(23,100)	19,886	(27,923)
Net change in unrealized loss on derivatives	-	-	-	10,993
Defined benefit plans	190	375	377	1,000
Other comprehensive income (loss), net of tax	10,500	(22,725)	20,263	(15,930)
Comprehensive income (loss)	$ 19,650	$ (8,458)	$ 39,221	$ 135,646

See accompanying notes to consolidated financial statements.

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

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
	(Dollars in thousands, except per share data)							
Balance at December 31, 2013	42,107,633	$ -	$ 784,547	$ 75,498	$ (184,087)	$ (15,845)	$ 61	$ 660,174
Net income	-	-	-	-	18,958	-	-	18,958
Other comprehensive income	-	-	-	-	-	20,263	-	20,263
Cash dividends paid ($0.16 per share)	-	-	-	-	(6,251)	-	-	(6,251)
1,118 net shares of common stock sold by directors' deferred compensation plan	-	-	(11)	-	-	-	-	(11)
6,369,266 shares of common stock repurchased and other related costs	(6,369,266)	-	(129,391)	-	-	-	-	(129,391)
Share-based compensation	162,713	-	74	813	-	-	-	887
Non-controlling interests	-	-	-	-	-	-	(61)	(61)
Balance at June 30, 2014	35,901,080	$ -	$ 655,219	$ 76,311	$ (171,380)	$ 4,418	$ -	$ 564,568
Balance at December 31, 2012	41,867,046	$ -	$ 784,512	$ 70,567	$ (349,427)	$ (830)	$ 9,957	$ 514,779
Net income	-	-	-	-	151,576	-	-	151,576
Other comprehensive loss	-	-	-	-	-	(15,930)	-	(15,930)
1,782 net shares of common stock purchased by directors' deferred	-	-	(39)	-	-	-	-	(39)

compensation plan								
Share-based compensation	221,930	-	-	1,606	-	-	-	1,606
Non-controlling interests	-	-	-	-	-	-	(11)	(11)
Balance at June 30, 2013	42,088,976	$ -	$ 784,473	$ 72,173	$ (197,851)	$ (16,760)	$ 9,946	$ 651,981

See accompanying notes to consolidated financial statements.

7

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

	Six Months Ended June 30, 2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 18,958	$ 151,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	679	(6,788)
Depreciation and amortization	2,909	3,027
Write down of other real estate, net of gain on sale	(457)	(7,739)
Amortization of other intangible assets	2,558	4,357
Net amortization of investment securities	4,160	7,618
Share-based compensation	813	1,606
Net gain on investment securities	(240)	-
Net gain on sales of residential loans	(2,466)	(7,016)
Proceeds from sales of loans held for sale	177,204	398,955
Originations of loans held for sale	(170,832)	(368,330)
Equity in earnings of unconsolidated subsidiaries	(411)	(220)
Increase in cash surrender value of bank-owned life insurance	(1,638)	(881)
Deferred income taxes	9,438	(117,857)
Net change in other assets and liabilities	(5,119)	17,240
Net cash provided by operating activities	35,556	75,548
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	66,804	289,045
Proceeds from sales of investment securities available for sale	162,470	-
Purchases of investment securities available for sale	(18,989)	(414,486)
Proceeds from maturities of and calls on investment securities held to maturity	7,098	6,174
Purchases of investment securities held to maturity	(2,443)	-
Net loan originations	(143,303)	(149,091)

Purchase of loan portfolio	(22,690)	(26,235)
Proceeds from sales of loans originated for investment	-	460
Proceeds from sale of other real estate	1,884	14,205
Purchases of premises and equipment	(2,573)	(3,075)
Distributions from unconsolidated subsidiaries	396	550
Contributions to unconsolidated subsidiaries	466	(9,050)
Proceeds from redemption of FHLB stock	1,182	869
Net cash provided by (used in) investing activities	50,302	(290,634)
Cash flows from financing activities:		
Net increase in deposits	66,405	174,894
Repayments of long-term debt	(9)	(9)
Net increase in short-term borrowings	20,985	-
Cash dividends paid on common stock	(6,251)	-
Repurchases of common stock and other related costs	(129,391)	-
Net proceeds from issuance of common stock and stock option exercises	74	-
Net cash provided by (used in) financing activities	(48,187)	174,885
Net increase (decrease) in cash and cash equivalents	37,671	(40,201)
Cash and cash equivalents at beginning of period	49,348	177,375
Cash and cash equivalents at end of period	$ 87,019	$ 137,174
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,283	$ 15,666
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	$ 11	$ 39
Net reclassification of loans to other real estate	1,511	3,217
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, 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 impose higher 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 June 30, 2014:				
Held to Maturity:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 247,206	$ 68	$ (5,906)	$ 241,368
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 192,139	$ 1,452	$ (4,648)	$ 188,943
Corporate securities	84,751	2,116	(29)	86,838
Mortgage-backed securities:				
U.S. Government sponsored entities	775,778	10,898	(4,627)	782,049
Non-agency collateralized mortgage obligations	165,991	3,563	(1,312)	168,242
Other	738	125	-	863
Total	$ 1,219,397	$ 18,154	$ (10,616)	$ 1,226,935
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 June 30, 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.

	June 30, 2014	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Held to Maturity		
Mortage-backed securities	$ 247,206	$ 241,368

Available for Sale				
Due in one year or less	$	3,415	$	3,417
Due after one year through five years		49,944		51,498
Due after five years through ten years		102,046		102,191
Due after ten years		121,485		118,675
Mortage-backed securities		941,769		950,291
Other		738		863
Total	$	1,219,397	$	1,226,935

10

We sold certain available for sale investment securities during the three months ended June 30, 2014 for gross proceeds of $162.5 million. Gross realized gains and losses on the sales of the available for sale investment securities were $0.9 million and $0.7 million, respectively, during the three months ended June 30, 2014. We did not sell any available for sale securities during the first quarter of 2014 and first half of 2013. The specific identification method was used as the bases for determining the cost of all securities sold.

Investment securities of $928.3 million and $914.1 million at June 30, 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 224 and 321 investment securities which were in an unrealized loss position at June 30, 2014 and December 31, 2013, respectively.

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
At June 30, 2014:						
Debt securities:						
States and political subdivisions	$ 8,433	$ (28)	$ 99,134	$ (4,620)	$ 107,567	$ (4,648)
Corporate securities	-	-	8,481	(29)	8,481	(29)
Mortgage-backed securities:						
U.S. Government sponsored entities	54,352	(451)	477,248	(10,082)	531,600	(10,533)
Non-agency collateralized mortgage obligations	4,939	(29)	57,170	(1,283)	62,109	(1,312)
Total temporarily impaired securities	$ 67,724	$ (508)	$ 642,033	$ (16,014)	$ 709,757	$ (16,522)
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:

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 432,029	$ 398,365
Real estate:		
Construction	100,357	75,927
Mortgage - residential	1,224,948	1,135,155
Mortgage - commercial	698,688	703,800
Consumer	333,609	311,670
Leases	4,087	6,241
	2,793,718	2,631,158
Net deferred costs (income)	465	(557)
Total loans and leases	$ 2,794,183	$ 2,630,601

During the six months ended June 30, 2014, we foreclosed on three loans with a carrying value of $1.5 million. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold during the six months ended June 30, 2014. In May 2014, we purchased participation interest in auto loans totaling $11.2 million, which included a $0.3 million premium over the $10.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 71 months. In May 2014, we also purchased participation interest in student loans totaling $11.5 million, which represented the outstanding balance at the time of purchase. At the time of purchase, the student loans had a weighted average remaining term of 123 months.

During the six months ended June 30, 2013, we foreclosed on seven loans with a carrying value of $3.2 million. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold during the six months ended June 30, 2013. In June 2013, we purchased an auto loan portfolio for $21.6 million, which included 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. In June 2013, we also purchased participation interests in student loans for $4.7 million, which represented the outstanding balance at the time of purchase. At the time of purchase, the student loans had a weighted average remaining term of 130 months.

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 June 30, 2014 and December 31, 2013:

	Commercial, Financial & Agricultural	Construction	Real Estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Total
	(Dollars in thousands)						
June 30, 2014							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 3,173	$ -	$ -	$ -	$ -	$ -	$ 3,173
Collectively evaluated for impairment	9,082	15,525	19,198	25,885	6,723	13	76,426
	12,255	15,525	19,198	25,885	6,723	13	79,599
Unallocated							4,000
Total ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 83,599
Loans and leases:							
Individually evaluated for impairment	$ 17,041	$ 5,185	$ 32,064	$ 17,176	$ -	$ -	$ 71,466
Collectively evaluated for impairment	414,988	95,172	1,192,884	681,512	333,609	4,087	2,722,252
	432,029	100,357	1,224,948	698,688	333,609	4,087	2,793,718
Net deferred costs (income)	715	(479)	1,916	(956)	(731)	-	465
Total ending balance	$ 432,744	$ 99,878	$ 1,226,864	$ 697,732	$ 332,878	$ 4,087	$ 2,794,183
December 31, 2013							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 349	$ -	$ -	$ -	$ -	$ -	$ 349
Collectively evaluated for	12,847	2,774	25,272	29,947	6,576	55	77,471

impairment							
	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
Net deferred costs (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

13

The following table presents by class, impaired loans as of June 30, 2014 and December 31, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
		(Dollars in thousands)	
June 30, 2014			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 3,342	$ 3,342	$ -
Real estate:			
Construction	11,572	5,185	-
Mortgage - residential	35,573	32,064	-
Mortgage - commercial	24,299	17,176	-
Total impaired loans with no related allowance recorded	74,786	57,767	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	15,167	13,699	3,173
Total impaired loans with an allowance recorded	15,167	13,699	3,173
Total	$ 89,953	$ 71,466	$ 3,173
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 for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(Dollars in thousands)				
Commercial, financial & agricultural	$ 17,300	$ 6	$ 4,403	$ 6	$ 12,858	$ 11	$ 4,225	$ 12
Real estate:								
Construction	5,225	44	26,892	291	6,024	76	36,464	467

Mortgage - residential	33,419	274	37,588	197	34,913	437	39,992	328
Mortgage - commercial	16,201	76	19,302	92	16,123	115	18,404	182
Leases	-	-	34	-	-	-	61	-
Total	$ 72,145	$ 400	$ 88,219	$ 586	$ 69,918	$ 639	$ 99,146	$ 989

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 June 30, 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)			
June 30, 2014							
Commercial, financial & agricultural	$ 95	$ 114	$ -	$ 16,657	$ 16,866	$ 415,878	$ 432,744
Real estate:							
Construction	-	-	-	373	373	99,505	99,878
Mortgage - residential	136	45	99	13,608	13,888	1,212,976	1,226,864
Mortgage - commercial	-	-	-	6,236	6,236	691,496	697,732
Consumer	964	334	20	-	1,318	331,560	332,878
Leases	-	-	-	-	-	4,087	4,087
Total	$ 1,195	$ 493	$ 119	$ 36,874	$ 38,681	$ 2,755,502	$ 2,794,183
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 June 30, 2014 consisted of 38 Hawaii residential mortgage loans with a combined principal balance of $7.9 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 $30.7 million of TDRs still accruing interest at June 30, 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 and six months ended June 30, 2014.

The following table presents by class, information related to loans modified in a TDR during the six months ended June 30, 2014 and the three and six months ended June 30, 2013. No loans were modified in a TDR during the three months ended June 30, 2014.

	Number of Contracts	Recorded Investment (as of Period End)	Increase in the Allowance
		(Dollars in thousands)	
Three Months Ended June 30, 2013			
Real estate:			
Construction	1	$ 189	$ -
Mortgage - residential	3	1,626	-
Total	4	$ 1,815	$ -
Six Months Ended June 20, 2014			
Real estate mortgage - residential	9	$ 600	$ -
Six Months Ended June 30, 2013			
Commercial, financial & agricultural	1	$ 587	$ -
Real estate:			
Construction	1	189	-
Mortgage - residential	3	1,626	-
Total	5	$ 2,402	$ -

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2013. No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2014.

	Three and Six Months Ended June 30, 2013	
	Number of Contracts	Recorded Investment (as of Period End)
	(Dollars in thousands)	
Commercial, financial & agricultural	1	$ 132

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. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of June 30, 2014 and December 31, 2013:

	Pass	Special Mention	Substandard	Subtotal	Net Deferred Costs (Income)	Total
			(Dollars in thousands)			
June 30, 2014						
Commercial, financial & agricultural	$ 402,119	$ 11,344	$ 18,566	$ 432,029	$ 715	$ 432,744
Real estate:						
Construction	96,231	-	4,126	100,357	(479)	99,878
Mortgage - residential	1,210,715	-	14,233	1,224,948	1,916	1,226,864
Mortgage - commercial	653,898	9,285	35,505	698,688	(956)	697,732
Consumer	333,589	-	20	333,609	(731)	332,878
Leases	4,087	-	-	4,087	-	4,087
Total	$ 2,700,639	$ 20,629	$ 72,450	$ 2,793,718	$ 465	$ 2,794,183
December 31, 2013						
Commercial, financial & agricultural	$ 371,285	$ 21,511	$ 5,569	$ 398,365	$ 351	$ 398,716
Real estate:						
Construction	67,435	4,477	4,015	75,927	(311)	75,616
Mortgage - residential	1,113,363	361	21,431	1,135,155	1,418	1,136,573
Mortgage - commercial	651,761	20,690	31,349	703,800	(1,033)	702,767
Consumer	311,670	-	-	311,670	(982)	310,688
Leases	6,241	-	-	6,241	-	6,241
Total	$ 2,521,755	$ 47,039	$ 62,364	$ 2,631,158	$ (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 June 30, 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 June 30, 2014								
Beginning balance	$ 12,786	$ 14,940	$ 17,812	$ 25,925	$ 5,687	$ 12	$ 6,000	$ 83,162
Provision (credit) for loan and lease losses	405	243	959	988	1,402	(2)	(2,000)	1,995
	13,191	15,183	18,771	26,913	7,089	10	4,000	85,157
Charge-offs	1,482	-	102	1,041	671	-	-	3,296
Recoveries	546	342	529	13	305	3	-	1,738
Net charge-offs (recoveries)	936	(342)	(427)	1,028	366	(3)	-	1,558
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599
Three Months Ended June 30, 2013								
Beginning balance	$ 8,641	$ 3,946	$ 27,964	$ 37,316	$ 2,864	$ 75	$ 6,000	$ 86,806
Provision (credit) for loan and lease losses	2,439	1,044	(4,504)	(268)	1,069	(7)	-	(227)
	11,080	4,990	23,460	37,048	3,933	68	6,000	86,579
Charge-offs	1,597	277	380	-	242	-	-	2,496
Recoveries	170	1,747	243	703	157	2	-	3,022
Net charge-offs (recoveries)	1,427	(1,470)	137	(703)	85	(2)	-	(526)
Ending balance	$ 9,653	$ 6,460	$ 23,323	$ 37,751	$ 3,848	$ 70	$ 6,000	$ 87,105
Six Months Ended June 30, 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	(538)	12,007	(6,558)	(3,047)	854	(39)	(2,000)	679
	12,658	14,781	18,714	26,900	7,430	16	4,000	84,499
Charge-offs	1,555	-	139	1,041	1,251	8	-	3,994
Recoveries	1,152	744	623	26	544	5	-	3,094

Net charge-offs (recoveries)	403	(744)	(484)	1,015	707	3	-	900
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599
Six Months Ended June 30, 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	5,845	73	(4,193)	(10,106)	1,611	(18)	-	(6,788)
	10,832	4,583	23,643	40,468	4,032	67	6,000	89,625
Charge-offs	1,841	355	794	3,674	557	-	-	7,221
Recoveries	662	2,232	474	957	373	3	-	4,701
Net charge-offs (recoveries)	1,179	(1,877)	320	2,717	184	(3)	-	2,520
Ending balance	$ 9,653	$ 6,460	$ 23,323	$ 37,751	$ 3,848	$ 70	$ 6,000	$ 87,105

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 $2.0 million and $0.7 million in the second quarter and first half of 2014, respectively, compared to credits to the Provision of $0.2 million and $6.8 million in the second quarter and first half of 2013, respectively.

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 June 30, 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 June 30, 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 six months ended June 30, 2014:

	Core Deposit Premium	Mortgage Servicing Rights	Total
		(Dollars in thousands)	
Balance, beginning of period	$ 12,704	$ 20,079	$ 32,783
Additions	-	920	920
Amortization	(1,338)	(1,220)	(2,558)
Balance, end of period	$ 11,366	$ 19,779	$ 31,145

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.5 million and $0.9 million for the three and six months ended June 30, 2014, respectively, compared to $0.7 million and $1.6 million for the three and six months ended June 30, 2013, respectively. Amortization of mortgage servicing rights was $0.6 million and $1.2 million for the three and six months ended June 30, 2014, respectively, compared to $1.4 million and $3.0 million for the three and six months ended June 30, 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:

	Six Months Ended June 30,	
	2014	2013
	(Dollars in thousands)	
Fair market value, beginning of period	$ 21,399	$ 22,356
Fair market value, end of period	20,341	21,427
Weighted average discount rate	8.0 %	8.0 %
Weighted average prepayment speed assumption	15.1	14.5

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

	June 30, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (33,276)	$ 11,366	$ 44,642	$ (31,938)	$ 12,704
Mortgage servicing rights	55,361	(35,582)	19,779	54,441	(34,362)	20,079
	$ 100,003	$ (68,858)	$ 31,145	$ 99,083	$ (66,300)	$ 32,783

19

Based on the core deposit premium and mortgage servicing rights held as of June 30, 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)	$ 1,337	$ 1,976	$ 3,313
2015	2,674	2,686	5,360
2016	2,674	2,064	4,738
2017	2,674	1,595	4,269
2018	2,007	1,235	3,242
2019	-	932	932
Thereafter	-	9,291	9,291
	$ 11,366	$ 19,779	$ 31,145

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 locks 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 June 30, 2014, we were a party to interest rate lock and forward sale commitments on $43.4 million and $30.5 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:

		Asset Derivatives		Liability Derivatives	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value at June 30, 2014	Fair Value at December 31, 2013	Fair Value at June 30, 2014	Fair Value at December 31, 2013
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 659	$ 425	$ 218	$ 146

20

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)
Three Months Ended June 30, 2014	
Interest rate contracts	$ -
Three Months Ended June 30, 2013	
Interest rate contracts	-
Six Months Ended June 30, 2014	
Interest rate contracts	-
Six Months Ended June 30, 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 June 30, 2014		
Interest rate contracts	Other operating income	$ 413
Three Months Ended June 30, 2013		
Interest rate contracts	Other operating income	(901)
Six Months Ended June 30, 2014		
Interest rate contracts	Other operating income	353
Six Months Ended June 30, 2013		
Interest rate contracts	Other operating income	(531)

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At June 30, 2014, our bank maintained a $45.0 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of June 30, 2014, certain commercial and commercial real estate loans totaling $77.0 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 the Federal Home Loan Bank of Seattle (the "FHLB") and maintained a $927.7 million line of credit with the FHLB as of June 30, 2014. Long-term borrowings under this arrangement totaled $5,400 at June 30, 2014, compared to $14,000 at December 31, 2013. Short-term borrowings under this arrangement totaled $29.0 million and $8.0 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014 the bank's pledged assets to the FHLB included investment securities with a fair value of $1.2 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 and in April 2014, the remaining $0.5 million in common stock of the Trust were called.

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 of Directors 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 of Directors 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). 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 June 30, 2014, the bank had Statutory Retained Earnings of $119.6 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 stock.

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.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company's outstanding common stock (the "2014 Repurchase Plan"). Repurchases under the 2014 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. In the second quarter of 2014, 181,200 shares of common stock, at a cost of $3.4 million, were repurchased under this program. A total of $26.6 million remained available for repurchase under the 2014 Repurchase Plan at June 30, 2014.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the six months ended June 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2014	835,904	$ 14.75
Changes during the period:		
Granted	191,465	18.58
Vested	(266,730)	14.85
Forfeited	(23,168)	14.63
Nonvested at June 30, 2014	737,471	15.71

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income for the three and six months ended June 30, 2014 and 2013, by component:

	Before Tax	Tax Effect	Net of Tax
		(Dollars in thousands)	
Three Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 15,940	$ 6,272	$ 9,668
Less: Reclassification adjustment for losses realized in net income	1,071	429	642
Net unrealized gains on investment securities	17,011	6,701	10,310
Defined benefit plans:			
Amortization of net actuarial losses	305	120	185
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	314	124	190
Other comprehensive income	$ 17,325	$ 6,825	$ 10,500
Three Months Ended June 30, 2013			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (39,577)	$ (16,477)	$ (23,100)
Defined benefit plans:			
Amortization of net actuarial losses	618	248	370
Amortization of net transition obligation	4	2	2

Amortization of prior service cost	5	2	3
Defined benefit plans, net	627	252	375
Other comprehensive loss	$ (38,950)	$ (16,225)	$ (22,725)

24

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Six Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 31,884	$ 12,640	$ 19,244
Less: Reclassification adjustment for losses realized in net income	1,071	429	642
Net unrealized gains on investment securities	32,955	13,069	19,886
Defined benefit plans:			
Amortization of net actuarial losses	610	243	367
Amortization of net transition obligation	8	4	4
Amortization of prior service cost	10	4	6
Defined benefit plans, net	628	251	377
Other comprehensive income	$ 33,583	$ 13,320	$ 20,263
Six Months Ended June 30, 2013			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (44,400)	$ (16,477)	$ (27,923)
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	1,234	248	986
Amortization of net transition obligation	8	2	6
Amortization of prior service cost	10	2	8
Defined benefit plans, net	1,252	252	1,000
Other comprehensive loss	$ (42,754)	$ (26,824)	$ (15,930)

The following table presents the changes in each component of AOCI, net of tax, for the three and six months ended June 30, 2014 and 2013:

	Investment Securities	Derivatives	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)			
Three Months Ended June 30, 2014				
Balance at beginning of period	$ 451	$ -	$ (6,533)	$ (6,082)
Other comprehensive income before reclassifications	9,668	-	-	9,668
Amounts reclassified from AOCI	642	-	190	832
Total other comprehensive income	10,310	-	190	10,500
Balance at end of period	$ 10,761	$ -	$ (6,343)	$ 4,418
Three Months Ended June 30, 2013				
Balance at beginning of period	$ 17,917	$ -	$ (11,952)	$ 5,965
Other comprehensive loss before reclassifications	(23,100)	-	-	(23,100)
Amounts reclassified from AOCI	-	-	375	375
Total other comprehensive income (loss)	(23,100)	-	375	(22,725)
Balance at end of period	$ (5,183)	$ -	$ (11,577)	$ (16,760)
Six Months Ended June 30, 2014				
Balance at beginning of period	$ (9,125)	$ -	$ (6,720)	$ (15,845)
Other comprehensive income before reclassifications	19,244	-	-	19,244
Amounts reclassified from AOCI	642	-	377	1,019
Total other comprehensive income	19,886	-	377	20,263
Balance at end of period	$ 10,761	$ -	$ (6,343)	$ 4,418
Six Months Ended June 30, 2013				
Balance at beginning of period	$ 22,740	$ (10,993)	$ (12,577)	$ (830)
Other comprehensive loss before reclassifications	(27,923)	-	-	(27,923)
Amounts reclassified from AOCI	-	10,993	1,000	11,993
Total other comprehensive income (loss)	(27,923)	10,993	1,000	(15,930)
Balance at end of period	$ (5,183)	$ -	$ (11,577)	$ (16,760)

The following table presents the amounts reclassified out of each component of AOCI for the three and six months ended June 30, 2014 and 2013:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended June 30, 2014	2013	Affected Line Item in the Statement Where Net Income is Presented
	(Dollars in thousands)		
Sale of investment securities available for sale	$ (1,071)	$ -	Investment securities gains
	429	-	Tax benefit
	$ (642)	$ -	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	$ (305)	$ (618)	(1)
Net transition obligation	(4)	(4)	(1)
Prior service cost	(5)	(5)	(1)
	(314)	(627)	Total before tax
	124	252	Tax benefit
	$ (190)	$ (375)	Net of tax
Total reclassifications for the period	$ (832)	$ (375)	Net of tax
	Six Months Ended June 30, 2014	2013	
Sale of investment securities available for sale	$ (1,071)	$ -	Investment securities gains
	429	-	Tax benefit
	$ (642)	$ -	Net of tax
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	$ (610)	$ (1,234)	(1)
Net transition obligation	(8)	(8)	(1)
Prior service cost	(10)	(10)	(1)
	(628)	(1,252)	Total before tax
	251	252	Tax benefit
	$ (377)	$ (1,000)	Net of tax
Total reclassifications for the period	$ (1,019)	$ (11,993)	Net of tax

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Interest cost	$ 366	$ 348	$ 732	$ 696
Expected return on assets	(524)	(470)	(1,048)	(940)
Amortization of net actuarial losses	304	599	608	1,198
Net periodic cost	$ 146	$ 477	$ 292	$ 954

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Interest cost	$ 113	$ 103	$ 226	$ 206
Amortization of net transition obligation	4	4	8	8
Amortization of prior service cost	5	5	10	10
Amortization of net actuarial losses	1	18	2	36
Net periodic cost	$ 123	$ 130	$ 246	$ 260

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 $3.9 million and $9.4 million in the second quarter and first half of 2014, respectively. As of June 30, 2014, the remaining valuation allowance on our net DTA totaled $2.9 million. Net of this valuation allowance, as of June 30, 2014, the Company's net DTA totaled $114.6 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income	$ 9,150	$ 14,267	$ 18,958	$ 151,576
Weighted average shares outstanding - basic	36,117	41,957	39,000	41,886
Dilutive effect of employee stock options and awards	539	338	405	318
Dilutive effect of deferred salary restricted stock units	-	-	-	3
Dilutive effect of Treasury warrants	-	25	-	28
Weighted average shares outstanding - diluted	36,656	42,320	39,405	42,235
Basic earnings per share	$ 0.25	$ 0.34	$ 0.49	$ 3.62
Diluted earnings per share	$ 0.25	$ 0.34	$ 0.48	$ 3.59

A total of 22,864 potentially dilutive securities have been excluded from the dilutive share calculation for the three and six months ended June 30, 2014, as their effect was antidilutive, compared to 26,256 for the three and six months ended June 30, 2013.

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, 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.

Long-Term Debt

The fair value of our long-term debt is estimated by discounting scheduled cash flows over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

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)		
June 30, 2014					
Financial assets					
Cash and due from banks	$ 83,539	$ 83,539	$ 83,539	$ -	$ -
Interest-bearing deposits in other banks	3,480	3,480	3,480	-	-
Investment securities	1,474,141	1,468,303	863	1,454,716	12,724
Loans held for sale	8,464	8,464	-	-	8,464
Net loans and leases	2,710,584	2,576,764	-	68,293	2,508,471
Accrued interest receivable	13,253	13,253	13,253	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	962,646	962,646	962,646	-	-
Interest-bearing demand and savings deposits	1,978,029	1,978,029	1,978,029	-	-
Time deposits	1,061,903	1,063,855	-	-	1,063,855
Short-term debt	29,000	29,000	-	29,000	-
Long-term debt	92,790	40,085	-	40,085	-
Accrued interest payable (included in other liabilities)	984	984	984	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	663,684	3,318	-	3,318	-
Standby letters of credit and financial guarantees written	19,265	144	-	144	-
Interest rate options	43,367	634	-	634	-
Forward interest rate contracts	30,540	(193)	-	(193)	-
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	-	-
Interest-bearing demand and savings deposits	1,935,635	1,935,635	1,935,635	-	-
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 and six months ended June 30, 2014.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 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)			
June 30, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 188,943	$ -	$ 176,219	$ 12,724
Corporate securities	86,838	-	86,838	-
Mortgage-backed securities:				
U.S. Government sponsored entities	782,049	-	782,049	-
Non-agency collateralized mortgage obligations	168,242	-	168,242	-
Other	863	863	-	-
Derivatives - Interest rate contracts	441	-	441	-
Total	$ 1,227,376	$ 863	$ 1,213,789	$ 12,724
December 31, 2013				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 179,357	$ -	$ 168,839	$ 10,518
Corporate securities	158,095	-	158,095	-
Mortgage-backed securities:				
U.S. Government sponsored entities	927,626	-	927,626	-
Non-agency collateralized mortgage obligations	142,046	-	142,046	-
Other	875	875	-	-
Derivatives - Interest rate contracts	279	-	279	-
Total	$ 1,408,278	$ 875	$ 1,396,885	$ 10,518

For the six months ended June 30, 2014 and 2013, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Available for Sale States and Political Subdivisions Debt Securities
	(Dollars in thousands)
Balance at December 31, 2013	$ 10,518
Principal payments received	(139)
	76

Unrealized net gain included in other comprehensive income			
Purchases		2,269	
Balance at June 30, 2014	$	12,724	
Balance at December 31, 2012	$	12,826	
Principal payments received		(2,677	)
Unrealized net loss included in other comprehensive income		(331	)
Purchases		74	
Balance at June 30, 2013	$	9,892	

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 $12.7 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 June 30, 2014, the weighted average discount rate utilized was 3.97%, 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 June 30, 2014 and December 31, 2013, the following table provides the level of valuation assumptions used to determine the respective fair values:

		Fair Value Measurements 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)		
June 30, 2014				
Impaired loans (1)	$ 68,293	$ -	$ 68,293	$ -
Other real estate (2)	5,247	-	5,247	-
December 31, 2013				
Impaired loans (1)	$ 64,705	$ -	$ 64,705	$ -
Other real estate (2)	5,163	-	5,163	-

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

(2) Represents other real estate that is carried at the lower of carrying value or fair value less costs to sell.
Fair value is generally based upon independent market prices or appraised values of the collateral.

18. SEGMENT INFORMATION

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

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

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

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

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

	Banking Operations	Treasury	All Others	Total
		(Dollars in thousands)		
Three Months Ended June 30, 2014:				
Net interest income	$ 27,356	$ 8,550	$ -	$ 35,906
Intersegment net interest income (expense)	6,149	(7,107)	958	-
Provision for loan and lease losses	(1,995)	-	-	(1,995)
Other operating income	6,750	1,092	4,162	12,004
Other operating expense	(14,372)	(538)	(17,978)	(32,888)
Administrative and overhead expense allocation	(13,734)	(267)	14,001	-
Income taxes	(3,076)	(490)	(311)	(3,877)
Net income	$ 7,078	$ 1,240	$ 832	$ 9,150
Three Months Ended June 30, 2013:				
Net interest income	$ 25,746	$ 7,427	$ -	$ 33,173
Intersegment net interest income (expense)	3,948	(7,078)	3,130	-
Credit for loan and lease losses	227	-	-	227
Other operating income	5,802	396	11,614	17,812
Other operating expense	(15,627)	(411)	(18,962)	(35,000)
Administrative and overhead expense allocation	(9,561)	(250)	9,811	-
Income taxes	(994)	176	(1,127)	(1,945)
Net income	$ 9,541	$ 260	$ 4,466	$ 14,267
Six months ended June 30, 2014:				
Net interest income	$ 53,543	$ 18,159	$ -	$ 71,702
Intersegment net interest income (expense)	12,156	(13,719)	1,563	-
Provision for loan and lease losses	(679)	-	-	(679)
Other operating income	12,399	1,837	7,912	22,148
Other operating expense	(29,690)	(1,089)	(34,039)	(64,818)
Administrative and overhead expense allocation	(27,538)	(539)	28,077	-
Income taxes	(6,690)	(1,541)	(1,164)	(9,395)
Net income	$ 13,501	$ 3,108	$ 2,349	$ 18,958
Six months ended June 30, 2013:				
Net interest income	$ 49,792	$ 14,050	$ -	$ 63,842
Intersegment net interest income (expense)	7,800	(13,389)	5,589	-
Credit for loan and lease losses	6,788	-	-	6,788
Other operating income	13,741	999	16,102	30,842
Other operating expense	(29,746)	(861)	(37,146)	(67,753)
Administrative and overhead expense allocation	(25,835)	(516)	26,351	-

Income taxes		119,718		303		(2,164)		117,857
Net income	$	142,258	$	586	$	8,732	$	151,576
At June 30, 2014:								
Investment securities	$	-	$	1,474,141	$	-	$	1,474,141
Loans and leases (including loans held for sale)		2,802,647		-		-		2,802,647
Other		118,480		233,438		99,060		450,978
Total assets	$	2,921,127	$	1,707,579	$	99,060	$	4,727,766
At December 31, 2013:								
Investment securities	$	-	$	1,660,046	$	-	$	1,660,046
Loans and leases (including loans held for sale)		2,642,971		-		-		2,642,971
Other		117,655		256,807		63,719		438,181
Total assets	$	2,760,626	$	1,916,853	$	63,719	$	4,741,198

35

19. LEGAL PROCEEDINGS

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

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

Overview

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

Central Pacific Bank is a full-service community bank with 37 branches and 113 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

Following our successful capital raises in 2011, we have accomplished a number of key performance objectives through June 30, 2014:

- In 2013, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company's outstanding common stock. On July 23, 2014, the Company declared a fifth consecutive quarterly cash dividend and increased the dividend to $0.10 per share from $0.08 per share in the second quarter of 2014. The dividend is payable on September 15, 2014 to shareholders of record at the close of business on August 29, 2014.

- On March 28, 2014, we completed a tender offer to purchase 3,405,888 shares of common stock at a purchase price of $20.20 per share for a total cost of $68.8 million, excluding fees and expenses. On April 7, 2014, we also completed repurchase agreements with each of our two largest shareholders to privately purchase 1,391,089 shares of common stock at a purchase price of $20.20 per share from each shareholder for a total cost of $56.2 million, excluding fees and expenses.

  - On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company's outstanding common stock. In the second quarter of 2014, 181,200 shares of common stock, at a cost of $3.4 million, were repurchased under this program.

- 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 June 30, 2014 of 17.06%, 18.33%, and 11.64 %, respectively, from 20.27%, 21.54%, and 13.68%, respectively, as of December 31, 2013. The decline in the Company's capital levels from December 31, 2013 was primarily the result of the repurchases of our common stock in the tender offer, repurchase agreements, and repurchase program described above. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.

- We reported fourteen consecutive profitable quarters with net income totaling $9.2 million and $19.0 million in the second quarter and first half of 2014, respectively, and $172.1 million, $47.4 million and $36.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

- We have continued to grow our loan and lease portfolio. Loans and leases, net of deferred income/costs, totaled $2.79 billion at June 30, 2014, and increased by $163.6 million, or 6.2%, from December 31, 2013.

- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 2.99% at June 30, 2014, compared to 3.19% at December 31, 2013. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 198.47% at June 30, 2014, compared to 179.29% at December 31, 2013.

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

Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The following discussion should also be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 28, 2014.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the "Allowance") is management's estimate of credit losses inherent in our loan and lease portfolio at the balance sheet date. We maintain our Allowance at an amount we expect to be sufficient to absorb probable losses inherent in our loan and lease portfolio based on a projection of probable net loan charge-offs. At June 30, 2014, we had an Allowance of $83.6 million, compared to $83.8 million at December 31, 2013.

The Company's approach to developing the Allowance has three basic elements. These elements include specific reserves for individually impaired loans, a general allowance for loans other than those analyzed as individually impaired, and an unallocated reserve. These three methods are explained below:

Specific Reserve

Individually impaired loans in all loan categories are evaluated using one of three valuation methods as prescribed under ASC 310-10; Fair Value of Collateral, Observable Market Price, or Cash Flow. A loan is generally evaluated for impairment on an individual basis if it meets one or more of the following characteristics: risk-rated as substandard, doubtful or loss, loans on nonaccrual status, troubled debt restructures, or any loan deemed prudent by management to so analyze. If the valuation of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the Allowance or, alternatively, a specific reserve will be established and included in the overall Allowance balance. As of June 30, 2014, this specific reserve represented $3.2 million of the total Allowance.

General Allowance

In determining the general allowance component of the Allowance, the Company utilizes a comprehensive approach to segment the loan portfolio into homogenous groups. Six criteria divide the Company's loan portfolio into 128 homogenous subsectors. First, loans are divided by general geographic region (U.S. Mainland and Hawaii). Second, loans are subdivided according to FDIC classification (Construction, Commercial Mortgage, Commercial, Financial and Agricultural, Leases, Residential Mortgage, Consumer). Third, loans within the Construction category are further subdivided by collateral type (Commercial and Residential). Fourth, loans within the Residential Mortgage category are further subdivided by ownership type (Investor-owned and Owner-occupied). Fifth, loans are subdivided by State or for some by County (All Hawaii, Hawaii Island, Kauai, Maui, Oahu, Other Hawaii, All U.S. Mainland, Los

Angeles/Orange County CA, Riverside/San Bernardino CA, Sacramento/Placer/El Dorado/Yolo CA, San Diego CA, Washington/Oregon, Other U.S. Mainland). Finally, loans are further subdivided by risk rating (Pass, Special Mention, Substandard, and Doubtful).

For the purpose of determining general allowance loss factors, loss experience is derived from charge-offs and recoveries. From 2010 through 2013, the calculation of subsector loss factors involved the summation of charge-offs and recoveries that occurred within the last eight quarters (for loans secured by real estate) or four quarters (for all other loans) divided by the average loan balance over the last eight or four quarters, respectively. The eight or four quarter period is referred to as the look-back period. We did not apply any weighting schema to our loss experience over the look-back period. A rolling eight quarter period was utilized for FDIC classifications involving real estate collateral to account for prolonged loss recognition and ultimate disposition periods associated with loans secured by real estate. The Company's rapidly evolving loss experience necessitated the use of shorter loss analysis periods in order to ensure that loss rates would be adequately responsive to changes in loss experience. During that period, the Company considered recent loss data to be more relevant to the period then under analysis. The look-back period was also consistent with commentary provided by our primary banking regulator following our 2010 Safety and Soundness Examination.

During 2012 through 2013, economic conditions stabilized, and improved credit quality trends have contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the look-back period was extended to 17 quarters, with the intention of extending the look-back period each quarter thereafter to a total of 24 quarters or six years to incorporate broader loss experience through a more complete economic cycle and reduce the Company's reliance on proxy loss rates by capturing more of the Company's own historical loss experience in this extended look-back period. The enhanced methodology does not incorporate data from before 2010 because the Company has reason to believe that anomalous charge-off activity may cause pre-2010 internal loss data to be an inappropriate representation of future loss experience. We believe that this longer look-back period is appropriate in light of the Company's limited loss experience throughout the recent economic recovery and stabilization. Additionally, as economic conditions have stabilized over 2012 through 2013, decreasing loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. In our revised approach the losses during the six year look-back period will be weighted to place more emphasis on recent loss experience. The newest two years will be weighted at 40%, the middle two years will be weighted at 33%, and the oldest two years will be weighted at 27%. Also in late 2013, the Company received guidance from its primary banking regulator supporting the use of extended loss analysis periods. The Supervisory Examiner recommended a periodic reassessment of the look-back period and suggested that a look-back period beyond eight quarters may be more reasonable given the then current economic conditions and portfolio performance.

A charge-off occurs when the Company makes the determination that an amount of debt is deemed to be uncollectible. Loans are also charged off when it is probable that a loss has been incurred and it is possible to make a reasonable estimate of the loss. Charge-offs are classified into subsectors according to the underlying loan's primary geography, loan category, collateral type (if applicable), investment type (if applicable), state/county, and the risk rating of the loan one year prior to the charge-off. The cumulative charge-offs are determined by summing all subsector-specific charge-offs that occurred within the look-back period.

A recovery occurs when a loan that is classified as a bad debt was either partially or fully charged off and has been subsequently recovered. Recoveries are classified according to the subsector of the earliest associated charge-off of the loan within the look-back period. Cumulative recoveries are determined for each subsector by summing the subsector-specific recoveries.

Subsector losses are measured by subtracting each subsector's cumulative recoveries from their respective cumulative charge-offs. Subsector losses are then divided by the subsector loan balance averaged over the look-back period to determine each subsector's historical loss rate. The sum of each subsector's historical loss rate plus a region-specific economic/market qualitative adjustment and category-specific other qualitative adjustment, as discussed in the following "Application of Proxies" section, is then multiplied by the subsector's period-ending loan balance to determine each subsector's general allowance provision. The sum of the 128 subsector general allowance provisions represents the general allowance provision of the entire portfolio. As of June 30, 2014, this general allowance represented $76.4

million of the total Allowance.

Unallocated Reserve

The Company may also maintain an unallocated Allowance amount to provide for other credit losses inherent in our loan and lease portfolio that may not have been contemplated in the credit loss factors. The unallocated reserve is a measure to address judgmental estimates that are inevitably imprecise and it reflects an adjustment to the Allowance that is not attributable to specific categories of the loan portfolio. The unallocated reserve is distinct from and not captured in the Company's qualitative adjustments in the general component of the Allowance. As discussed in the following "Application of Proxies" section, our qualitative adjustments in the general component of our Allowance capture regional changes in personal income and unemployment rates, as well as Company specific conditions. Therefore these qualitative adjustments only capture direct and specific risks to our portfolio, whereas the unallocated reserve is intended to capture broader national and global economic risks that could potentially have a ripple effect on our loan portfolio.

As of June 30, 2014, a $4.0 million unallocated estimate was based on the Company’s qualitative assessment of the potential impact of any individual or combination of the following conditions: 1) nascent but fleeting trends of progress by the monetary and fiscal policies to stimulate a sustained period of domestic economic recovery; 2) continued economic instability in Europe and other segments of the international economy; 3) volatile oil and commodity prices; 4) inconsistent domestic consumer sentiment; and 5) uncertainty over sequestration, the debt ceiling, and other fiscal and monetary policy matter in light of the unsettled domestic political climate.

Although the Company does not have direct exposure to the economic and political crises impacting Europe and the Middle East, the ripple effect of continuous uncertainty surrounding ultimate resolution, along with quantifiable measures once achieved, may result in increased risk to the Company from the standpoint of consequences to its customer base and impacts on the Hawaii tourism market.

In the second quarter of 2014, the Company adopted an enhancement to the procedures described above which limits the unallocated component of the Allowance as a percentage of the then current general component of the Allowance, rounded upward to the nearest $500,000. This is derived by taking the historical average of the percentage of the unallocated component to the general component over the maximum look back period prescribed in our methodology. The unallocated amount may be maintained at higher levels during times of economic stress conditions on a local or global basis.

Application of Proxies

Our Allowance methodology uses qualitative adjustments for economic/market conditions and Company-specific conditions. The economic/market conditions factor is applied on a regional/geographic basis. The Company-specific condition factor is applied on a category basis. Two key indicators, personal income and unemployment, comprise the economic/market adjustment factor.

Personal income is analyzed by comparing average quarter-to-quarter percentage change trends reported by the U.S. Bureau of Economic Analysis. Specifically, the rolling four quarter average percentage change in personal income is calculated and compared to a baseline historical factor, calculated as the average quarter-to-quarter percentage change over the prior ten years. The difference between the current average change and the historical average change is utilized as the personal income component of the economic/market adjustment factor.

The second component of the economic/market factor, unemployment, is derived by comparing the current quarter unemployment rate, reported by the U.S. Bureau of Labor Statistics, to its ten year historical average. A constant scaling factor is applied to the difference between the current rate and the historical average in order to smooth significant period-to-period fluctuations. The result is utilized as the unemployment component of the economic factor. The personal income factor and unemployment factor are added together to determine each region’s total economic/market adjustment factor.

The general allowance also incorporates qualitative adjustment factors that capture company-specific conditions for which national/regional statistics are not available, or for which significant localized market specific events have not yet been captured within regional statistics or the Company's historical loss experience.

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 both our 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.

Reserve for Unfunded Loan Commitments

Our process for determining the reserve for unfunded loan commitments is consistent with our process for determining the Allowance and is adjusted for estimated loan funding probabilities. The reserve for unfunded loan commitments is recorded separately through a valuation allowance included in other liabilities. Credit losses for off-balance sheet credit exposures are deducted from the allowance for credit losses on off-balance sheet credit exposures in the period in which the liability is settled. The allowance for credit losses on off-balance sheet credit losses is established by a charge to other operating expense. As of June 30, 2014, our reserve for unfunded loan commitments totaled $1.4 million.

Loans Held for Sale

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

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

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of the non-residential mortgage loans net of applicable selling costs on our consolidated balance sheets. At June 30, 2014 and December 31, 2013, all of our loans held for sale were Hawaii residential mortgage loans.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a "whole-loan" basis to government-sponsored entities ("GSEs" or "Agencies") Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. We establish mortgage repurchase reserves related to various representations and warranties that reflect management's estimate for which we have a repurchase obligation. The reserves are established by a charge to other operating expense in our consolidated statements of operation. At June 30, 2014 and December 31, 2013, this reserve totaled $2.9 million, 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 June 30, 2014 were approximately $4.5 billion and $4.0 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 June 30, 2014 approximate $80.9 million.

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

41

Loans repurchased during the three and six months ended June 30, 2014 totaled approximately $0.4 million and $0.7 million, respectively. In 2012, additional reserves were established as an unallocated component in recognition of the emergence of make-whole demands. The establishment of an unallocated component considers anticipated future losses and our lack of historical experience with the make-whole demands. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appeals, Repurchased and Pending Resolution [1]
Six Months Ended June 30, 2014

	Government Sponsored Entities				Non-GSE Investors			
Vintage	Repurchase Demands	Appealed	Repurchased	Pending Resolution	Repurchase Demands	Appealed	Repurchased	Pending Resolution
2005 and prior	2	-	2	-	-	-	-	-
2006	1	-	1	-	1	-	-	1
2007	-	-	-	-	-	-	-	-
2008	4	2	1	1	-	-	-	-
2009	-	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	1	1	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
Total	8	3	4	1	1	-	-	1

[1] Based on repurchase requests received between January 1, 2014 and June 30, 2014.

The reserve for residential mortgage loan repurchase losses of $2.9 million at June 30, 2014 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents no change from December 31, 2013. The table below shows changes in the repurchase losses liability for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Balance, beginning of period	$ 3,076	$ 3,020	$ 2,949	$ 3,552
Change in estimate	(147)	964	308	332
Utilizations	-	(59)	(328)	41
Balance, end of period	$ 2,929	$ 3,925	$ 2,929	$ 3,925

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

Other Intangible Assets

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

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

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

Initial fair value of the servicing right is calculated by a discounted cash flow model based on market value assumptions at the time of origination. 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.

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

The fair value of our mortgage servicing rights is validated by first ensuring the completeness and accuracy of the loan data used in the valuation analysis. Additionally, the critical assumptions which come from independent sources are reviewed and include comparing actual results to forecast assumptions or evaluating the reasonableness of market assumptions in relation to the values and trends of assumptions used by peer banks. The validation process also includes reviewing key metrics such as the fair value as a percentage of the total unpaid principal balance of the mortgages serviced, and the resulting percentage as a multiple of the net servicing fee. These key metrics are tracked to ensure the trends are reasonable, and are periodically compared to peer banks.

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.

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

Impact of Recently Issued Accounting Pronouncements on Future Filings

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

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for the Company’s reporting period beginning on January 1, 2017. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” ASU 2014-11 requires two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowings. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 requires disclosures for certain transactions comprising a transfer of a financial asset accounted for as a sale, and an agreement with the same transferee entered into in contemplation of the initial transfer which results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. ASU 2014-11 also requires additional disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. ASU 2014-11 is effective for the Company’s reporting period beginning on January 1, 2015. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Financial Summary

Net income for the second quarter of 2014 was $9.2 million, or $0.25 per diluted share, compared to $14.3 million, or $0.34 per diluted share, for the second quarter of 2013. Net income for the first half of 2014 was $19.0 million, or $0.48 per diluted share, compared to $151.6 million, or $3.59 per diluted share, reported in the first half of 2013. Net income in the first half of 2013 included a non-cash income tax benefit of $119.8 million related to the reversal of a significant portion of a valuation allowance that was established on the Company’s net DTAs during the third quarter of 2009. Excluding this income tax benefit, net income for the first half of 2013 would have been $31.8 million, or $0.75 per diluted share.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
GAAP net income	$ 9,150	$ 14,267	$ 18,958	$ 151,576
Non-GAAP adjustment:				
Release of valuation allowance on net deferred tax assets	-	-	-	(119,802)
Non-GAAP net income	$ 9,150	$ 14,267	$ 18,958	$ 31,774
GAAP diluted earnings per share	$ 0.25	$ 0.34	$ 0.48	$ 3.59
Non-GAAP adjustment:				
Release of valuation allowance on net deferred tax assets	-	-	-	(2.84)
Non-GAAP diluted earnings per share	$ 0.25	$ 0.34	$ 0.48	$ 0.75

Total credit costs, which includes the Provision, gains on sales of foreclosed assets, write-downs of foreclosed assets, and the change in the reserve for unfunded commitments, amounted to a debit of $1.5 million in the three months ended June 30, 2014, and a credit of $0.6 million in the six months ended June 30, 2014, compared to credits of $8.4 million and $17.2 million in the three months and six months ended June 30, 2013, respectively.

The following table presents annualized returns on average assets, average shareholders' equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders' equity less average intangible assets, which excludes mortgage servicing rights. Average intangible assets were $11.8 million and $12.1 million for the three and six months ended June 30, 2014, respectively, and $14.4 million and $14.8 million for the comparable prior year periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Return on average assets	0.77 %	1.24 %	0.80 %	6.72 %
Return on average shareholders' equity	6.49	8.70	6.11	51.46
Return on average tangible equity	6.63	8.90	6.23	52.79
Basic earnings per common share	$ 0.25	$ 0.34	$ 0.49	$ 3.62
Diluted earnings per common share	0.25	0.34	0.48	3.59

Material Trends

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

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

The majority of our operations are concentrated in the state of Hawaii. As a result, our performance is significantly influenced by conditions in the banking industry, macroeconomic conditions and the real estate markets in Hawaii. A favorable business environment is generally characterized by expanding gross state product, low unemployment and rising personal income; while an unfavorable business environment is characterized by the reverse.

The Hawaii Department of Business Economic Development & Tourism ("DBEDT") projects stable economic growth in 2014 and beyond. Key economic indicators in the state have made positive strides during the first half of the year. DBEDT projects real personal income and real gross state product to grow by 2.1% and 2.4%, respectively, in 2014.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 4.4% in June 2014, compared to 4.7% in June 2013. In addition, Hawaii's unemployment rate in June 2014 remained below the national seasonally adjusted unemployment rate of 6.1%. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate to continue to improve to 4.2% in 2014.

While the labor market condition continues to improve, visitor arrivals and spending have stabilized. According to the Hawaii Tourism Authority ("HTA"), 3.4 million visitors visited the state in the first five months of 2014. This was a slight decrease of 0.5% from the number of visitor arrivals in the first five months of 2013. Total spending by visitors, however, increased to $6.1 billion in the first five months of 2014, an increase of $174.3 million, or 3.0%, from the first five months of 2013. According to DBEDT, total visitor arrivals and visitor spending are expected to gain 0.7% and 2.3% in 2014, respectively.

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 1.6% for single-family homes and 1.3% for condominiums for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Single family homes and condominiums on Oahu both broke records in June 2014 for median sales prices. The median sales price for single-family homes on Oahu for the month ended June 30, 2014 was $700,000, representing an increase of 3.4% from the prior year. The median sales price for condominiums on Oahu for the month ended June 30, 2014 was $360,000, representing an increase of 9.1% compared to the same prior year period. We believe the Hawaii real estate market will continue to show improvements in 2014, however, there can be no assurance that this will occur.

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

Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as "net interest margin." Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis ("net interest income") for the three and six months ended June 30, 2014 and 2013 is set forth below.

	Three Months Ended June 30,					
	2014			2013		
	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 12,756	0.25 %	$ 8	$ 108,612	0.25 %	$ 68
Taxable investment securities (1)	1,360,329	2.49	8,477	1,516,992	1.95	7,379
Tax-exempt investment securities (1)	178,609	3.45	1,539	179,724	3.56	1,600
Loans and leases, including loans held for sale (2)	2,762,963	4.07	28,040	2,324,107	4.57	26,505
Federal Home Loan Bank stock	45,472	0.10	11	47,460	-	-
Total interest earning assets	4,360,129	3.50	38,075	4,176,895	3.41	35,552
Nonearning assets	376,689			417,720		
Total assets	$ 4,736,818			$ 4,594,615		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 743,544	0.05 %	$ 91	$ 703,165	0.05 %	$ 87
Savings and money market deposits	1,219,159	0.07	223	1,179,152	0.07	219
Time deposits under $100,000	256,971	0.41	261	288,932	0.47	338
Time deposits $100,000 and over	821,701	0.18	360	734,456	0.21	382
Short-term borrowings	75,885	0.29	55	-	-	-
Long-term debt	92,792	2.77	640	108,273	2.94	793
Total interest-bearing liabilities	3,210,052	0.20	1,630	3,013,978	0.24	1,819
Noninterest-bearing deposits	913,082			846,979		
Other liabilities	49,788			67,777		
Total liabilities	4,172,922			3,928,734		
Shareholders' equity	563,895			655,932		
Non-controlling interests	1			9,949		
Total equity	563,896			665,881		
Total liabilities and equity	$ 4,736,818			$ 4,594,615		
Net interest income			$ 36,445			$ 33,733
Net interest margin		3.35 %			3.23 %	

	Six Months Ended June 30,					
	2014			2013		
	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 12,173	0.25 %	$ 15	$ 126,593	0.25 %	$ 157
Taxable investment securities (1)	1,433,863	2.51	17,974	1,497,547	1.93	14,415
Tax-exempt investment securities (1)	178,308	3.44	3,068	177,798	3.58	3,180
Loans and leases, including loans held for sale (2)	2,714,662	4.07	54,923	2,291,709	4.47	50,948
Federal Home Loan Bank stock	45,771	0.10	23	47,659	-	-
Total interest earning assets	4,384,777	3.48	76,003	4,141,306	3.33	68,700
Nonearning assets	374,435			369,491		
Total assets	$ 4,759,212			$ 4,510,797		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 739,659	0.05 %	$ 181	$ 688,495	0.05 %	$ 168
Savings and money market deposits	1,218,626	0.07	447	1,175,573	0.07	436
Time deposits under $100,000	260,207	0.41	529	294,928	0.49	713
Time deposits $100,000 and over	831,096	0.18	722	722,405	0.21	766
Short-term borrowings	50,729	0.29	72	-	-	-
Long-term debt	92,794	2.77	1,276	108,276	3.10	1,662
Total interest-bearing liabilities	3,193,111	0.20	3,227	2,989,677	0.25	3,745
Noninterest-bearing deposits	899,401			834,167		
Other liabilities	46,154			87,952		
Total liabilities	4,138,666			3,911,796		
Shareholders' equity	620,516			589,049		
Non-controlling interests	30			9,952		
Total equity	620,546			599,001		
Total liabilities and equity	$ 4,759,212			$ 4,510,797		
Net interest income			$ 72,776			$ 64,955
Net interest margin		3.33 %			3.15 %	

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

Net interest income expressed on a taxable-equivalent basis of $36.4 million for the second quarter of 2014, increased by $2.7 million, or 8.0%, from the second quarter of 2013, while taxable-equivalent net interest income for the first half of 2014 increased by $7.8 million, or 12.0%, to $72.8 million from the comparable prior year period. The current quarter increase was primarily attributable to a significant increase in average loans and leases and a 54 basis point (“bp”) increase in average yields earned on our taxable investment securities, partially offset by the 50 bp decline in average yields earned on our loans and leases. The increase in net interest income for the current quarter also reflects a 9 bp increase in average yields earned on our interest-earning assets and a 4 bp decline in average rates paid on our interest-bearing liabilities.

For the six months ended June 30, 2014, the increase over the same year-ago period was primarily attributable to a significant increase in average loans and leases and a 58 bp increase in average yields earned on our taxable investment securities, partially offset by the 40 bp decline in average yields earned on our loans and leases. The increase in net interest income also reflects a 15 bp increase in average yields earned on our interest-earning assets and a 5 bp decline in average rates paid on our interest-bearing liabilities.

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

Interest Income

Taxable-equivalent interest income of $38.1 million for the second quarter of 2014 increased by $2.5 million, or 7.1%, from the second quarter of 2013. The increase was primarily attributable to a significant increase in average loans and leases and a significant increase in average yields earned on our taxable investment securities, partially offset by a decrease in average yields earned on our loans and leases balances as described above and a decrease in average taxable investment securities. Average loans and leases increased by $438.9 million compared to the second quarter of 2013, accounting for approximately $5.0 million of the current quarter's increase. In addition, average yields earned on taxable investment securities increased by 54 bp in the current quarter, increasing interest income by approximately $2.0 million. Average yields earned on loans and leases, however, decreased by 50 bp in the current quarter, lowering interest income by approximately $2.9 million, and average taxable investment securities decreased by $156.7 million, resulting in a decrease in interest income of $0.8 million.

For the six months ended June 30, 2014, taxable-equivalent interest income increased by $7.3 million, or 10.6%, from the six months ended June 30, 2013. Consistent with the second quarter, the year-to-date increase was primarily attributable to a significant increase in average loans and leases and a significant increase in average yields earned on our taxable investment securities, partially offset by a decrease in average yields earned on our loans and leases balances. Average loans and leases increased by $423.0 million compared to the first half of 2013, accounting for approximately $9.5 million of the year-to-date increase. In addition, average yields earned on taxable investment securities increased by 58 bp in the first half of 2014, increasing interest income by approximately $4.3 million. These increases were offset by a 40 bp decrease in average yields earned on loans and leases in the first half of 2014, lowering interest income by approximately $4.6 million.

Interest Expense

Interest expense of $1.6 million for the second quarter of 2014 decreased by $0.2 million, or 10.4%, from the comparable prior year quarter. The decrease was primarily attributable to the decline in average long-term debt of $15.5 million, resulting in a decrease in interest expense of $0.1 million in the current quarter. The decrease in average long-term debt was primarily due to the repurchase of $15.0 million in trust preferred securities of CPB Capital Trust I in the fourth quarter of 2013.

For the six months ended June 30, 2014, interest expense decreased by $0.5 million, or 13.8%, from the six months ended June 30, 2013. The decrease was primarily attributable to the $15.5 million decrease in average long-term debt and the 33 bp decline in average rates paid on long-term debt, which each resulted in a decrease in interest expense of $0.2 million. Consistent with the second quarter, the year-to-date decrease in average long-term debt was primarily due to the repurchase of $15.0 in trust preferred securities of CPB Capital Trust I in the fourth quarter of 2013.

Net Interest Margin

Our net interest margin was 3.35% for the second quarter of 2014, compared to 3.23% for the second quarter of 2013. Our net interest margin was 3.33% for the first half of 2014, compared to 3.15% for the first half of 2013. As described above, the increases in the net interest margin reflected the bond swap in the fourth quarter of 2013, and the increase in average loans and leases.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the first half of 2014. While we expect the target Fed Funds rate to remain low, the yield curve had begun to steepen in 2013 and is expected to continue in 2014. We also plan to continue to shift our interest earning assets from investment securities to higher yielding loans which will support the net interest margin. Yet we still are experiencing competitive market pressures in pricing and are selectively shortening duration on assets to help mitigate interest rate risk. Given these offsetting factors, we expect the net interest margin to remain fairly stable over the near term.

Provision for Loan and Lease Losses

Our Provision was $2.0 million and $0.7 million during the second quarter and first half of 2014, respectively, compared to a credit to the Provision of $0.2 million and $6.8 million in the comparable prior year periods. Our net charge-offs were $1.6 million and $0.9 million during the second quarter and first half of 2014, respectively, compared to net recoveries of $0.5 million and net charge-offs of $2.5 million in the second quarter and first half of 2013, respectively.

The provision for loan and lease losses in the second quarter was primarily attributable to net loan charge-offs of $1.6 million and the $96.7 million increase in our loans and leases portfolio.

Other Operating Income

Total other operating income of $12.0 million for the second quarter of 2014 decreased by $5.8 million, or 32.6%, from the comparable prior year period. The decrease from the year-ago quarter was primarily due to the sale of a foreclosed property in the second quarter of 2013 at a gain of $7.2 million and lower net gains on sales of residential mortgage loans of $1.7 million, partially offset by higher unrealized gains on loans held for sale and interest rate locks of $1.3 million.

For the six months ended June 30, 2014, total other operating income of $22.1 million decreased by $8.7 million, or 28.2%, from the comparable prior year period. The decrease was primarily due to the prior year $7.2 million gain on sale of foreclosed asset and lower net gains on sales of residential mortgage loans of $4.6 million, partially offset by higher service charges on deposit accounts of $0.8 million, income recovered on nonaccrual loans previously written-off of $0.6 million, and higher income from bank-owned life insurance of $0.6 million.

Other Operating Expense

Total other operating expense for the second quarter of 2014 was $32.9 million, compared to $35.0 million in the comparable prior year period. The decrease from the year-ago quarter was primarily attributable to lower salaries and employee benefits of $1.7 million, lower provision for losses on residential mortgage loan repurchases of $1.1 million, lower amortization of intangible assets of $0.8 million, and lower foreclosed asset expense of $0.7 million, partially offset by a higher provision for unfunded loan commitments of $1.3 million, higher computer software expense of $0.4 million, and higher legal and professional services of $0.3 million.

For the six months ended June 30, 2014, total other operating expense was $64.8 million, compared to $67.8 million in the comparable prior year period. The decrease was primarily attributable to lower salaries and employee benefits of $2.8 million, lower amortization of intangible assets of $1.8 million, and lower foreclosed asset expense of $0.9 million, partially offset by a lower credit to the reserve for unfunded loan commitments of $2.4 million and higher computer software expense of $0.8 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 quarter of 2013, the Company recorded income tax expense of $1.9 million.

In the second quarter of 2014, the Company recorded income tax expense of $3.9 million. For the six months ended June 30, 2014, the Company recorded income tax expense of $9.4 million. As of June 30, 2014, the remaining valuation allowance on our net DTA totaled $2.9 million. Net of this valuation allowance, as of June 30, 2014, the Company's net DTA totaled $114.6 million, compared to a net DTA of $137.2 million as of December 31, 2013, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets at June 30, 2014 of $4.73 billion decreased by $13.4 million from $4.74 billion at December 31, 2013.

Investment Securities

Investment securities of $1.47 billion at June 30, 2014 decreased by $185.9 million, or 11.2%, from December 31, 2013. In the second quarter of 2014, $162.2 million in available-for-sale securities were sold as part of a balance sheet optimization strategy designed to improve our interest rate risk profile. Investment securities sold in the second quarter had a weighted average life of 5.7 years, average yield of 2.68% and resulted in a gain of $0.2 million.

Loans and Leases

Loans and leases, net of deferred income/costs, of $2.79 billion at June 30, 2014 increased by $163.6 million, or 6.2%, from December 31, 2013. The increase was due to an increase in the residential mortgage, commercial, construction, and consumer loan portfolios of $90.3 million, $34.0 million, $24.3 million, and $22.2 million, respectively, partially offset by a decrease in the commercial mortgage loan and leases portfolios of $5.0 million and $2.2 million, respectively. The net increase in the portfolio also reflect the transfer of three portfolio loans to other real estate totaling $1.5 million and charge-offs of loans and leases totaling $4.0 million.

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.

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
Nonperforming Assets		
Nonaccrual loans (including loans held for sale):		
Commercial, financial and agricultural	$ 16,657	$ 3,533
Real estate:		
Construction	373	4,015
Mortgage-residential	13,608	20,271
Mortgage-commercial	6,236	13,769
Total nonaccrual loans	36,874	41,588
Other real estate:		
Real estate:		
Construction	3,048	3,770
Mortgage - residential	2,041	1,184
Mortgage - commercial	158	209
Other real estate	5,247	5,163
Total nonperforming assets	42,121	46,751
Accruing loans delinquent for 90 days or more:		
Real estate-mortgage-residential	99	-
Consumer	20	-
Leases	-	15
Total accruing loans delinquent for 90 days or more	119	15
Restructured loans still accruing interest:		
Commercial, financial and agricultural	384	406
Real estate:		
Construction	944	3,857
Mortgage-residential	18,456	16,508
Mortgage-commercial	10,941	2,502
Total restructured loans still accruing interest	30,725	23,273
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 72,965	$ 70,039
Total nonaccrual loans as a percentage of loans and leases	1.32 %	1.58 %
Total nonperforming assets as a percentage of loans and leases and other real estate	1.50 %	1.77 %
Total nonperforming assets and accruing loans delinquent for 90 days	1.51 %	1.77 %

or more as a percentage of loans and leases and other real estate					
Total nonperforming assets, accruing loans delinquent for 90 days or more, and restructured loans still accruing interest as a percentage of loans and leases and other real estate		2.61	%	2.66	%
Year-to-date changes in nonperforming assets:					
Balance at December 31, 2013	$	46,751			
Additions		17,485			
Reductions					
Payments		(6,578	)		
Return to accrual status		(14,027	)		
Sales of foreclosed real estate		(1,471	)		
Charge-offs/writedowns		(39	)		
Total reductions		(22,115	)		
Balance at June 30, 2014	$	42,121			

52

Nonperforming assets, which includes nonaccrual loans and leases and other real estate, totaled $42.1 million at June 30, 2014, compared to $46.8 million at December 31, 2013. There were no nonperforming loans classified as held for sale at June 30, 2014 and December 31, 2013. The decrease in nonperforming assets from December 31, 2013 was attributable to $14.0 million in loans restored to accrual status, $6.6 million in repayments, and $1.5 million in sales of foreclosed properties, partially offset by $17.5 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland commercial assets totaling $7.2 million, Hawaii residential mortgage assets totaling $5.8 million, Hawaii construction assets totaling $3.7 million, U.S. Mainland construction assets totaling $0.6 million, Hawaii commercial assets totaling $0.5 million, and Hawaii commercial mortgage assets of $0.4 million, offset by a net increase in U.S. Mainland commercial assets totaling $13.6 million. The net decrease in U.S. Mainland commercial mortgage assets included the restoration of an $8.8 million loan to accrual status. The net increase in U.S. Mainland commercial assets included the addition of two loans to a single borrower to nonaccrual status totaling $13.6 million.

Troubled debt restructurings ("TDRs") included in nonperforming assets at June 30, 2014 consisted of 38 Hawaii residential mortgage loans with a combined principal balance of $7.9 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 $30.7 million of TDRs still accruing interest at June 30, 2014, none of which were more than 90 days delinquent.

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 83,162	$ 86,806	$ 83,820	$ 96,413
Provision (credit) for loan and lease losses	1,995	(227)	679	(6,788)
Charge-offs:				
Commercial, financial and agricultural	1,482	1,597	1,555	1,841
Real estate:				
Construction	-	277	-	355
Mortgage-residential	102	380	139	794
Mortgage-commercial	1,041	-	1,041	3,674
Consumer	671	242	1,251	557
Leases	-	-	8	-
Total charge-offs	3,296	2,496	3,994	7,221
Recoveries:				
Commercial, financial and agricultural	546	170	1,152	662
Real estate:				
Construction	342	1,747	744	2,232
Mortgage-residential	529	243	623	474
Mortgage-commercial	13	703	26	957
Consumer	305	157	544	373
Leases	3	2	5	3
Total recoveries	1,738	3,022	3,094	4,701
Net charge-offs (recoveries)	1,558	(526)	900	2,520
Balance at end of period	$ 83,599	$ 87,105	$ 83,599	$ 87,105
Annualized ratio of net charge-offs (recoveries) to average loans and leases	0.23 %	(0.09)%	0.07 %	0.22 %

Our Allowance at June 30, 2014 totaled $83.6 million, a decrease of $0.2 million, or 0.3%, from December 31, 2013. The decrease in our Allowance was a direct result of net loan charge-offs of $0.9 million offset by a debit to the Provision of $0.7 million.

Our Allowance as a percentage of our total loan portfolio decreased from 3.19% at December 31, 2013 to 2.99% at June 30, 2014. Our Allowance as a percentage of our nonperforming assets increased from 179.29% at December 31, 2013 to 198.47% at June 30, 2014.

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

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

Deposits

Total deposits of $4.00 billion at June 30, 2014 reflected an increase of $66.4 million, or 1.7%, from December 31, 2013. The increase was primarily attributable to increases in noninterest-bearing demand deposits, interest-bearing demand deposits, and savings and money market deposits of $71.6 million, $28.2 million, and $14.2 million, respectively. These increases were partially offset by a decrease in time deposits of $47.6 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than $100,000, totaled $3.19 billion at June 30, 2014 and increased by $100.8 million from December 31, 2013.

Capital Resources

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

Common Stock

Shareholders' equity totaled $564.6 million at June 30, 2014, compared to $660.1 million at December 31, 2013. The decrease in total shareholders' equity was attributable to: 1) the purchase of 3,405,888 shares for a total cost of $68.8 million, excluding fees and expenses related to a tender offer, 2) the purchase of 2,782,178 shares for a total cost of $56.2 million, excluding fees and expenses related to repurchase agreements with our two largest shareholders, 3) the repurchase of 181,200 shares of common stock, at a cost of $3.4 million, under our repurchase program, and 4) cash dividends paid of $6.3 million, partially offset by $19.0 million and $20.3 million in net income and other comprehensive income, respectively, recognized during the first half of 2014. Since the beginning of the year, we have repurchased approximately 15.13% of our common stock outstanding.

Holding Company Capital Resources

CPF is required to act as a source of strength to the bank under the Dodd-Frank Act. CPF is obligated to pay its expenses and payments on its junior subordinated debentures which fund payments on the outstanding trust preferred securities. CPF deferred the payment of dividends on our TARP preferred stock and trust preferred securities (along with interest on the related junior subordinated debentures) beginning in the third quarter of 2009. As mentioned in the previous section, in March 2013, the Company elected to resume quarterly payments for each outstanding trust and all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities were paid in full.

As a Hawaii state-chartered bank, the bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of June 30, 2014, the bank had Statutory Retained Earnings of $119.6 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 stock. CPF had sufficient cash on hand to fund the 2013 dividends, thus the bank did not pay a dividend to CPF. On July 23, 2014, the Company's Board of Directors declared a fifth consecutive quarterly cash dividend of $0.10 per share, an increase from $0.08 per share in the second quarter of 2014, on the Company's outstanding common stock, payable on September 15, 2014 to shareholders of record at the close of business on August 29, 2014.

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

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

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

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

On February 20, 2014, we also entered into repurchase agreements (the "Repurchase Agreements") with each of Carlyle Financial Services Harbor, L.P. ("Carlyle") and 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.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company's outstanding common stock (the "2014 Repurchase Plan"). Repurchases under the 2014 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. In the second quarter of 2014, 181,200 shares of common stock, at a cost of $3.4 million, were repurchased under this program. A total of $26.6 million remained available for repurchase under the 2014 Repurchase Plan at June 30, 2014.

On March 21, 2014, CPF received its first dividend from the bank since September 2008 of $125.0 million in order to meet its obligations under the Tender Offer and Private Repurchases. In the second quarter of 2014, CPF received dividends from the bank totaling $16.1 million. As of June 30, 2014, on a stand-alone basis, CPF had an available cash balance of approximately $24.3 million in order to meet its ongoing obligations.

Trust Preferred Securities

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

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

In June 2013, the Company was notified that $10.0 million of the $15.0 million in trust preferred securities of CPB Capital Trust I ("Trust I") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. The Company placed a bid of $9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of $9.0 million was less than the $10.0 million carrying value, we recognized a gain of $1.0 million related to this transaction on October 7, 2013, when these securities were called. The Company determined that its investment in Trust I did not represent a variable interest and therefore the Company was not the primary beneficiary of Trust I. As a result, consolidation of Trust I by the Company was not required. In October 2013, the Company called the remaining $5.0 million in trust preferred securities of Trust I. On April 7, 2014, $0.5 million in common stock of Trust I were called and no shares remained outstanding.

Regulatory 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 in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our Form 10-K “Business — Supervision and Regulation.”

FDIC-insured institutions must maintain leverage, Tier 1 and total risk-based capital ratios of at least 5%, 6% and 10%, respectively, and not be subject to a regulatory capital directive to be considered “well capitalized” under the prompt corrective action provisions of the FDIC Improvement Act of 1991. The Company’s and the bank’s leverage capital, Tier 1 and total risk-based capital ratios as of June 30, 2014 were above the levels required for a “well capitalized” regulatory designation.

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

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company						
At June 30, 2014:						
Leverage capital	$ 538,236	11.6 %	$ 185,016	4.0 %	$ 231,271	5.0 %
Tier 1 risk-based capital	538,236	17.1	126,211	4.0	189,316	6.0
Total risk-based capital	578,295	18.3	252,422	8.0	315,527	10.0
At December 31, 2013:						
Leverage capital	$ 632,724	13.7 %	$ 184,995	4.0 %	$ 231,244	5.0 %
Tier 1 risk-based capital	632,724	20.3	124,854	4.0	187,282	6.0
Total risk-based capital	672,374	21.5	249,709	8.0	312,136	10.0
Central Pacific Bank						
At June 30, 2014:						
Leverage capital	$ 515,865	11.2 %	$ 184,960	4.0 %	$ 231,199	5.0 %
Tier 1 risk-based capital	515,865	16.4	126,117	4.0	189,175	6.0
Total risk-based capital	555,839	17.6	252,234	8.0	315,292	10.0

At December 31, 2013:											
Leverage capital	$	610,753	13.2	%	$	184,736	4.0	%	$	230,920	5.0	%
Tier 1 risk-based capital		610,753	19.6			124,608	4.0			186,912	6.0	
Total risk-based capital		650,273	20.9			249,216	8.0			311,520	10.0	

Liquidity and Borrowing Arrangements

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

Core deposits have historically provided us with a sizeable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. In addition to core deposit funding, we also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the FHLB, secured repurchase agreements, federal funds borrowings and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these alternative funding sources, access to these sources is not guaranteed and may be influenced by market conditions, our financial position, and the terms of the respective agreements with such sources, as discussed below.

The bank is a member of and maintained a $927.7 million line of credit with the FHLB as of June 30, 2014. Short-term and long-term borrowings under this arrangement totaled $29.0 million and $5,400 at June 30, 2014, respectively, compared to $8.0 million and $14,000 at December 31, 2013, respectively.

As of June 30, 2014, the bank's pledged assets to the FHLB included investment securities with a fair value of $1.2 million and certain real estate loans totaling $1.4 billion. These assets can be used to secure future advances in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB.

Besides its line of credit with the FHLB, the bank also maintained a $45.0 million line of credit with the Federal Reserve discount window. There were no borrowings under this arrangement at June 30, 2014 and December 31, 2013. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value of $77.0 million at June 30, 2014. The Federal Reserve does not have the right to sell or repledge these loans.

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

Contractual Obligations

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

Regulatory Matters

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at June 30, 2014 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

- The Company has created a step-by-step checklist of the key elements of the allowance for loan and lease losses methodology with references to appropriate data sources to ensure the completeness and accuracy of all inputs;

- The Company has established a more comprehensive review and approval procedure for the allowance for loan and lease losses calculation, including a detailed review of the completeness and accuracy of all inputs and the resulting calculation; and

- The Company has continued to engage an independent third-party to review the allowance for loan and lease losses methodology and calculation for conformity with U.S. generally accepted accounting principles and regulatory compliance and to validate the accuracy of the information used in the analysis.

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

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

Recent Sales of Unregistered Securities

During the second quarter of 2014, we discovered that common stock that was not registered with the SEC was sold to certain participants, through their investment in our unitized common stock fund, in the Central Pacific Bank 401(k) Retirement Savings Plan (the “Plan”). Under terms of the Plan, participants may invest Plan contributions for an interest in the common stock fund which is primarily comprised of shares of our common stock, and to a lesser extent, cash. The unregistered shares of our common stock held in the common stock fund are purchased by our Plan trustee from the open market; hence, these purchases do not represent any additional equity dilution of our outstanding shares. We do not receive any proceeds from these transactions.

Under applicable federal securities laws, certain participants may have a right to rescind, and to require us to repurchase, their purchases of our common stock (through their investment in the common stock fund) for an amount equal to the price paid for the securities, plus interest. Generally, the federal statute of limitations applicable to such rescission rights is one year. Additionally, we may be subject to potential civil and other penalties by regulatory authorities as a result of this registration issue.

Based on our estimates, we do not believe the amount of potential liability associated with the securities subject to rescission rights is material to our financial condition or results of operations. As of June 30, 2014, we estimate that there were 6,053 shares of our common stock in the Plan that were purchased within a one-year period that would potentially be subject to rescission rights. These securities continue to be reflected in stockholders' equity in our balance sheet.

On June 18, 2014, we filed a new registration statement on Form S-8 to register 250,000 shares for future sales of our common stock through our common stock fund under the Plan.

Issuer Purchases of Equity Securities

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

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

million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company's outstanding common stock (the "2014 Repurchase Plan"). Repurchases under the 2014 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. In the second quarter of 2014, 181,200 shares of common stock, at a cost of $3.4 million, were repurchased under this program. A total of $26.6 million remained available for repurchase under the 2014 Repurchase Plan at June 30, 2014. The table below sets forth certain information concerning repurchases of our securities during the period covered by this Quarterly Report on Form 10-Q.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program	Dollar Value of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
April 1-30	2,782,178	$ 20.20	2,782,178	-	$ -	$ -
May 1-31	166,200	18.78	-	-	3,121,844	26,878,156
June 1-30	15,000	19.32	-	-	289,782	26,588,374
Total	2,963,378	$ 20.12	2,782,178	-	$ 3,411,626	$ 26,588,374

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: August 7, 2014	/s/ John C. Dean John C. Dean Chief Executive Officer
Date: August 7, 2014	/s/ Denis K. Isono Denis K. Isono Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.
Exhibit Index

Exhibit No.	Description
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