CENTRAL PACIFIC FINANCIAL CORP
Form 10-K
February 28, 2014

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

FORM 10-K

(Mark One)

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

For the Fiscal year ended December 31, 2013
or

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

Commission file number: 001-31567

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

Hawaii (State or other jurisdiction of incorporation or organization)	99-0212597 (I.R.S. Employer Identification No.)
220 South King Street, Honolulu, Hawaii (Address of principal executive offices)	96813 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YesoNox

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yeso Nox

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. Yesx Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yesx Noo

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filero Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yeso Nox

As of June 30, 2013, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $403,903,000. As of February 14, 2014, the number of shares of common stock of the registrant outstanding was 42,108,496 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2014 annual meeting of shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent stated herein. The proxy statement will be filed within 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

PART 1

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this annual report on Form 10-K that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in our future filings with the U.S. Securities and Exchange Commission (“SEC”), in press releases and in oral and written statements made by us or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital position and other financial items; (ii) statements of plans, objectives and expectations of Central Pacific Financial Corp. or its management or Board of Directors, including those relating to business plans, use of capital resources, products or services and regulatory developments and regulatory actions; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes,” “plans,” “anticipates,” “expects,” “intends,” “forecasts,” “hopes,” “targeted,” “continue,” “remain,” “will,” and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include but are not limited to:

- 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 (the “Dodd-Frank Act”), changes in capital standards, other regulatory reform, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau (the “CFPB”), government-sponsored enterprise reform, and any related rules and regulations which affect our business operations and competitiveness;

- the costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews;

- the effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System (the “FRB” of the “Federal Reserve”);

- inflation, interest rate, securities market and monetary fluctuations;
- negative trends in our market capitalization and adverse changes in the price of the Company's common shares;
- political instability;
- acts of war or terrorism;
- changes in consumer spending, borrowings and savings habits;

- failure to maintain effective internal control over financial reporting or disclosure controls and procedures;
- technological changes;
- changes in the competitive environment among financial holding companies and other financial service providers;
- the results of the tender offer and share repurchase agreements we announced on February 21, 2014;
- 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 information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see also "Risk Factors" under Part I, Item 1A of this report. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this Form 10-K. Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events except as required by law.

ITEM 1. BUSINESS

Recent Developments

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".)

Upon the terms and subject to the conditions of the Tender Offer, promptly after the expiration date of the Tender Offer, we will determine a single price per share (the "Purchase Price"), which will be not greater than $21.00 nor less than $18.50 per share, that we will pay, subject to "odd lot" priority, proration and conditional tender provisions described in the tender and not properly withdrawn, and accepted for payment, taking into account the number of shares tendered pursuant to the Tender Offer and the prices specified by the tendering shareholders. The Purchase Price will be the lowest price per share (in increments of $0.10) of not greater than $21.00 nor less than $18.50 per share, at which shares have been properly tendered in the Tender Offer and not properly withdrawn, that will enable us to purchase the maximum number of shares properly tendered in the Tender Offer and not properly withdrawn having an aggregate purchase price not exceeding $68.8 million. All shares purchased in the Tender Offer will be purchased at the same Purchase Price regardless of whether the shareholder tendered at a lower price. However, because of the "odd lot" priority, proration and conditional tender provisions described in the Tender Offer materials, all of the shares tendered at or below the Purchase Price may not be purchased if shares having an aggregate value in excess of $68.8 million are properly tendered and not properly withdrawn. As of February 14, 2014, there were 42,108,496 shares of our common stock issued and outstanding. The maximum of 3,718,918 shares that we are offering to purchase pursuant to the Tender Offer represents approximately 8.8% of the total number of shares issued and outstanding as of February 14, 2014. Assuming the Tender Offer is fully subscribed, the minimum of 3,276,190 shares that we are offering to purchase pursuant to the Tender Offer represents approximately 7.8% of the total number of shares issued and outstanding as of February 14, 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 is the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate) of our common stock, pursuant to which we have agreed to purchase up to $28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price (the “Share Repurchases”) (or an aggregate of $56.2 million of shares.) The Share Repurchases are scheduled to close on the eleventh business day following the expiration of the Tender Offer. The aggregate value of shares to be repurchased under the Repurchase Agreements will be proportionately reduced in the event that the Company purchases less than the maximum number of shares that it is able to purchase at the Purchase Price pursuant to the terms of the Tender Offer. In addition, each Lead Investor may tender in the Tender Offer, although neither Lead Investor has indicated to what extent such Lead Investor intends to do so. The Share Repurchases contemplated by the Repurchase Agreements are conditioned upon, among other matters, the Company purchasing shares in the Tender Offer in accordance with this its terms.

If the Tender Offer is fully subscribed, the completion of the Tender Offer and the Share Repurchases will result in the repurchase by us of $125 million of shares in the aggregate. If the Tender Offer is fully subscribed at a Purchase Price of $21.00, the maximum Purchase Price pursuant to the Tender Offer, the completion of the Tender Offer and the Share Repurchases will result in the repurchase by us 5,952,380 shares of common stock, which would represent approximately 14.1% of our issued and outstanding shares. If the Tender Offer is fully subscribed at a Purchase Price of $18.50, the minimum Purchase Price pursuant to the Tender Offer, the completion of the Tender Offer and the Share Repurchases will result in the repurchase by the Company of 6,756,755 shares in the aggregate, which would represent approximately 16.0% of our issued and outstanding shares.

General

Central Pacific Financial Corp., a Hawaii corporation and bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), was organized on February 1, 1982. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank, which was incorporated in its present form in the state of Hawaii on March 16, 1982 in connection with the holding company reorganization. Its predecessor entity was incorporated in the state of Hawaii on January 15, 1954.

When we refer to "the Company," "we," "us" or "our," we mean Central Pacific Financial Corp. and its subsidiaries on a consolidated basis. When we refer to "Central Pacific Financial Corp.," "CPF" or to the holding company, we are referring to the parent company on a standalone basis. We refer to Central Pacific Bank herein as "our bank" or "the bank."

Through our bank and its subsidiaries, we offer full-service commercial banking with 35 bank branches and 112 ATMs located throughout the state of Hawaii. Our administrative and main offices are located in Honolulu and we have 28 branches on the island of Oahu. We operate four branches on the island of Maui, two branches on the island of Hawaii and one branch on the island of Kauai. In January 2014, we opened our 36th branch in Kapaa, Kauai, increasing our footprint to two branches on the island of Kauai. Our bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The bank is not a member of the Federal Reserve System.

Central Pacific Bank is a full-service commercial bank offering a broad range of banking products and services, including accepting time and demand deposits and originating loans. Our loans include commercial loans, construction loans, commercial and residential mortgage loans and consumer loans.

We derive our income primarily from interest and fees on loans, interest on investment securities and fees received in connection with deposit and other services. Our major operating expenses are the interest paid by our bank on deposits and borrowings, salaries and employee benefits and general operating expenses. Our bank relies substantially on a foundation of locally generated deposits. For financial reporting purposes, we have the following three reportable segments: (1) Banking Operations, (2) Treasury and (3) All Others. For further information about our reporting segments, including information about the assets and operating results of each, see "Note 25 – Segment Information" in the accompanying consolidated financial statements.

Our operations, like those of other financial institutions that operate in our market, are significantly influenced by economic conditions in Hawaii, including the strength of the real estate market, as well as the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. See "—Supervision and Regulation" below for other information about the regulation of our holding company and bank.

With respect to our capital raising efforts, we completed a number of key milestones since 2011. We completed our previously announced capital raise of $325 million through a private placement offering (the "Private Placement") in February 2011.

Concurrently with the Private Placement, in February 2011, the U.S. Treasury (the “Treasury”) agreed to exchange our Fixed Rate Cumulative Perpetual Preferred Stock (the “TARP Preferred Stock”) purchased by the Treasury under the Troubled Assets Relief Program (“TARP”) and accrued and unpaid dividends thereon for approximately $56.2 million in our common stock (the “TARP Exchange”). The Company and Treasury also agreed to amend the ten-year warrant to purchase shares of common stock (the “TARP Warrant”) issued to the Treasury in connection with the Treasury’s investment in the TARP Preferred Stock to, among other things, reduce the exercise price to the same per share purchase price in the Private Placement.

As part of the recapitalization, we also completed a rights offering (the “Rights Offering”) whereby shareholders of record as of the close of business on February 17, 2011 received transferable rights to purchase newly issued shares of our common stock at a purchase price of $10 per share. The rights provided for the purchase of up to $20.0 million of the Company’s common stock by holders of such rights. The Rights Offering was fully subscribed and completed in May 2011.

On June 22, 2011, the Treasury completed a public underwritten offering of 2,850,000 shares of our common stock it received in the TARP Exchange. On April 4, 2012, the Treasury completed another public underwritten offering of its remaining 2,770,117 shares of our common stock it received in the TARP Exchange. The Company did not receive any proceeds from either of these offerings. In June 2013, the 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 shares 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. After the completion of these transactions, the 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 TARP.

Following our successful capital raises in 2011, we have accomplished a number of key performance objectives through December 31, 2013:

- 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 December 31, 2013 of 20.30%, 21.57%, and 13.68%, respectively, compared to 22.54%, 23.83%, and 14.32%, respectively, as of December 31, 2012, and 22.94%, 24.24%, and 13.78%, respectively, as of December 31, 2011. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.

- We reported twelve consecutive profitable quarters with net income totaling $172.1 million, $47.4 million, and $36.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

- We reduced our nonperforming assets by $43.2 million to $46.8 million at December 31, 2013 from $90.0 million at December 31, 2012. Our nonperforming assets at December 31, 2012 were reduced by $105.6 million from $195.6 million at December 31, 2011.

  - We significantly reduced our construction and development loan portfolio as of December 31, 2013 to $75.6 million, or 2.9% of our total loan portfolio. At December 31, 2012 and 2011, this portfolio totaled $96.2 million and $161.1 million, or 4.4% and 7.8% of our total loan portfolio, respectively.

- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 3.19% at December 31, 2013, compared to 4.37% and 5.91% at December 31, 2012 and 2011, respectively. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 179.29% at December 31, 2013, compared to 107.10% and 62.42% at December 31, 2012 and 2011, respectively.

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

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

Our Services

We offer a full range of banking services and products to businesses, professionals and individuals. We provide our customers with an array of loan products, including residential mortgage loans, commercial and consumer loans and lines of credit, commercial real estate loans and construction loans.

Through our bank, we concentrate our lending activities in five principal areas:

(1) Residential Mortgage Lending. Residential mortgage loans include fixed- and adjustable-rate loans primarily secured by single-family, owner-occupied residences in Hawaii, fixed-rate loans secured by multi-family residential properties, and home equity lines of credit and loans. We typically require loan-to-value ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk, with an average loan size of approximately $0.4 million and marketable collateral. Changes in interest rates, the economic recession and other market factors have impacted, and future changes will likely continue to impact, the marketability and value of collateral and the financial condition of our borrowers and thus the level of credit risk inherent in the portfolio.

Since our August 2005 acquisition of Hawaii HomeLoans, Inc., now known as Central Pacific HomeLoans, a division of the bank, ("CPHL"), we have grown our market position in the residential mortgage origination arena in Hawaii with dedicated mortgage lending specialists on all major islands in Hawaii. The majority of our residential mortgage loan originations are sold in the secondary market.

(2) Commercial Lending and Leasing. Loans in this category consist primarily of term loans, lines of credit and equipment leases to small and middle-market businesses and professionals in the state of Hawaii. The borrower's business is typically regarded as the principal source of repayment, although our underwriting policies and practices generally require additional sources of collateral, including real estate and other business assets, as well as personal guarantees where possible to mitigate risk and help to reduce credit losses.

(3) Commercial Real Estate Lending. Loans in this category consist of loans secured by commercial real estate, including but not limited to, structures and facilities to support activities designated as industrial, warehouse, general office, retail, health care, and religious dwellings. Our underwriting policy generally requires net cash flow from the property to cover the debt service while maintaining an appropriate amount of reserve and permits consideration of liquidation of the collateral as a secondary source of repayment. Financing of commercial real estate projects is subject to a high degree of credit risk. The limited supply of land at a given commercially attractive location, the long economic life of the assets, the long delivery time frames required for the development and construction of major projects and high interest rate sensitivity have given commercial real estate markets a long history of significant cyclical fluctuations and volatility.

(4) Construction Lending. Construction lending encompasses the financing of residential and commercial construction projects. Similar to commercial real estate lending, construction projects are subject to a high degree of credit risk given the long delivery time frames for projects.

(5) Consumer Lending. Loans in this category are generally either unsecured or secured by personal assets such as automobiles. The average loan size is generally small and risk is diversified amount many borrowers.

Beyond the lending function described above, we also offer a full range of deposit products and services including checking, savings and time deposits, cash management and electronic banking services, trust services and retail brokerage services.

Our Market Area and Competition

Based on deposit market share among FDIC-insured financial institutions in Hawaii, Central Pacific Bank was the fourth-largest depository institution in the state at December 31, 2013.

The banking and financial services industry in the state of Hawaii generally, and particularly in our target market areas, is highly competitive. We compete for loans, deposits and customers with other commercial banks, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies, credit unions and other nonbank financial service providers. Some of these competitors are much larger by total assets and capitalization, have greater access to capital markets and have achieved better results than we have during the recent economic downturn.

In order to compete with the other financial services providers in the state of Hawaii, we principally rely upon local promotional activities, personal relationships between customers and our officers, directors and employees, and specialized services tailored to meet the needs of our customers and the communities we serve. We remain competitive by offering flexibility and superior service levels, coupled with competitive interest rates and pricing.

For further discussion of factors affecting our operations see, “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Business Concentrations

No individual or single group of related accounts is considered material in relation to the assets or deposits of our bank, or in relation to the overall business of the Company. However, approximately 73% of our loan portfolio held for investment at December 31, 2013 consisted of real estate-related loans, including construction loans, residential mortgage loans and commercial mortgage loans. See “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio.”

Our business activities are focused primarily in Hawaii. Consequently, our results of operations and financial condition are impacted by the general economic trends in Hawaii, particularly in the commercial and residential real estate markets. During periods of economic strength, the real estate market and the real estate industry typically perform well; during periods of economic weakness, they typically are adversely affected.

Our Subsidiaries

Central Pacific Bank is the wholly-owned principal subsidiary of Central Pacific Financial Corp. Other wholly-owned subsidiaries include: CPB Capital Trust I; CPB Capital Trust II; CPB Statutory Trust III; CPB Capital Trust IV; and CPB Statutory Trust V.

Central Pacific Bank has two wholly-owned subsidiaries: CPB Real Estate, Inc. and Citibank Properties, Inc. Both are real estate investment trusts, that are in the process of dissolution. Central Pacific Bank had another wholly-owned subsidiary, CB Technology, Inc. that was dissolved in February 2013. Central Pacific Bank also owns 50% of Pacific Access Mortgage, LLC, Gentry HomeLoans, LLC, Haseko HomeLoans, LLC and Island Pacific HomeLoans, LLC.

Our former subsidiary Central Pacific HomeLoans, Inc. was merged into the bank in February 2012.

Supervision and Regulation

General

The Company and the bank are subject to significant regulation and restrictions by federal and state laws and regulatory agencies for the protection of depositors and the FDIC deposit insurance fund, borrowers, and the stability of the U.S. banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. We cannot predict whether or when new legislation may be enacted or new regulations or guidance may be promulgated nor the effect new laws and supervisory policies may have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased compliance, disclosure, and reporting requirements.

Regulatory Agencies

Central Pacific Financial Corp. is a legal entity separate and distinct from its subsidiaries. As a bank holding company, Central Pacific Financial Corp. is regulated under the BHC Act and is subject to inspection, examination and supervision by the FRB. It is also subject to Hawaii's Code of Financial Institutions and is subject to inspection, examination and supervision by the DFI.

The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as administered by the SEC. Our common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol "CPF," and we are subject to the rules of the NYSE for companies listed there.

Central Pacific Bank, as a Hawaii-chartered bank, is subject to primary supervision, periodic examination and regulation by the DFI and FDIC. Central Pacific Financial Corp., as a bank holding company, is also subject to certain regulations promulgated by the FRB. In its periodic examinations, each of these regulatory bodies assesses our financial condition, capital resources, asset quality, earnings prospects, management, liquidity and other aspects of our operations. These bodies also determine whether our management is violating or has violated any law or regulation. The DFI and FRB, and separately the FDIC as insurer of the bank's deposits, have various remedies available to them.

Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital or establish specific minimum capital ratios, to restrict the bank's growth, to assess civil monetary penalties, to remove officers and directors, to institute a receivership, and ultimately to terminate the bank's deposit insurance, which for a Hawaii-chartered bank would result in a revocation of its charter.

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 bank will be in full compliance with the Compliance MOU or whether or when the Compliance MOU will be terminated. Even if terminated, we may still be subject to other agreements with regulators which restrict our activities or may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU are judicially enforceable and the Company or the bank's failure to comply with such requirements and restrictions may subject the Company and the bank to additional regulatory restrictions including: the imposition of additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank’s deposit insurance or appointment of a conservator or receiver for the bank.

As further described in Note 2 to the Consolidated Financial Statements under “Part II, Item 8. Financial Statements and Supplementary Data,” the bank and CPF were previously subject to regulatory orders with the FDIC and the FRB which were terminated on October 26, 2012 and February 12, 2013, respectively. These regulatory orders required us, among other things, to improve our capital position and reduce our level of problem assets.

Current Capital Adequacy Requirements

Bank holding companies and banks are currently subject to various regulatory capital requirements administered by state and federal banking agencies which apply until the increased capital requirements of the new capital rules are effective and fully phased-in. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The current risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization’s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

The currently effective risk-based capital guidelines of the regulatory agencies were based upon the 1988 capital accord ("Basel I") of the Basel Committee on Bank Supervision ("Basel Committee"), a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines, which each country's supervisors can use to determine the supervisory policies they apply to their home jurisdiction. In 2004, the Basel Committee proposed a new capital accord ("Basel II") to replace Basel I that provided approaches for setting capital standards for credit risk and capital requirements for operational risk and refining the existing capital requirements for market risk exposures. U.S. banking regulators published a final rule for Basel II implementation requiring banks with over $250 billion in consolidated total assets. However, a definitive rule was not issued and instead the new capital rules to implement Basel III were first proposed in 2010.

Under the current capital requirements, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed “well capitalized” a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. There is currently no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2013, the respective capital ratios of the Company and the bank exceeded the minimum percentage requirements to be deemed “well-capitalized” for regulatory purposes. — See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources.” The federal banking agencies may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

Prompt Corrective Action Provisions

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank’s capital ratios, the agencies’ regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

Legislative and Regulatory Developments

The implementation and impact of legislation and regulations enacted since 2008 in response to the U.S. economic downturn and financial industry instability continued in 2013 as modest recovery returned to many institutions in the banking sector. Many institutions, including CPF, have exited Treasury investments under the TARP and certain provisions of the Dodd-Frank Act are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Action in 2013 to implement the final Dodd-Frank provisions included (i) final new capital rules, (ii) a final rule to implement the so called Volcker Rule restrictions on certain proprietary trading and investment activities and (iii) final rules and increased enforcement action by the CFPB.

The New Capital Rule and Minimum Capital Ratios

In July 2013, the federal bank regulatory agencies adopted final regulations which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of the Dodd–Frank Act and to implement international agreements reached by the Basel Committee on Banking Supervision intended to improve both the quality and quantity of banking organizations’ capital (“Basel III”). Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased-in basis to all banking organizations, including the Company and the bank.

The following are among the new requirements that will be phased-in beginning January 1, 2015:

- an increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;

- a new category and a required 4.50% of risk-weighted assets ratio is established for “common equity Tier 1” as a subset of Tier 1 capital limited to common equity;
- a minimum non-risk-based leverage ratio is set at 4.00% eliminating a 3.00% exception for higher rated banks;
- changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities;
- the risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures; and
    - an additional “countercyclical capital buffer” is required for larger and more complex institutions.

- The prompt corrective action standards will change when the new capital rule ratios become effective. Under the new standards, in order to be considered well-capitalized, the bank would be required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

Management believes that, as of December 31, 2013, the Company and the bank would meet all applicable capital requirements under the new capital rules on a fully phased-in basis if such requirements were currently in effect (see "Legislative and Regulatory Developments").

An additional capital conservation buffer of 2.5% of risk weighted assets above the regulatory minimum capital ratios established under the new final capital rule will be phased-in from 2016 to 2019 and must be met to avoid limitations on the ability of the bank to pay dividends, repurchase shares or pay discretionary bonuses. Including the capital conservation buffer of 2.5%, the new final capital rule would result in the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a common equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased-in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. While the new final capital rule sets higher regulatory capital standards for the Company and the bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities, including the Company and the bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." These rules will become effective on April 1, 2014. Certain collateralized debt obligations ("CDO") securities backed by trust preferred securities were initially defined as covered funds subject to the investment prohibitions of the final rule. Action taken by the Federal Reserve in January 2014 exempted many such securities to address the concern that many community banks holding such CDO securities may have been required to recognize losses on those securities.

The Company and the bank held no investment positions at December 31, 2013 which were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

CFPB Actions

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans, credit cards, and other consumer loans. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with $10 billion or more in assets and are subject to examination by the CFPB. Banks with less than $10 billion in assets, including the bank, will continue to be examined for compliance by their primary federal banking agency. Significant recent CFPB developments that may affect the bank's operations and compliance costs include:

- the issuance of final rules for residential mortgage lending, which became effective January 10, 2014, including definitions for “qualified mortgages” and detailed standards by which lenders must satisfy themselves of the borrower’s ability to repay the loan and revised forms of disclosure under the Truth in Lending Act and the Real Estate Settlement Procedures Act;

- the issuance of a policy report on arbitration clauses which could result in the restriction or prohibition of lenders including arbitration clauses in consumer financial services contracts;

- actions taken to regulate and supervise credit bureaus and debt collections; and

- positions taken by the CFPB on fair lending, including applying the disparate impact theory in auto financing, which could make it harder for lenders to charge different rates or apply different terms to loans to different customers.

Bank Holding Company Regulation

As contained in both federal and state banking laws and regulations, a wide range of requirements and restrictions apply to bank holding companies and their subsidiaries which:

- require periodic reports and such additional information as the Federal Reserve may require bank holding companies to meet or exceed minimum capital requirements (see “Legislative and Regulatory Developments” and “Current Capital Adequacy Requirements”);

- require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. The source-of-strength doctrine most directly affects bank holding companies where a bank holding company’s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank’s federal regulator to take “prompt corrective action” (see “Prompt Corrective Action Provisions”);

- limit dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks;

- require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

- require the prior approval for changes in senior executive officer or directors and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination when a bank holding company is deemed to be in troubled condition;

- regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations; and

- require prior approval of acquisitions and mergers with other banks or bank holding companies and consider certain competitive, management, financial, and anti-money laundering compliance impact on the U.S.

Other Restrictions on the Company’s Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to the GLBA and the Dodd-Frank Act, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of that bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (“CRA”), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to the required divestiture of subsidiary banks or the termination of all activities that do not conform to those permissible for a bank holding company. The Company has not elected financial holding company status and neither Company nor the bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature.

Sarbanes-Oxley Act

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

Regulation of the Bank

As a Hawaii-chartered commercial bank whose deposits are insured by the FDIC, the bank is subject to regulation, supervision, and regular examination by the DFI and by the FDIC as a nonmember state bank, as the bank's primary Federal regulator. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions.

Enforcement Authority

The federal and Hawaii regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DFI or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, the DFI and the FDIC, and separately the FDIC as insurer of the bank's deposits, have residual authority to:

- require affirmative action to correct any conditions resulting from any violation or practice;
- direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- restrict the bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- enter into or issue informal or formal enforcement actions, including required Board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the bank or appoint the FDIC as receiver.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits through the Deposit Insurance Fund (the "DIF") up to prescribed statutory limits of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank’s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank’s charter by the DFI. The bank’s FDIC insurance expense totaled $2.7 million for 2013. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Dividends

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve has also discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The bank is a legal entity that is separate and distinct from its holding company. CPF is dependent on the performance of the bank for funds which may be received as dividends from the bank for use in the operation of CPF and the ability of CPF to pay dividends to shareholders. Subject to the regulatory restrictions which currently further restrict the ability of the bank to declare and pay dividends under applicable Hawaii law, future cash dividends by the bank will depend upon management's assessment of future capital requirements, contractual restrictions and other factors. When effective, the new minimum capital rule may restrict dividends by the bank if the additional capital conservation buffer is not achieved.

Operations and Consumer Compliance Laws

The bank must comply with numerous federal and state anti-money laundering and consumer protection and privacy statutes and implementing regulations, including the USA Patriot Act of 2001, GLBA, the Bank Secrecy Act, the Foreign Account Tax Compliance Act (effective 2013), the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws. Noncompliance with these laws could subject the bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The bank and CPF are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting, and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity within the Federal Reserve. The CFPB is a new regulatory agency for United States banks. The CFPB has broad rulemaking, supervisory, and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans, credit cards, and other consumer loans. The CFPB 's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Pursuant to the Dodd-Frank Act, banks (such as our bank) with less than $10 billion in assets will continue to be examined for compliance with the consumer laws and the regulations of the CFPB by their primary federal banking agency.

The CFPB has adopted revisions to Regulation Z, which implements the Truth in Lending Act ("TILA"), pursuant to the Dodd-Frank Act. The revisions took effect on January 10, 2014 and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for "qualified mortgages" meeting certain standards. In particular, it will prevent banks from making "no doc" and "low doc" home loans, as the rules require that banks determine a consumer's ability to pay based in part on verified and documented information. Because we do not originate "no doc" or "low doc" loans, we do not believe this regulation will have a significant impact on our operations.

Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot predict whether any such legislation will be enacted, and if enacted, the effect that it or any implementing regulations would have on our financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to us or any of our subsidiaries could have a material adverse effect on our business.

Employees

At December 31, 2013, we employed 903 persons, 815 on a full-time basis and 88 on a part-time basis. We are not a party to any collective bargaining agreement.

Protection of Net Operating Losses

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

On November 23, 2010, our board declared a dividend of preferred share purchase rights ("Rights") in respect of 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 Tax Benefits Preservation 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"). There is no guarantee, however, that the Tax Benefits Preservation Plan will prevent the Company from experiencing an ownership change. Adoption of the Tax Benefits Preservation Plan was required by our agreements with The Carlyle Group ("Carlyle") and Anchorage Capital Group, L.L.C. ("Anchorage"). 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.

To further protect our tax benefits, on January 26, 2011, our board approved a proposed 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, our shareholders approved the Protective Charter Amendment. The Protective Charter Amendment also does not guarantee that we will not experience an ownership change. 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, subject to approval by our shareholders.

Iran Sanctions Related Disclosure

Under the Iran Threat Reduction and Syrian Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended, we are required to include certain disclosures in our periodic reports if we or any of our "affiliates" knowingly engaged in certain specified activities during the period covered by this Annual Report on Form 10-K. Because the SEC defines the term "affiliate" broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us. We do not believe we and our consolidated subsidiaries have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during fiscal year 2013.

The Carlyle Group L.P., which may be considered one of our affiliates, included the disclosure reproduced below (the "Applus Disclosure") in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the Securities and Exchange Commission on February 27, 2014. We have no involvement in or control over the activities of Applus Servicios Technologicos S.L.U., any of its predecessor companies or any of its subsidiaries, and we have not independently verified or participated in the preparation of the following Applus Disclosure:

“As we disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, we have been advised by Applus Servicios Technologicos S.L.U. (“Applus”), a European company in which our private equity funds have invested and which may be considered our affiliate, that during the first quarter of the year ended December 31, 2013, a subsidiary of Applus provided certain services to customers that could be affiliated with the Industrial Development and Renovation Organization (“IDRO”), which has been designated as an agency of the Government of Iran. For the year ended December 31, 2013, gross revenue attributable to such sales was €86,633, with estimated net profits to Applus of approximately €15,593. At this time, we are unable to determine whether the IDRO, directly or indirectly, controls these customers. Although these activities were not prohibited by U.S. law at the time they were conducted, Applus has advised us that its subsidiary has discontinued its dealings with such customers, and that it does not otherwise intend to continue or enter into any Iran-related activity. All such dealings (including limited wind-down activities) were discontinued prior to March 8, 2013, in accordance with the requirements of Section 218 of the Iran Threat Reduction and Syria Human Rights Act of 2012, as amended.”

Available Information

Our internet website can be found at www.centralpacificbank.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be found on our internet website as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Copies of the Company's filings with the SEC may also be obtained directly from the SEC's website at www.sec.gov. These documents may also be obtained in print upon request by our shareholders to our Investor Relations Department.

Also posted on our website and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation Committee and Corporate Governance Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics. Within the time period required by the SEC and NYSE, we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our senior financial officers, as defined by the SEC, and our executive officers or directors. In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

ITEM 1A. RISK FACTORS

Our business faces significant risks, including credit, market/liquidity, operational, legal/regulatory and strategic/reputation risks. The factors described below may not be the only risks we face and are not intended to serve as a comprehensive listing or be applicable only to the category of risk under which they are disclosed. The risks described below are generally applicable to more than one of the following categories of risks. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following factors actually occurs, our business, financial condition and/or results of operations could be materially and adversely affected.

Risk Factors Related to our Business

Despite signs of stabilization, uncertainty about the global and U.S. economies could have an adverse effect on us.

Although general economic trends and market conditions have stabilized, concerns about the ability to maintain a sustained economic recovery still remain, including concerns over unemployment levels, growing U.S. government and foreign indebtedness, a large budget deficit, and the federal debt ceiling. Downgrades in U.S. and foreign debt instruments could raise borrowing costs and adversely impact the mortgage and housing markets. In general, adverse economic conditions could have one or more of the following negative impacts on us, any one of which could have a material adverse effect on our financial condition or results of operations: (i) loan delinquencies may increase; (ii) problem assets and foreclosures may increase leading to higher loan charge-offs; (iii) demand for our products and services may decline; (iv) low cost or non-interest bearing deposits may decrease; and (v) collateral for loans made by us, especially involving real estate, may decline in value, in turn reducing customers' borrowing power and reducing the value of assets and collateral associated with our existing loans.

Difficult economic and market conditions have adversely affected our industry and renewed economic slowdown in Hawaii or a worsening of current market conditions in general would result in additional adverse effects on us.

The U.S. economy entered into one of the longest economic recessions to have occurred since the Great Depression of the 1930's in December 2007. Although general economic trends and market conditions have since stabilized, a renewed economic slowdown in Hawaii or a worsening of current market conditions in general would likely result in additional adverse effects on us, including: (i) loan delinquencies may increase; (ii) problem assets and foreclosures may increase leading to more loan charge-offs; (iii) demand for our products and services may decline; (iv) low cost or non-interest bearing deposits may decrease; and (v) collateral for loans made by us, especially involving real estate, may decline in value, in turn reducing customers' borrowing power and reducing the value of assets and collateral associated with our existing loans.

Furthermore, unlike larger national or other regional banks that are more geographically diversified, our business and operations are closely tied to the Hawaii market. The Hawaii economy relies on tourism, real estate, government and other service-based industries. Declines in tourism, increases in energy costs, the availability of affordable air transportation, adverse weather and natural disasters, and local budget issues impact consumer and corporate spending. As a result, such events may contribute to the deterioration in Hawaii's general economic condition, which could adversely impact us and our borrowers.

The high concentration of commercial real estate and construction loans in our portfolio, combined with the deterioration in these sectors caused by the economic downturn, had and may continue to have a significantly more adverse impact on our operating results than many other banks across the nation. Although we have taken a number of steps to reduce our credit risk exposure, and as a result have experienced declining credit costs since 2011, we still had $46.8 million in nonperforming assets at December 31, 2013. If our borrowers continue to experience financial difficulty, or if property values securing our real estate loans decline further, we will incur elevated credit costs due to the composition of our loan portfolio even if market conditions improve.

Our Hawaii and, to a lesser extent, California commercial real estate and construction loan operations have a considerable effect on our results of operations.

The performance of our Hawaii and California commercial real estate and construction loans depends on a number of factors, including the continued stabilization and eventual improvement of the real estate markets in which we operate. As we have seen in the Hawaii and California construction and commercial real estate markets since the latter part of 2007, the strength of the real estate market and the results of our operations could be negatively affected by an economic downturn.

In addition, declines in the market for commercial property could cause some of our borrowers to suffer losses on their project, which would negatively affect our financial condition, results of operations and prospects. Declines in housing prices and the supply of existing houses for sale could cause residential developers who are our borrowers to suffer losses on their projects and encounter difficulty in repaying their loans. As of December 31, 2013, our percentage of nonperforming assets to total loans and leases, loans held for sale and other real estate was 1.77%, compared to 4.00% as of December 31, 2012 and 8.99% as of December 31, 2011. We cannot assure you that we will have an adequate allowance for loan and lease losses to cover future losses. If we suffer greater losses than we are projecting, our financial condition and results of operations would be adversely affected.

Our net income has been favorably impacted by credits to our provision for loan and lease losses, which may not continue.

For twelve consecutive quarters from the first quarter of 2011 though the fourth quarter of 2013, we recorded a credit to the provision for loan and lease losses which has favorably impacted our net income. Although other factors of our overall risk profile have improved in recent years and general economic trends and market conditions have stabilized, concerns over the global and U.S. economies still remain. Accordingly, it is possible that the Hawaii or California real estate markets could deteriorate as it did from the latter part of 2007 through 2010. If this occurs, it may result in an increase in loan delinquencies, loan charge-offs, and our allowance for loan and lease losses. Even if economic conditions improve or stay the same, it is possible that we may experience material credit losses and in turn, increases to our allowance for loan and lease losses, due to any number of factors, including but not limited to, the elevated risk still inherent in our existing loan portfolio resulting from our high concentration of commercial real estate and construction loans. If that were to occur, or if we continue to have strong growth in our loan portfolio, we may have to record a provision for loan and lease losses which would have an adverse impact on our net income.

A large percentage of our loans are collateralized by real estate and continued deterioration in the real estate market may result in additional losses and adversely affect our financial results.

Our results of operations have been, and in future periods, will continue to be significantly impacted by the economy in Hawaii, and to a lesser extent, other markets we are exposed to including California. Approximately 73% of our loan portfolio as of December 31, 2013 was comprised of loans primarily collateralized by real estate, with the significant majority of these loans concentrated in Hawaii.

Deterioration of the economic environment in Hawaii, California or other markets we are exposed to, including a decline in the real estate market and single-family home resales or a material external shock, may significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. In the event of a default with respect to any of these loans, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest on the loan. As we have seen in the past, material declines in the value of the real estate assets securing many of our commercial real estate loans may lead to significant credit losses in this portfolio. As a result of our particularly high concentration of real estate loans, our portfolio had been and remains particularly susceptible to significant credit losses during economic downturns and adverse changes in the real estate market.

Our allowance for loan and lease losses may not be sufficient to cover actual loan losses, which could adversely affect our results of operations. Additional loan losses may occur in the future and may occur at a rate greater than we have experienced to date.

As a lender, we are exposed to the risk that our loan customers may not repay their loans according to their terms and that the collateral or guarantees securing these loans may be insufficient to assure repayment. Our current allowance for loan and lease losses may not be sufficient to cover future loan losses. We may experience significant loan losses that could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectibility of our loan portfolio, which are regularly reevaluated and are based in part on:

- current economic conditions and their estimated effects on specific borrowers;
- an evaluation of the existing relationships among loans, potential loan losses and the present level of the allowance for loan and lease losses;
- results of examinations of our loan portfolios by regulatory agencies; and
- management's internal review of the loan portfolio.

In determining the size of the allowance for loan and lease losses, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as the requirements of any supervisory action taken by the bank's regulators and other regulatory input. If our assumptions prove to be incorrect, our current allowance for loan and lease losses may not be sufficient to cover the losses. Because of the uncertainty in the economy, volatility in the credit and real estate markets, including specifically, the deterioration in the Hawaii and California real estate markets and our high concentration of commercial real estate and construction loans, we made significant enhancements to our allowance for loan and lease losses over the past several years and may need to make additional enhancements in the future. In addition, third parties, including our federal and state regulators, periodically evaluate the adequacy of our allowance for loan and lease losses and may communicate with us concerning the methodology or judgments that we have raised in determining the allowance for loan and lease losses. As a result of this input, we may be required to assign different grades to specific credits, increase our provision for loan and lease losses, and/or recognize further loan charge offs.

Our ability to use net operating loss carry forwards to reduce future tax payments may be limited or restricted.

We have generated significant net operating losses ("NOLs") as a result of our recent losses. We generally are able to carry NOLs forward to reduce taxable income in future years. However, our ability to utilize the NOLs is subject to the rules of Section 382 of the Internal Revenue Code. Section 382 generally restricts the use of NOLs after an "ownership change." An ownership change occurs if, among other things, the shareholders (or specified groups of shareholders) who own or have owned, directly or indirectly, 5% or more of a corporation's common stock or are otherwise treated as 5% shareholders under Section 382 and Treasury regulations promulgated thereunder increase their aggregate percentage ownership of that corporation's stock by more than 50 percentage points over the lowest percentage of the stock owned by these shareholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOL carry forwards. This annual limitation is generally equal to the product of the value of the corporation's stock on the date of the ownership change, multiplied by the long-term tax-exempt rate published monthly by the Internal Revenue Service. Any unused annual limitation may be carried over to later years until the applicable expiration date for the respective NOL carry forwards.

In order to reduce the likelihood that transactions in our common stock will result in an ownership change, on November 23, 2010, we adopted a Tax Benefits Preservation Plan, which provides an economic disincentive for any person or group to become an owner, for relevant tax purposes, of 4.99% or more of our common stock. 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. To further protect our NOL carryforwards, on May 2, 2011, we filed the Protective Charter Amendment to restrict transfers of our common stock if the effect of the transfer would be to cause the transferee to become an owner, for relevant tax purposes, of 4.99% or more of our common stock (a "Threshold Holder") or cause the beneficial ownership of our common stock by any Threshold Holder to increase. 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, subject to approval by our shareholders. However, we cannot ensure that our ability to use our NOLs to offset income will not become limited in the future. As a result, we could pay taxes earlier and in larger amounts than would be the case if our NOLs were available to reduce our federal income taxes without restriction.

Our ability to maintain adequate sources of funding and liquidity and required capital levels may be negatively impacted by uncertainty in the economic environment which may, among other things, impact our ability to satisfy our obligations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of investments or loans, and other sources would have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include concerns regarding the continued deterioration in our financial condition, increased regulatory actions against us and a decrease in the level of our business activity as a result of a downturn in the markets in which our loans or deposits are concentrated. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial industry in light of the recent turmoil faced by banking organizations and the credit markets.

The management of liquidity risk is critical to the management of our business and our ability to service our customer base. In managing our balance sheet, our primary source of funding is customer deposits. Our ability to continue to attract these deposits and other funding sources is subject to variability based upon a number of factors including volume and volatility in the securities' markets, our financial condition, our credit rating and the relative interest rates that we are prepared to pay for these liabilities. The availability and level of deposits and other funding sources is highly dependent upon the perception of the liquidity and creditworthiness of the financial institution, which perception can change quickly in response to market conditions or circumstances unique to a particular company. Concerns about our past and future financial condition or concerns about our credit exposure to other persons could adversely impact our sources of liquidity, financial position, including regulatory capital ratios, results of operations and our business prospects.

If the level of deposits were to materially decrease, we would need to raise additional funds by increasing the interest that we pay on certificates of deposits or other depository accounts, seek other debt or equity financing or draw upon our available lines of credit. We rely on commercial and retail deposits, and to a lesser extent, advances from the FHLB and the Federal Reserve discount window, to fund our operations. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of the FHLB or market conditions were to change.

Our line of credit with the FHLB serves as our primary outside source of liquidity. The Federal Reserve discount window also serves as an additional outside source of liquidity. Borrowings under this arrangement are through the Federal Reserve's primary facility under the borrower-in-custody program. The duration of borrowings from the Federal Reserve discount window are generally for a very short period, usually overnight. In the event that these outside sources of liquidity become unavailable to us, we will need to seek additional sources of liquidity, including selling assets. We cannot assure you that we will be able to sell assets at a level to allow us to repay borrowings or meet our liquidity needs.

We constantly monitor our activities with respect to liquidity and evaluate closely our utilization of our cash assets; however, there can be no assurance that our liquidity or the cost of funds to us may not be materially and adversely impacted as a result of economic, market, or operational considerations that we may not be able to control.

Our business is subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.

The majority of our assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and profitability depend significantly on our net interest income, which is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. If market interest rates should move contrary to our position, this "gap" will work against us and our earnings may be negatively affected. In light of our current volume and mix of interest-earning assets and interest-bearing liabilities, our net interest margin could be expected to remain relatively constant during periods of rising interest rates, and to decline during periods of falling interest rates. We are unable to predict or control fluctuations of market interest rates, which are affected by many factors, including the following:

- inflation;
- recession;
- changes in unemployment;

- the money supply;
- international disorder and instability in domestic and foreign financial markets; and
- governmental actions.

Our asset/liability management strategy may not be able to control our risk from changes in market interest rates and it may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. From time to time, we may reposition our assets and liabilities to reduce our net interest income volatility. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Governmental regulation and regulatory actions against us may further impair our operations or restrict our growth.

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.

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 that restrict our activities or may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU are judicially enforceable and the Company or the bank's failure to comply with such requirements and restrictions may subject the Company and the bank to additional regulatory restrictions including: the imposition of additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank's deposit insurance or appointment of a conservator or receiver for the bank.

In addition to the requirements of the Compliance MOU, we are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Statutes and regulations affecting our business may be changed at any time and the interpretation of these statutes and regulations by examining authorities may also change. In addition, regulations may be adopted which increase our deposit insurance premiums and enact special assessments which could increase expenses associated with running our business and adversely affect our earnings.

There can be no assurance that such changes to the statutes and regulations or to their interpretation will not adversely affect our business. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. In addition to governmental supervision and regulation, we are subject to changes in other federal and state laws, including changes in tax laws, which could materially affect the banking industry. We are subject to the rules and regulations of the FRBSF, FDIC and DFI and may be subject to the rules and regulations promulgated by the CFPB which was recently created pursuant to the Dodd-Frank Act. If we fail to comply with federal and state bank regulations, the regulators may limit our activities or growth, impose fines on us or ultimately cease our operations. Banking laws and regulations change from time to time. Bank regulations can hinder our ability to compete with financial services companies that are not regulated in the same manner or are less regulated. Federal and state bank regulatory agencies regulate many aspects of our operations. These areas include:

- the capital that must be maintained;
- the kinds of activities that can be engaged in;
- the kinds and amounts of investments that can be made;

- the locations of offices;
- insurance of deposits and the premiums that we must pay for this insurance; and
- how much cash we must set aside as reserves for deposits.

The Dodd-Frank Act provides for a comprehensive overhaul of the financial services industry within the U.S. While the full effects of the legislation on us cannot yet be determined, it could result in higher compliance and other costs as a result of new regulations and new regulatory initiatives, which could adversely affect our business.

In addition, bank regulatory authorities have the authority to bring enforcement actions against banks and bank holding companies, including the bank and CPF, for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate bank regulatory agency or any written agreement with the authority. Enforcement actions against us could include a federal conservatorship or receivership for the bank, the issuance of additional orders that could be judicially enforced, the imposition of civil monetary penalties, the issuance of directives to enter into a strategic transaction, whether by merger or otherwise, with a third party, the termination of insurance of deposits, the issuance of removal and prohibition orders against institution-affiliated parties, and the enforcement of such actions through injunctions or restraining orders.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

New regulatory capital standards impose enhanced capital adequacy requirements on us.

Increased regulatory capital requirements (and the associated compliance costs) which have been adopted by federal banking regulators impose additional capital requirements on our business. The administration of existing capital adequacy laws as well as adoption of new laws and regulations relating to capital adequacy, or more expansive or aggressive interpretations of existing laws and regulations, could have a material adverse effect on our business, liquidity, financial condition and results of operations and could substantially restrict our ability to pay dividends, repurchase any of our capital stock, or pay executive bonuses. In addition, increased regulatory capital requirements could require us to raise additional capital which would dilute our existing shareholders at the time of such capital issuance.

If we are unable to effectively manage the composition of our investment securities portfolio, which we expect will continue to comprise a significant portion of our earning assets, our net interest income and net interest margin could be adversely affected.

Our primary sources of interest income include interest on loans and leases, as well as interest earned on investment securities. Interest earned on investment securities represented 25.4% of our interest income in the year ended December 31, 2013 as compared to 24.2% of our interest income in the year ended December 31, 2012. Accordingly, effectively managing our investment securities portfolio to generate interest income while managing the composition and risks associated with that portfolio, including the mix of government agency and non-agency securities, has become increasingly important. If we are unable to effectively manage our investment securities portfolio or if the interest income generated by our investment securities portfolio declines, our net interest income and net interest margin could be adversely affected.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Our deposit customers may pursue alternatives to deposits at our bank or seek higher yielding deposits causing us to incur increased funding costs.

We are facing increasing deposit-pricing pressures. Checking and savings account balances and other forms of deposits can decrease when our deposit customers perceive alternative investments, such as the stock market or other non-depository investments as providing superior expected returns or seek to spread their deposits over several banks to maximize FDIC insurance coverage. Furthermore, technology and other changes have made it more convenient for the bank's customers to transfer funds into alternative investments including products offered by other financial institutions or non-bank service providers. Additional increases in short-term interest rates could increase transfers of deposits to higher yielding deposits. Efforts and initiatives we undertake to retain and increase deposits, including deposit pricing, can increase our costs. When the bank's customers move money out of bank deposits in favor of alternative investments or into higher yielding deposits, or spread their accounts over several banks, we can lose a relatively inexpensive source of funds, thus increasing our funding costs.

The fiscal, monetary and regulatory policies of the federal government and its agencies could have a material adverse effect on our results of operations.

The FRB regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. It also can materially decrease the value of financial assets we hold, such as debt securities.

In an effort to stimulate the economy, the federal government and its agencies have taken various steps to keep interest rates at extremely low levels. Our net interest income and net interest margin may be negatively impacted by a prolonged low interest rate environment like we are currently experiencing as it may result in us holding lower yielding loans and securities on our balance sheet, particularly if we are unable to replace the maturing higher yielding assets with similar higher yielding assets. Changes in the slope of the yield curve, which represents the spread between short-term and long-term interest rates, could also reduce our net interest income and net interest margin. Historically, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. When the yield curve flattens, as is the case in the current interest rate environment, our net interest income and net interest margin could decrease as our cost of funds increases relative to the yield we can earn on our assets.

If we continue to see an improvement in national economic conditions or other changes occur, there is a potential that the FRB will increase interest rates. Should the FRB raise interest rates significantly and rapidly, there is potential for decreased demand for our loan products, an increase in our cost of funds, and curtailment of the current economic recovery.

Changes in FRB policies and our regulatory environment generally are beyond our control, and we are unable to predict what changes may occur or the manner in which any future changes may affect our business, financial condition and results of operation.

The repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, financial institutions can offer interest on demand deposits to compete for clients. Our interest expense will increase and our net interest margin will decrease if we have to offer higher rates of interest then we currently offer on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

We rely on dividends from our subsidiaries for most of our revenue.

Because we are a holding company with no significant operations other than our bank, we depend upon dividends from our bank for a substantial portion of our revenues.

Hawaii law only permits the bank to pay dividends out of retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. At December 31, 2013, the bank had Statutory Retained Earnings of $240.4 million.

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.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed and implemented to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. In addition, there are a limited number of qualified persons in our local marketplace with the knowledge and experience required to effectively maintain our information technology systems and implement our technology initiatives. Failure to successfully attract and retain qualified personnel, or keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

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

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

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We are subject to various legal claims and litigation.

From time to time, customers, employees and others that we do business with make claims and take legal action against us for various business occurrences, including the performance of our fiduciary responsibilities. Regardless of whether these claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for our products and services. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. Even if these claims and legal actions do not result in a financial liability or reputational damage, defending these claims and actions have resulted in, and will continue to result in, increased legal and professional services costs, which adds to our noninterest expense and negatively impacts our operating results.

We operate in a highly competitive industry and market area.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional and community banks within the various markets we operate. Additionally, various out of state banks conduct significant business in the market areas in which we currently operate. We also face competition from many other types of financial institutions, including, without limitation, savings banks, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

The soundness of our financial condition may also affect our competitiveness. Customers may decide not to do business with the bank due to its financial condition. We have and continue to face additional regulatory restrictions that our competitors may not be subject to, including reducing our commercial real estate loan portfolio and improving the overall risk profile of the Company, which could adversely impact our ability to compete and attract and retain customers.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees and personnel in the banking industry is intense and there is a limited number of qualified persons with knowledge of, and experience in, the regional banking industry, especially in the Hawaii market. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing, and technical personnel, and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our Chief Executive Officer, our Chief Financial Officer, our Chief Banking Officer, and certain other employees.

Our business could be adversely affected by unfavorable actions from rating agencies.

Ratings assigned by ratings agencies to us, our affiliates or our securities may impact the decision of certain customers, in particular, institutions, to do business with us. A rating downgrade or a negative rating could adversely affect our deposits and our business relationships. On May 16, 2012, Fitch Ratings upgraded the long-term Issuer Default Rating of the Company and the bank to BB- from B+ and assigned a Stable Rating Outlook. On September 23, 2013, Fitch Ratings upgraded the long-term Issuer Default Rating of the Company and the bank to BB+ from BB- and affirmed a Stable Rating Outlook. However, our ratings may not improve further and may be downgraded in the future if there are adverse developments concerning our business.

We may suffer substantial losses due to our agreements to indemnify investors in the Private Placement against a broad range of potential claims.

In our agreements with the investors in the Private Placement, we agreed to indemnify the investors for a broad range of claims, including losses resulting from the inaccuracy or breach of representations or warranties made by us in such agreements and the breach by us to perform our covenants contained in such agreements. While these indemnities are subject to various limitations, if claims were successfully brought against us, it could potentially result in significant losses for the Company.

As a result of the recapitalization, Carlyle and Anchorage are substantial holders of our common stock.

Following the closing of the recapitalization, Anchorage and Carlyle each became beneficial owners of our outstanding common stock, with their respective ownership percentages each equating to approximately 22% as of December 31, 2013. Each has a representative on our Board of Directors. Accordingly, Anchorage and Carlyle have influence over the election of directors to our board and over corporate policy, including decisions to enter into mergers or other extraordinary transactions. In addition, Carlyle and Anchorage have certain preemptive rights to maintain their respective fully diluted percentage ownership of our common stock in the event of certain issuances of securities by us. In pursuing their economic interests, Anchorage and Carlyle may make decisions with respect to fundamental corporate transactions that may not be aligned with the interests of other shareholders.

Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis.

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements.

We have identified a material weakness in our internal control over financial reporting as of December 31, 2013 related to our allowance for loan and lease losses calculation as described in Item 9A, “Controls and Procedures” in this Form 10-K.

Risk Factors Related to Our Securities

The market price of our common stock could decline.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- failure to comply with all of the requirements of any governmental orders or agreements we are or may become subject to and the possibility of resulting action by the regulators;
- deterioration of asset quality;
- the incurrence of losses;

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings/losses estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings/losses estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- additions or departures of key personnel;

- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our common stock, including sales of our common stock in short sale transactions;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- breaches in our security systems and loss of customer data;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, have experienced significant volatility over the past few years. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. In addition, sales of shares by investors in the Private Placement may cause our share price to decrease. Accordingly, the common stock that you purchase may trade at a price lower than that at which they were purchased. Volatility in the market price of our common stock may prevent individual shareholders from being able to sell their shares when they want or at prices they find attractive.

A significant decline in our stock price could result in substantial losses for shareholders and could lead to costly and disruptive securities litigation.

The transferability of our common stock is limited as a result of the Tax Benefits Preservation Plan and the Protective Charter Amendment.

As described under "—Risk Factors Related to our Business—Our ability to use net operating loss carryforwards to reduce future tax payments may be limited or restricted," we have generated significant NOLs as a result of our recent losses. In order to reduce the likelihood that transactions in our common stock would result in an ownership change, on November 23, 2010, we adopted a Tax Benefits Preservation Plan, which provides an economic disincentive for any person or group to become an owner, for relevant tax purposes, of 4.99% or more of our common stock. On January 29, 2014, our Board of Directors approved an extension of the Tax Benefits Preservation Plan by up to an additional two years. To further protect our NOLs, we filed the Protective Charter Amendment on May 2, 2011 to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or cause the beneficial ownership of a Threshold Holder to increase. The Protective Charter Amendment expires on the earliest of (i) May 2, 2014, (ii) such time as the Board of Directors determines the Protective Charter Amendment is no longer necessary for the preservation of our tax benefits and (iii) the date the Board of Directors determines that the Protective Charter Amendment is no longer in our and our shareholders' best interest, provided, however, our Board of Directors has approved an amendment to the Protective Charter Amendment to extend the May 2, 2014 date to May 2, 2016, subject to approval by our shareholders.

The Tax Benefits Preservation Plan and the Protective Charter Amendment have the effect of limiting transferability of our common stock because they may make it more difficult and more expensive to acquire our common stock under the circumstances described above and, in the case of the Protective Charter Amendment, prohibit certain acquisitions of our common stock as described above. These transfer restrictions may discourage, delay or prevent a change in control of the Company and make it more difficult for a potential acquirer to consummate an acquisition of the Company. In addition, these provisions could limit the price that investors would be willing to pay in the future for our common shares and may limit a shareholder's ability to dispose of our common shares by reducing the class of potential acquirers for our common shares.

Anti-takeover provisions in our restated articles of incorporation and bylaws and applicable federal and state law may limit the ability of another party to acquire us, which could cause our stock price to decline.

Various provisions of our restated articles of incorporation and bylaws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. These include, among other things, the Tax Benefits Preservation Plan, the Protective Charter Amendment and the authorization to issue "blank check" preferred stock by action of the board of directors acting alone, thus without obtaining shareholder approval. In addition, applicable provisions of federal and state law require regulatory approval in connection with certain acquisitions of our common stock and supermajority voting provisions in connection with certain transactions. These provisions of our restated articles of incorporation and by-laws and federal and state law may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

Resales of our common stock in the public market may cause the market price of our common stock to fall.

We issued a large number of common stock to the investors in the Private Placement. Carlyle and Anchorage (the "Lead Investors") have certain registration rights with respect to the common stock held by them. The registration rights for the Lead Investors will allow them to sell their common stock without compliance with the volume and manner of sale limitations under Rule 144 promulgated under the Securities Act. The market value of our common stock could decline as a result of sales by the Lead Investors from time to time of a substantial amount of the common stock held by them.

Our common stock is equity and therefore is subordinate to our subsidiaries' indebtedness and preferred stock.

Our common stock constitutes equity interests and does not constitute indebtedness. As such, common stock will rank junior to all current and future indebtedness and other non-equity claims on us with respect to assets available to satisfy claims against us, including in the event of our liquidation. We may, and the bank and our other subsidiaries may also, incur additional indebtedness from time to time and may increase our aggregate level of outstanding indebtedness. As of December 31, 2013, we had $90.0 million in face amount of trust preferred securities outstanding and accrued and unpaid dividends thereon of $0.2 million. Additionally, holders of common stock are subject to the prior dividend and liquidation rights of any holders of our preferred stock that may be outstanding from time to time. The Board of Directors is authorized to cause us to issue additional classes or series of preferred stock without any action on the part of our stockholders. If we issue preferred shares in the future that have a preference over our common stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, then the rights of holders of our common stock or the market price of our common stock could be adversely affected.

There is a limited trading market for our common stock and as a result, you may not be able to resell your shares at or above the price you pay for them.

Although our common stock is listed for trading on the NYSE, the volume of trading in our common shares is lower than many other companies listed on the NYSE. A public trading market with depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control.

Our common stock is not insured and you could lose the value of your entire investment.

An investment in our common stock is not a deposit and is not insured against loss by the government.

Completion of our Tender Offer and the transactions contemplated by the Repurchase Agreements we have entered into with our two largest shareholders may reduce the liquidity of our common stock.

Depending on how many shares of our common stock we repurchase in the Tender Offer and pursuant to the Repurchase Agreements, our "public float" (the number of shares owned by non-affiliate shareholders and available for trading in the securities markets) may be substantially reduced. This reduction in our public float may result in lower stock prices and/or reduced liquidity in the trading market for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Certifications

We have filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this annual report on Form 10-K for the fiscal year ended December 31, 2013. Last year, we submitted to the NYSE on May 14, 2013 our annual CEO certification regarding the Company's compliance with the NYSE's corporate governance listing standards. This year, we intend to submit to the NYSE our annual CEO certification within 30 days of the Company's annual meeting of shareholders, which is scheduled for April 25, 2014.

ITEM 2. PROPERTIES

We hold title to the land and building in which our Main branch office and headquarters, Hilo branch office, Kailua-Kona branch office, Pearl City branch office and certain operations offices are located. We also hold title to portions of the land our Moiliili branch office and operations center are located. The remaining lands on which the Moiliili branch office and operations center are located are leased, as are all remaining branch and support office facilities. We also own four floors of a commercial office condominium in downtown Honolulu where certain administrative and support operations are located.

We occupy or hold leases for approximately 40 other properties including office space for our remaining branches and residential mortgage lending subsidiary. These leases expire on various dates through 2038 and generally contain renewal options for periods ranging from five to 15 years. For additional information relating to lease rental expense and commitments as of December 31, 2013, see Note 18 to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

ITEM 3. LEGAL PROCEEDINGS

Certain claims and lawsuits have been filed or are pending against us arising in the ordinary course of business. In the opinion of management, all such matters are of a nature that, if disposed of unfavorably, would not have a material adverse effect on our consolidated results of operations or financial position.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the ticker symbol "CPF." Set forth below is a line graph comparing the cumulative total stockholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the Russell 2000 Index and the S&P SmallCap 600 Commercial Bank Index for the five year period commencing December 31, 2008 and ending December 31, 2013. The graph assumes the investment of $100 on December 31, 2008.

Indexed Total Annual Return
(as of December 31, 2013)

The following table sets forth information on the range of high and low sales prices of our common stock as reported by the NYSE, for each full quarterly period within 2013 and 2012:

	Year Ended December 31,			
	2013		2012	
	High	Low	High	Low
First quarter	$ 16.65	$ 15.20	$ 14.40	$ 12.54
Second quarter	18.84	14.71	14.49	12.02
Third quarter	19.21	16.75	15.00	12.80
Fourth quarter	20.26	17.14	15.60	13.72

As of February 14, 2014, there were 2,739 shareholders of record, excluding individuals and institutions for which shares were held in the names of nominees and brokerage firms.

Dividends

The following table sets forth information on dividends declared per share of common stock for each quarterly period within 2013 and 2012:

	Year Ended December 31,	
	2013	2012
First quarter	$ -	$ -
Second quarter	-	-
Third quarter	0.08	-
Fourth quarter	0.08	-

The holders of our common stock share proportionately, on a per share basis, in all dividends and other distributions declared by our Board of Directors.

Under the terms of our trust preferred securities, our ability to pay dividends with respect to common stock was restricted until our obligations under our trust preferred securities were brought current. Our obligations on our outstanding trust preferred securities were brought current in the first quarter of 2013.

Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. 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 December 31, 2013, the bank had Statutory Retained Earnings of $240.4 million. In 2013, in light of the Company's improved capital position and financial condition, our Board of Directors in consultation with our regulators, reinstated and declared quarterly cash dividends of $0.08 per share on the Company's outstanding common shares, payable to shareholders of record at the close of business on August 30, 2013 and November 29, 2013. These dividends were paid on September 16, 2013 and December 16, 2013, respectively. In January 2014, the Company's Board of Directors declared a third consecutive quarterly cash dividend of $0.08 per share on the Company's outstanding common shares, payable on March 17, 2014 to shareholders of record at the close of business on February 28, 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.

See "Part I, Item 1. Business – Supervision and Regulation – Regulatory Actions" for a discussion on regulatory restrictions. For additional information regarding our previous election to defer payments on our trust preferred securities, see Note 14 to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data."

Issuer Purchases of Equity Securities

There were no repurchases of the Company's common stock during the fourth quarter of 2013.

As disclosed previously in this report, on February 21, 2014, we publicly announced a tender offer and the entry into repurchase agreements with our two largest investors to repurchase in the aggregate up to $125 million of our common stock.

Information relating to compensation plans under which equity securities of the Registrant are authorized for issuance is set forth under "Part III, Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected financial information for each of the years in the five-year period ended December 31, 2013. This information is not necessarily indicative of results of future operations and should be read in conjunction with "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes contained in "Part II, Item 8. Financial Statements and Supplementary Data."

	Year Ended December 31,				
Selected Financial Data	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share data)				
Statement of Operation Data:					
Total interest income	$ 140,278	$ 128,445	$ 136,450	$ 160,754	$ 242,237
Total interest expense	7,169	8,734	18,629	42,101	67,715
Net interest income	133,109	119,711	117,821	118,653	174,522
Provision (credit) for loan and lease losses	(11,310)	(18,885)	(40,690)	159,548	348,801
Net interest income (loss) after provision for loan and lease losses	144,419	138,596	158,511	(40,895)	(174,279)
Other operating income	54,945	60,743	57,002	57,700	57,723
Goodwill impairment	-	-	-	102,689	50,000
Other operating expense (excluding goodwill impairment)	139,536	151,918	178,942	165,069	167,186
Income (loss) before income taxes	59,828	47,421	36,571	(250,953)	(333,742)
Income tax benefit	(112,247)	-	-	-	(19,995)
Net income (loss)	172,075	47,421	36,571	(250,953)	(313,747)
Balance Sheet Data (Year-End):					
Interest-bearing deposits in other banks	$ 4,256	$ 120,902	$ 180,839	$ 729,014	$ 400,470
Investment securities (1)	1,660,046	1,698,593	1,493,925	705,345	924,359
Loans and leases	2,630,601	2,203,944	2,064,447	2,169,444	3,041,980
Allowance for loan and lease losses	83,820	96,413	122,093	192,854	205,279
Goodwill	-	-	-	-	102,689
Other intangible assets	32,783	37,499	41,986	44,639	45,390
Total assets	4,741,198	4,370,368	4,132,865	3,938,051	4,869,522
Core deposits (2)	3,093,279	3,006,657	2,786,215	2,796,144	2,951,119
Total deposits	3,936,173	3,680,772	3,443,528	3,132,947	3,568,916
Long-term debt	92,799	108,281	158,298	459,803	657,874
Total shareholders' equity	660,113	504,822	456,440	66,052	335,963
Per Share Data:					
Basic earnings (loss) per share	$ 4.10	$ 1.14	$ 3.36	$ (171.13)	$ (220.56)

Diluted earnings (loss) per share	4.07	1.13	3.31	(171.13)	(220.56)
Cash dividends declared	0.16	-	-	-	-
Book value	15.68	12.06	10.93	(42.18)	136.50
Diluted weighted average shares outstanding (in thousands)	42,317	42,084	36,342	1,516	1,459
Financial Ratios:					
Return (loss) on average assets	3.73 %	1.13 %	0.90 %	(5.74) %	(5.87) %
Return (loss) on average shareholders' equity	27.70	9.81	9.83	(140.73)	(54.99)
Net income (loss) to average tangible shareholders' equity	28.34	10.17	10.41	(193.24)	(77.60)
Average shareholders' equity to average assets	13.47	11.49	9.17	4.08	10.67
Efficiency ratio (3)	74.97	78.89	92.06	82.88	63.52
Net interest margin (4)	3.19	3.10	3.09	2.91	3.62
Net loan charge-offs to average loans and leases	0.05	0.32	1.42	6.33	7.03
Nonaccrual loans to total loans and leases and loans held for sale (5)	1.57	3.54	6.33	10.96	15.13
Allowance for loan and lease losses to total loans and leases	3.19	4.37	5.91	8.89	6.75
Allowance for loan and lease losses to nonaccrual loans (5)	201.55	121.53	91.17	78.62	43.41
Dividend payout ratio	3.93	N/A	N/A	N/A	N/A

(1) Held-to-maturity securities at amortized cost, available-for-sale securities at fair value.
(2) Noninterest-bearing demand, interest-bearing demand and savings deposits, and time deposits under $100,000.
(3) The efficiency ratio is a non-GAAP financial measure which should be read and used in conjunction with the Company’s GAAP financial information.
Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently. Our efficiency ratio is derived by dividing other operating expense (excluding amortization, impairment and write-down of intangible assets, goodwill, loans held for sale and foreclosed property, loss on early extinguishment of debt, loss on investment transaction, loss on sale of commercial real estate loans, and foreclosed asset expense) by net operating revenue (net interest income on a taxable equivalent basis plus other operating income before securities and foreclosed assets transactions). See Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations –Table 7. Reconciliation to Efficiency Ratio.
(4) Computed on a taxable equivalent basis using an assumed income tax rate of 35%.
(5) Nonaccrual loans include loans held for sale.

30

Five Year Performance Comparison

The significant items affecting the comparability of the five years' performance include:

- Credit to the provision for loan and lease losses of $11.3 million , $18.9 million and $40.7 million in 2013, 2012 and 2011, respectively, compared to a charge of $159.5 million and $348.8 million in 2010 and 2009, respectively;
- Valuation allowance against net deferred tax assets ("DTAs") of $6.7 million, $147.5 million, $162.3 million, $178.8 million and $104.6 million in 2013, 2012, 2011, 2010 and 2009, respectively;
- Net gains on sales of residential mortgage loans of $10.0 million, $17.1 million, $8.1 million, $8.5 million, and $13.6 million in 2013, 2012, 2011, 2010, and 2009, respectively;
- Net gains on sales of foreclosed assets of $8.6 million, $5.0 million, $6.8 million, $0.7 million, and $0.3 million in 2013, 2012, 2011, 2010, and 2009, respectively;
- Gain on early extinguishment of debt of $1.0 million in 2013, compared to a loss on early extinguishment of debt of $6.2 million and $5.7 million in 2011 and 2010, respectively;
- Gain on ineffective portion of derivative of $0.1 million, $1.0 million, and $3.4 million in 2013, 2011, and 2009, respectively, compared to a loss on ineffective portion of derivative of $0.1 million in 2012;
- Share-based compensation expense of $6.4 million, $4.6 million, $2.6 million, $0.4 million, and $0.4 million recognized in 2013, 2012, 2011, 2010, and 2009, respectively;
- Foreclosed asset expense of $1.0 million, $6.9 million, $11.4 million, $9.6 million, and $9.0 million in 2013, 2012, 2011, 2010, and 2009, respectively;
- Write down of assets of $2.6 million, $4.6 million, $1.5 million, and $5.0 million in 2012, 2011, 2010, and 2009, respectively;
- Contributions to the Central Pacific Bank Foundation of $0.7 million, $0.8 million and $8.5 million in 2013, 2012, and 2011, respectively;
- FDIC insurance premiums of $2.7 million, $4.9 million, $6.8 million, $12.6 million, and $12.2 million in 2013, 2012, 2011, 2010, and 2009, respectively;
- Credit to the reserve for unfunded loan commitments of $3.5 million, $1.7 million, and $1.1 million in 2013, 2012, and 2010, respectively, compared to a charge of $1.6 million and $1.6 million in 2011 and 2009, respectively;
- Credit to the provision for repurchased residential mortgage loans of $0.1 million and $2.0 million in 2013 and 2012, respectively, compared to a charge of $5.0 million and $6.1 million in 2011 and 2010, respectively;
- Goodwill impairment charges of $102.7 million and $50.0 million in 2010 and 2009, respectively;
- Gain on sale of property of $7.7 million and $3.6 million in 2010 and 2009, respectively; and
- Tax contingency settlement benefits of $2.3 million in 2009.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are a bank holding company that, through our banking subsidiary, Central Pacific Bank, offers full service commercial banking in the state of Hawaii.

Our products and services consist primarily of the following:

- Loans: Our loans consist of commercial, commercial mortgage, construction loans, and leases to small and medium-sized companies, business professionals, and real estate developers, as well and residential mortgage and consumer loans to local homebuyers and individuals. Our lending activities contribute to a key component of our revenues—interest income.

- Deposits: We strive to provide exceptional customer service and products that meet our customers' needs, like our Value Plus Checking, as well as our Exceptional Checking & Savings and Super Savings accounts. We also maintain a broad branch and ATM network in the state of Hawaii. The interest paid on such deposits has a significant impact on our interest expense, an important factor in determining our earnings. In addition, fees and service charges on deposit accounts contribute to our revenues.

Additionally, we offer wealth management products and services, such as non-deposit investment products, annuities, insurance, investment management, asset custody and general consultation and planning services.

In this discussion, we have included statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. These statements relate to our future plans and objectives, among other things. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the results indicated in the forward-looking statements. Important factors that could, among others, cause our results to differ, possibly materially, from those indicated in the forward-looking statements are discussed above under "Part 1. Forward-Looking Statements and Factors that Could Affect Future Results" and "Part I, Item 1A. Risk Factors—Factors that May Affect our Business."

Executive Overview

We continued to make significant progress toward a full recovery of our Company in 2013. After three years of net losses in 2008 to 2010, we recorded our twelfth consecutive profitable quarter in the fourth quarter of 2013. During fiscal 2013, we reported net income of $172.1 million, compared to net income of $47.4 million and $36.6 million in fiscal 2012 and 2011, respectively. Net income in 2013 included a non-cash income tax benefit of $119.8 million recorded in the first quarter of 2013 related to the reversal of a significant portion of a valuation allowance that was established against the Company's net DTA during the third quarter of 2009. We also saw continued improvement in our asset quality as we reduced our nonperforming assets by $43.2 million to $46.8 million at December 31, 2013 from $90.0 million at December 31, 2012.

As a result of the continued improvement in our credit risk profile, we were able to reduce our allowance for loan and lease losses (the "Allowance"), which resulted in a positive impact to earnings. Our total credit costs during fiscal 2013, which include the provision for loan and lease losses (the "Provision"), write-downs of loans classified as held for sale, foreclosed asset expense, gains on sales of foreclosed assets, and the change in the reserve for unfunded loan commitments, totaled a credit of $22.4 million, compared to a credit of $16.1 million in 2012.

With the improving market conditions in Hawaii, together with our efforts to increase market share, we realized strong loan growth of $426.7 million, or 19.4%, as well as an increase of $86.6 million, or 2.9% in our core deposit base in 2013. Our capital position remained strong, supported by three years of profitability and the improvements in our asset quality. As a result of our stable financial performance, two of the regulatory enforcement actions the bank and CPF were previously subject to were terminated in 2012 and 2013.

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 II, Item 8. Financial Statements and Supplementary Data."

Business Environment

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

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

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

Hawaii's general economic conditions continued to improve in 2013. Tourism continues to be Hawaii's center of strength and its most significant economic driver. Hawaii's strong visitor industry broke records for arrivals and visitor spending for the second consecutive year in 2013. According to the Hawaii Tourism Authority ("HTA"), 8.2 million total visitors arrived in the state in 2013. This was an increase of 2.6% from the previous high of 8.0 million visitor arrivals in 2012. The HTA also reported that total spending by visitors increased to $14.5 billion in 2013, an increase of $286.2 million, or 2.0%, from the previous high of $14.3 billion in 2012. According to the Hawaii Department of Business Economic Development & Tourism ("DBEDT"), total visitor arrivals and visitor spending are expected to gain 2.7% and 4.2% in 2014, respectively.

The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted annual unemployment rate improved to 4.5% in December 2013, compared to 5.1% in December 2012. In addition, Hawaii's unemployment rate in December 2013 of 4.5% remained below the national seasonally adjusted unemployment rate of 6.7%. DBEDT projects Hawaii's seasonally adjusted annual unemployment rate to continue to improve to 4.2% in 2014.

Real personal income and real gross state product grew by approximately 2.3% and 2.4%, respectively, in 2013. DBEDT projects real personal income and real gross state product to grow by 3.3% and 2.8%, respectively, in 2014. Based on the recent developments in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state and growth of personal income and tax revenues, DBEDT expects Hawaii's economy will continue positive growth in 2014.

Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii's real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased 4.6% for single-family homes and increased 11.8% for condominiums in 2013 from 2012. The median resale price in 2013 for single-family homes on Oahu was $650,000, representing an increase of 4.8% from the median resale price of $620,000 in 2012. The median resale price for condominiums on Oahu was $332,000, representing an increase of 4.6% from the median resale price of $317,500 in 2012. 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. See "—Overview of Results of

Operations—Concentrations of Credit Risk" for a further discussion on how a deteriorating real estate market, combined with the elevated concentration risk within our portfolio, could have a significant negative impact on our asset quality and credit losses.

Critical Accounting Policies and Use of Estimates

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

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

Our policy is to charge a loan off in the period in which the loan is deemed to be uncollectible. We consider a loan to be uncollectible when it is probable that a loss has been incurred and the Company can make a reasonable estimate of the loss. In these instances, the likelihood of and/or timeframe for recovery of the amount due is uncertain, weak, or protracted.

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

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

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential mortgage loans in both 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 classified as held for sale net of applicable selling costs on our consolidated balance sheets.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a “whole-loan” basis to government-sponsored entities (“GSEs” or “Agencies”) Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. We establish mortgage repurchase reserves related to various representations and warranties that reflect management’s estimate for which we have a repurchase obligation. The reserves are established by a charge to other operating expense in our consolidated statements of income. At December 31, 2013 and 2012, this reserve totaled $2.9 million and $3.6 million, respectively, and is included in other liabilities on our consolidated balance sheets.

The repurchase reserve is applicable to loans we originated and sold with representations and warranties, which is representative of the entire sold portfolio. Originations for agency and non-agency investors for vintages 2005 through 2013 were approximately $4.4 billion and $3.8 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 outstanding loans sold that have early payment default clauses as of December 31, 2013 total approximately $83.1 million.

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

Loans repurchased during the year ended December 31, 2013 totaled approximately $4.7 million. In 2012, additional reserves were established as an unallocated component in recognition of the emergence of make-whole demands. The establishment of an unallocated component considers anticipated future losses and our lack of historical experience with the make-whole demands. Repurchase activity by vintage and investor type are depicted in Table 1 below.

Table 1. Repurchase Demands, Appeals, Repurchased and Pending Resolution

	Government Sponsored Entities				Non-GSE Investors			
Vintage	Repurchase Demands	Appeals Granted	Repurchased	Pending Resolution	Repurchase Demands	Appeals Granted	Repurchased	Pending Resolution
Year ended December 31, 2013 [1]								
2005 and prior	2	1	-	1	-	-	-	-
2006	3	2	-	1	-	-	-	-
2007	6	1	5	-	-	-	-	-
2008	15	6	6	3	-	-	-	-
2009	2	1	1	-	-	-	-	-
2010	1	1	-	-	-	-	-	-
2011	5	5	-	-	-	-	-	-
2012	3	2	1	-	2	-	1	1

2013	-	-	-	-	-	-	-	-
Total	37	19	13	5	2	-	1	1
Year ended December 31, 2012 [2]								
2005 and prior	-	-	-	-	-	-	-	-
2006	3	1	1	1	2	2	-	-
2007	7	1	4	2	4	1	3	-
2008	7	3	4	-	2	1	1	-
2009	-	-	-	-	-	-	-	-
2010	1	-	1	-	-	-	-	-
2011	5	3	2	-	-	-	-	-
2012	5	3	1	1	1	-	1	-
Total	28	11	13	4	9	4	5	-

[1] Based on repurchase requests received between January 1, 2013 and December 31, 2013.
[2] Based on repurchase requests received between January 1, 2012 and December 31, 2012.

The reserve for residential mortgage loan repurchase losses of $2.9 million at December 31, 2013 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents a decrease of $0.6 million from December 31, 2012. The table below shows changes in the repurchase losses liability.

Table 2. Changes in the Reserve for Residential Mortgage Loan Repurchase Losses

	Year Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Balance, beginning of period	$ 3,552	$ 6,802
Change in estimate	(130)	(2,022)
Utilizations	(473)	(1,228)
Balance, end of period	$ 2,949	$ 3,552

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.

Goodwill and Other Intangible Assets

During the first quarter of 2010, we determined than an impairment test on our remaining goodwill was required because of the uncertainty regarding our ability to continue as a going concern at that time combined with the fact that our market capitalization remained depressed. As a result of that impairment test, we determined that the remaining goodwill associated with our Banking Operations reporting unit was impaired and we recorded a non-cash impairment charge of $102.7 million. Since that time, no goodwill remains on our consolidated balance sheet.

Prior to the first quarter of 2010, we reviewed the carrying amount of goodwill for impairment on an annual basis and performed additional assessments on a quarterly basis whenever indicators of impairment were evident. Goodwill attributable to each of our reporting units was tested for impairment by comparing their respective fair values to their carrying values. When determining fair value, we utilized a discounted cash flow methodology for our Banking Operations reporting unit. Absent any impairment indicators, we performed our annual goodwill impairment tests during the fourth quarter of each fiscal year.

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

Our core deposit premium is being amortized 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 income. Ancillary income is recorded in other income. Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one class.

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

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

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

During the second quarter of 2012, we evaluated the recoverability of the intangible assets related to our customer relationships and non-compete agreements. Upon completion of this review, we determined that the intangible assets related to our customer relationships and non-compete agreements were both fully impaired, and thus, we recorded impairment charges to other operating expense totaling $0.9 million during the second quarter of 2012.

Deferred Tax Assets and Tax Contingencies

Deferred tax assets 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 2009, we established a full valuation allowance against our net DTAs. See "— Overview of Results of Operations — Income Taxes" below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance.

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

Defined Benefit Retirement Plan

Defined benefit plan obligations and related assets of our defined benefit retirement plan are presented in Note 16 to the Consolidated Financial Statements under "Part II, Item 8. Financial Statements and Supplementary Data." In 2002, the defined benefit retirement plan was curtailed and all plan benefits were fixed as of that date. Plan assets, which consist primarily of marketable equity and debt securities, are typically valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate, we utilize a yield that reflects the top 50% of the universe of bonds, ranked in the order of the highest yield. Asset returns are based upon the anticipated average rate of earnings expected on the invested funds of the plans.

At December 31, 2013, we used a weighted-average discount rate of 4.7% and an expected long-term rate of return on plan assets of 7.5%, which affected the amount of pension liability recorded as of year-end 2013 and the amount of pension expense to be recorded in 2014. At December 31, 2012, we used a weighted-average discount rate of 4.0% and an expected long-term rate of return on plan assets of 8.0% in determining the pension liability recorded as of year-end 2012 and the amount of pension expense recorded in 2013. For both the discount rate and the asset return rate, a range of estimates could reasonably have been used which would affect the amount of pension expense and pension liability recorded.

An increase in the discount rate or asset return rate would reduce pension expense in 2013, while a decrease in the discount rate or asset return rate would have had the opposite effect. A 0.25% change in the discount rate assumption would impact 2014 pension expense by less than $0.1 million and year-end 2013 pension liability by $0.8 million, while a 0.25% change in the asset return rate would impact 2014 pension expense by less than $0.1 million.

Overview of Results of Operations

2013 vs. 2012 Comparison

In 2013, we recognized net income of $172.1 million, or $4.07 per diluted common share, compared to net income of $47.4 million, or $1.13 per diluted common share, in 2012. Net income in 2013 included a non-cash income tax benefit of $119.8 million recorded in the first quarter of 2013 related to the reversal of a significant portion of a valuation allowance that was established against the Company’s net DTA during the third quarter of 2009. Excluding this income tax benefit, net income for 2013 was $52.3 million, or $1.24 per diluted common share.

Total credit costs, which include the Provision, write-downs of loans classified as held for sale, foreclosed asset expense, gains on sales of foreclosed assets, and the change in the reserve for unfunded loan commitments, amounted to a credit of $22.4 million in 2013, compared to a credit of $16.1 million in 2012. Our operating results in 2013 were positively impacted by an income tax benefit for 2013 of $112.2 million, an increase in net interest income of $13.4 million, and a decrease in other operating expense of $12.4 million, offset by a lower credit to the provision for loan and lease losses of $7.6 million and lower other operating income of $5.8 million. Our net income on average assets and average shareholders’ equity for 2013 was 3.73% and 27.70%, respectively, compared to 1.13% and 9.81%, respectively, in 2012.

2012 vs. 2011 Comparison

In 2012, we recognized net income of $47.4 million, or $1.13 per diluted common share, compared to net income of $36.6 million, or $3.31 per diluted common share, in 2011. Our net income per diluted share for 2011 included the impact of a one-time accounting adjustment totaling $85.1 million related to the previously disclosed TARP Exchange. Total credit costs, which include the Provision, write-downs of loans classified as held for sale, foreclosed asset expense, gains on sales of foreclosed assets, and the change in the reserve for unfunded loan commitments, amounted to a credit of $16.1 million in 2012 compared to a credit of $29.9 million in 2011. Our operating results in 2012 were positively impacted by increases in net interest income and other operating income of $1.9 million and $3.7 million, respectively, and a decrease in other operating expense of $27.0 million. Our net income on average assets and average shareholders’ equity for 2012 was 1.13% and 9.81%, respectively, compared to 0.90% and 9.83%, respectively, in 2011.

Net Interest Income

The following table sets forth information concerning average interest earning assets and interest-bearing liabilities and the yields and rates thereon. 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%. Table 4 presents an analysis of changes in components of net interest income between years. For each category of interest earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in volume (change in volume of the asset multiplied by the prior year’s rate) and (ii) changes in rates (change in rate multiplied by the current year’s volume).

Table 3. Average Balances, Interest Income and Expense, Yields and Rates (Taxable Equivalent)

	2013			2012			2011		
	Average Balance	Average Yield/Rate	Amount of Interest	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	$ 81,249	0.25 %	$ 203	$ 114,438	0.25 %	$ 285	$ 412,351	0.26 %	$ 1,052
Taxable investment securities (1)	1,534,136	2.05	31,521	1,521,164	1.89	28,819	1,227,181	2.25	27,571
Tax-exempt investment securities (1)	177,510	3.51	6,232	83,663	4.25	3,557	12,537	9.05	1,135
Loans and leases, including loans held for sale (2)	2,394,955	4.36	104,479	2,130,758	4.55	97,029	2,121,544	5.05	107,089
Federal Home Loan Bank stock	47,202	0.05	24	48,654	-	-	48,797	-	-
Total interest earning assets	4,235,052	3.36	142,459	3,898,677	3.33	129,690	3,822,410	3.58	136,847
Nonearning assets	375,770			308,978			232,218		
Total assets	$ 4,610,822			$ 4,207,655			$ 4,054,628		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 708,658	0.05 %	$ 349	$ 615,960	0.05 %	$ 339	$ 539,519	0.09 %	$ 500
Savings and money market deposits	1,191,919	0.07	894	1,163,963	0.09	1,006	1,117,183	0.18	2,044
Time deposits under $100,000	285,042	0.46	1,301	326,288	0.59	1,937	395,500	0.99	3,900
Time deposits $100,000 and over	769,672	0.19	1,500	652,339	0.27	1,751	484,734	0.65	3,166

Short-term borrowings	1,988	0.32	6	11	0.67	-	35,810	0.57	204
Long-term debt	104,373	2.99	3,119	109,791	3.37	3,701	352,677	2.50	8,815
Total interest-bearing liabilities	3,061,652	0.23	7,169	2,868,352	0.30	8,734	2,925,423	0.64	18,629
Noninterest-bearing deposits	849,371			773,768			675,604		
Other liabilities	73,040			72,131			71,687		
Total liabilities	3,984,063			3,714,251			3,672,714		
Shareholders' equity	621,282			483,435			371,922		
Non-controlling interests	5,477			9,969			9,992		
Total equity	626,759			493,404			381,914		
Total liabilities and equity	$ 4,610,822			$ 4,207,655			$ 4,054,628		
Net interest income			$ 135,290			$ 120,956			$ 118,218
Net interest margin		3.19 %			3.10 %			3.09 %	

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

39

Table 4. Analysis of Changes in Net Interest Income (Taxable Equivalent)

	2013 Compared to 2012			2012 Compared to 2011		
	Increase (Decrease) Due to Change In:		Net	Increase (Decrease) Due to Change In:		Net
	Volume	Rate	Change	Volume	Rate	Change
	(Dollars in thousands)					
Interest earning assets						
Interest-bearing deposits in other banks	$ (82)	$ -	$ (82)	$ (760)	$ (7)	$ (767)
Taxable investment securities	245	2,457	2,702	6,615	(5,367)	1,248
Tax-exempt investment securities	3,988	(1,313)	2,675	6,437	(4,015)	2,422
Loans and leases, including loans held for sale	12,031	(4,581)	7,450	465	(10,525)	(10,060)
Federal Home Loan Bank stock	-	24	24	-	-	-
Total interest earning assets	16,182	(3,413)	12,769	12,757	(19,914)	(7,157)
Interest-bearing liabilities						
Interest-bearing demand deposits	46	(36)	10	69	(230)	(161)
Savings and money market deposits	25	(137)	(112)	84	(1,122)	(1,038)
Time deposits under $100,000	(243)	(393)	(636)	(685)	(1,278)	(1,963)
Time deposits $100,000 and over	317	(568)	(251)	1,089	(2,504)	(1,415)
Short-term borrowings	13	(7)	6	(204)	-	(204)
Long-term debt	(183)	(399)	(582)	(6,072)	958	(5,114)
Total interest-bearing liabilities	(25)	(1,540)	(1,565)	(5,719)	(4,176)	(9,895)
Net interest income	$ 16,207	$ (1,873)	$ 14,334	$ 18,476	$ (15,738)	$ 2,738

Net interest income is our primary source of earnings and is derived primarily from the difference between the interest we earn on loans and investments versus the interest we pay on deposits and borrowings. Net interest income (expressed on a taxable-equivalent basis) totaled $135.3 million in 2013, increasing by $14.3 million, or 11.9%, from $121.0 million in 2012, which increased by $2.7 million, or 2.3%, from net interest income of $118.2 million recognized in 2011. The increase in net interest income for 2013 was primarily the result of a significant increase in average loans and leases and investment securities as we continued to redeploy our excess liquidity into higher yielding assets. Also contributing to the increase was the 16 basis points (“bp”) increase in average yields earned on our taxable investment securities. Offsetting these increases were declines in average yields earned on our loans and leases and tax-exempt investment securities portfolios of 19 bp and 74 bp, respectively.

Average rates earned on our interest-earning assets increased by 3 bp in the year ended December 31, 2013, from the year ended December 31, 2012. Average rates paid on our interest-bearing liabilities in the year ended December 31, 2013 decline by 7 bp, compared to the same period in 2012. The improvement in average yields earned on our interest earning assets in 2013 was directly attributable to the 16 bp increase in average yields earned on our taxable investment securities, increases in our higher yielding loans and leases and investment securities portfolios, and the corresponding decrease in our lower yielding interest-bearing deposits in other banks.

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. The new securities were classified in the available-for-sale portfolio and a net gain of $0.5 million was realized on the transaction.

In the third quarter of 2012, we completed an investment securities portfolio repositioning to reduce net interest income volatility and enhance the potential for prospective earnings and an improved net interest margin. In connection with the repositioning, we sold $124.7 million in available-for-sale mortgage-backed securities with an average net yield of 0.60% and a weighted average life of 1.3 years and reinvested the proceeds in $133.2 million of similarly typed investment securities with an average yield of 1.88% and a weighted average life of 5.3 years. The new securities were classified in the held-to-maturity portfolio and a net gain of $0.7 million was realized on the transaction.

Interest Income

Our primary sources of interest income include interest on loans and leases, which represented 73.3%, 74.8%, and 78.3% of interest income in 2013, 2012 and 2011, respectively, as well as interest earned on investment securities, which represented 26.5%, 25.0%, and 21.0% of interest income, respectively. Interest income expressed on a taxable-equivalent basis of $142.5 million in 2013 increased by $12.8 million, or 9.8%, from the $129.7 million earned in 2012, which decreased by $7.2 million, or 5.2%, from the $136.8 million earned in 2011.

As depicted in Table 4, the increase in interest income in 2013 from the prior year was primarily due to a significant increase in average loans and leases and investment securities balances and the increase in average taxable investment securities yields, partially offset by a decrease in average loan yields and the significant decrease in average tax-exempt investment securities yields. The $264.2 million increase in average loans and leases contributed to an increase of $12.0 million in current year interest income and the $93.8 million increase in average tax-exempt investment securities contributed to an increase of $4.0 million in current year interest income. In addition, the 16 bp increase in average taxable investment securities yields in 2013 contributed to $2.5 million in higher interest income for the current year. These increases were partially offset by the 19 bp decrease in average loan yields in 2013 which contributed to $4.6 million in lower interest income for 2013. The 74 bp decrease in average tax-exempt investment securities yields in 2013 contributed to $1.3 million in lower interest income for the current year.

The decrease in interest income in 2012 from 2011 was primarily due to a significant decrease in average loan and taxable investment securities yields, partially offset by a significant increase in average investment securities balances. The 50 bp decrease in average loan yields in 2012 contributed to $10.5 million of the reduction in interest income. The 36 bp decrease in average taxable investment securities yields in 2012 contributed to $5.4 million of the reduction in interest income. These decreases were partially offset by the $294.0 million increase in average taxable investment securities which contributed to an increase of $6.6 million of interest income and the $71.1 million increase in average tax-exempt investment securities which contributed to an increase of $6.4 million of interest income.

Interest Expense

In 2013, interest expense was $7.2 million which represented a decrease of $1.6 million, or 17.9%, compared to interest expense of $8.7 million in 2012, which decreased by $9.9 million, or 53.1%, compared to $18.6 million in 2011.

Declines in average rates paid on interest-bearing liabilities were reflective of the FRB’s notably low interest rate policy that existed throughout 2013, 2012 and 2011 and contributed to the overall reduction in interest expense during the periods. In 2013, the average rate paid on interest-bearing liabilities decreased by 7 bp to 0.23%, compared to 0.30% in 2012. Decreases in the average rates paid on time deposits $100,000 and over of 8 bp, long-term borrowings of 38 bp, time deposits under $100,000 of 13 bp, and savings and money market deposits of 2 bp, were the primary drivers of the overall decrease in interest expense. Decreases in the average balances of time deposits under $100,000 of $41.2 million and long-term borrowings of $5.4 million also contributed to the reduction of interest expense in 2013.

In 2012, the average rate paid on interest-bearing liabilities decreased by 34 bp to 0.30%, compared to 0.64% in 2011. Decreases in the average balances of long-term borrowings of $242.9 million, time deposits under $100,000 of $69.2 million and short-term borrowings of $35.8 million were the primary drivers of the overall decrease in interest expense. Decreases in the average rates paid on savings and money market deposits of 9 bp, time deposits under $100,000 of 40 bp and time deposits $100,000 and over of 38 bp also contributed to the reduction of interest expense in 2012.

Net Interest Margin

Our net interest margin was 3.19%, 3.10%, and 3.09% in 2013, 2012 and 2011, respectively. The improvement in our net interest margin in 2013 was driven by the continued slowing of premium amortization on our mortgage backed securities and, as described above, reflected our continued reinvestment of cash flow into higher yielding loans and leases and investment securities.

The improvement in our net interest margin in 2012 reflected our deployment of excess liquidity into higher yielding investment securities and an overall reduction in our funding costs, which included the prepayment of long-term borrowings at the FHLB in the third quarter of 2011, partially offset by lower yields earned on our interest earning assets due to the depressed interest rate environment.

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 year end 2013. While we expect the target Fed Funds rate to remain low, the yield curve has begun to steepen in 2013 and is expected to continue in 2014. Thus we expect our net interest margin to expand modestly over the near term as we are able to invest in higher yielding assets.

Other Operating Income

The following table sets forth components of other operating income and the total as a percentage of average assets for the periods indicated.

Table 5. Components of Other Operating Income

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Other service charges and fees	$ 18,547	$ 17,569	$ 17,239
Net gain on sales of residential loans	9,986	17,095	8,050
Net gain on sales of foreclosed assets	8,584	4,999	6,821
Service charges on deposit accounts	7,041	8,367	10,024
Income from fiduciary activities	2,855	2,599	2,794
Income from bank-owned life insurance	2,333	2,899	4,139
Equity in earnings of unconsolidated subsidiaries	790	574	458
Loan placement fees	570	690	541
Fees on foreign exchange	508	551	664
Investment securities gains	482	789	1,306
Other	3,249	4,611	4,966
Total other operating income	$ 54,945	$ 60,743	$ 57,002
Total other operating income as a percentage of average assets	1.19%	1.44%	1.41%

Total other operating income of $54.9 million in 2013 decreased by $5.8 million, or 9.5%, from the $60.7 million earned in 2012, which increased by $3.7 million, or 6.6%, from the $57.0 million earned in 2011.

In 2013, we recorded lower net gains on sales of residential mortgage loans, rental income on foreclosed properties, and service charges on deposit accounts of $7.1 million, $3.7 million, and $1.3 million, respectively. Offsetting these decreases in 2013 were higher net gains on sales of foreclosed assets of $3.6 million, a gain on the early extinguishment of trust preferred debt of $1.0 million, and higher other service charges and fees of $1.0 million.

In 2012, we recorded higher net gains on sales of residential mortgage loans of $9.0 million. Offsetting this increase in 2012 were lower net gains on sales of foreclosed assets of $1.8 million, lower service charges on deposit accounts of $1.7 million and lower income from bank-owned life insurance of $1.2 million.

Other Operating Expense

The following table sets forth components of other operating expense and the total as a percentage of average assets for the periods indicated.

Table 6. Components of Other Operating Expense

	Year Ended December 31, 2013	2012	2011
	(Dollars in thousands)		
Salaries and employee benefits	$ 76,294	$ 69,344	$ 63,675
Net occupancy	14,323	13,920	13,793
Legal and professional services	8,094	13,824	13,506
Amortization and impairment of other intangible assets	7,418	10,179	7,033
Computer software expense	4,579	3,961	3,629
Equipment	3,676	3,966	4,702
Communication expense	3,523	3,428	3,517
Advertising expense	2,666	3,516	2,961
Foreclosed asset expense	1,036	6,887	11,378
Write down of assets	-	2,586	4,624
Loss on early extinguishment of debt	-	-	6,234
Other	17,927	20,307	43,890
Total other operating expense	$ 139,536	$ 151,918	$ 178,942
Total other operating expense as a percentage of average assets	3.03%	3.61%	4.41%

Total other operating expense of $139.5 million in 2013 decreased by $12.4 million, or 8.2%, from total operating expense of $151.9 million in 2012, which decreased by $27.0 million, or 15.1%, compared to 2011.

The decrease in total other operating expense in 2013, compared to 2012, was the result of lower credit-related charges (which include write-downs of loans held for sale, foreclosed asset expense, and reserves on unfunded commitments) of $10.2 million, lower legal and professional services of $5.7 million, lower amortization and impairment of other intangible assets of $2.8 million, lower FDIC insurance expense of $2.1 million, and lower accruals for the settlement of legal proceedings against the Company of $1.8 million, partially offset by higher salaries and employee benefits of $7.0 million, a premium paid on the repurchase of preferred stock of two subsidiaries of $1.9 million, and lower credit to the reserve for repurchased residential mortgage loan losses of $1.9 million.

The decrease in total other operating expense in 2012, compared to 2011, was the result of lower credit-related charges of $9.8 million, lower contributions to the Central Pacific Bank Foundation of $7.8 million, lower reserve for repurchased residential mortgage loans of $7.0 million, lower loss on early extinguishment of debt of $6.2 million, and lower FDIC insurance expense of $2.0 million, partially offset by higher salaries and employee benefits of $5.7 million and higher amortization and impairment of other intangible assets of $3.1 million.

A key measure of operating efficiency tracked by management is the efficiency ratio, which is calculated by dividing adjusted other operating expense by adjusted other operating income. The efficiency ratio, as used by management, differs from comparable measures calculated and presented in accordance with GAAP in that it excludes unusual or non-recurring charges, losses, credits or gains. Management believes that the efficiency ratio provides useful supplemental information that is important to a proper understanding of the company's core business results by investors. Our efficiency ratio should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to the efficiency ratio presented by other companies. Our efficiency ratio decreased to 74.97% in 2013, compared to 78.89% in 2012 and 92.06% in 2011. The decrease in our efficiency ratio was primarily driven by the aforementioned decrease in other operating expenses and increase in net interest income.

The following table sets forth a reconciliation to our efficiency ratio for each of the dates indicated:

Table 7. Reconciliation to Efficiency Ratio

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share data)				
Efficiency Ratio					
Total other operating expenses	$ 139,536	$ 151,918	$ 178,942	$ 267,758	$ 217,186
Less:					
Amortization of other intangible assets	2,674	3,675	2,874	2,874	2,875
Foreclosed asset expense	1,036	6,887	11,378	9,646	8,961
Write down of assets	-	2,586	4,624	1,460	4,963
Loss on early extinguishment of debt	-	-	6,234	5,685	-
Goodwill impairment	-	-	-	102,689	50,000
Adjusted other operating expenses	$ 135,826	$ 138,770	$ 153,832	$ 145,404	$ 150,387
Net interest income (tax equivalent)	$ 135,290	$ 120,956	$ 118,218	$ 119,228	$ 176,686
Total other operating income	54,945	60,743	57,002	57,700	57,723
Less:					
Net gains on sales of foreclosed assets	8,584	4,999	6,821	664	310
Net gains on sales of investment securities	482	789	1,306	831	(74)
OTTI on investment securities	-	-	-	-	(2,565)
Adjusted other operating income	$ 181,169	$ 175,911	$ 167,093	$ 175,433	$ 236,738
Efficiency ratio	74.97%	78.89%	92.06%	82.88%	63.52%

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, third and fourth quarters of 2013, the Company recorded income tax expense of $1.9 million, $2.2 million, and $3.4 million, respectively.

As of December 31, 2013, the remaining valuation allowance on our net DTA totaled \$6.7 million. Net of this valuation allowance, the Company's net DTA totaled \$137.2 million as of December 31, 2013, compared to a fully reserved net DTA of \$147.5 million as of December 31, 2012.

In 2013, we decreased our valuation allowance against our net DTAs by \$140.8 million, or 95.5%, to \$6.7 million at December 31, 2013 from \$147.5 million at December 31, 2012. Of the total decrease to the valuation allowance, \$132.1 million was recognized as a non-cash credit to income tax expense, while \$8.7 million was charged against accumulated other comprehensive income (loss) ("AOCI").

In 2012, we decreased our valuation allowance against our net DTAs by \$14.8 million, or 9.1%, to \$147.5 million at December 31, 2012 from \$162.3 million at December 31, 2011. Of the total decrease to the valuation allowance, \$15.9 million was recognized as a non-cash credit to income tax expense, while \$1.1 million was charged against AOCI.

Our effective tax rate was -187.6% in 2013 compared to 0% in 2012 and 2011. Because we recognized a full valuation allowance against our net DTAs in 2011 and 2012, we did not record any income tax expense or benefit in those periods.

Financial Condition

Total assets of $4.7 billion at December 31, 2013 increased by $370.8 million, or 8.5%, from the $4.4 billion at year-end 2012, and total liabilities of $4.1 billion at December 31, 2013 increased by $225.4 million, or 5.8%, from the prior year. The increase in total assets in 2013 was due primarily to our deposit growth and subsequent deployment of these proceeds into higher yielding assets.

Loan Portfolio

Our lending activities are focused on commercial loans, commercial mortgages, construction loans, and leases to small and medium-sized companies, business professionals, and real estate developers, as well as residential mortgages and consumer loans to local homebuyers and individuals. Our strategy for generating commercial loans has traditionally relied upon teams of commercial real estate and commercial banking officers organized by geographical and industry lines who are responsible for client prospecting and business development.

To manage credit risk (i.e., the ability of borrowers to repay their loan obligations), management analyzes the borrower's financial condition, repayment source, collateral and other factors that could impact credit quality, such as national and local economic conditions and industry conditions related to respective borrowers.

Loans and leases totaled $2.6 billion at December 31, 2013, increasing by $426.7 million, or 19.4%, from the $2.2 billion at year-end 2012, which increased by $139.5 million, or 6.8%, from the $2.1 billion held at year-end 2011. The increase in our loan portfolio in 2013 was representative of our continued effort to deploy excess liquidity into higher yielding assets. The increase in loans and leases was primarily due to net increases in the residential mortgage, consumer, and commercial, financial and agricultural loan portfolios totaling $203.9 million, or 19.7%, $167.3 million, or 116.7% and $152.5 million, or 61.9%, respectively, partially offset by a net reduction in the commercial mortgage loan, construction and development loan, and lease portfolios totaling $72.2 million, or 10.7%, $20.6 million, or 21.4% and $4.3 million, or 40.6%, respectively. In addition, we transferred 12 portfolio loans to other real estate totaling $4.4 million, and recorded charge-offs of loans and leases of $12.6 million.

The following table sets forth information regarding outstanding loans by category as of the dates indicated.

Table 8. Loans by Categories

	December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Commercial, financial and agricultural	$ 398,716	$ 246,218	$ 180,704	$ 207,980	$ 260,924
Real estate:					
Construction	75,616	96,194	161,063	313,785	811,895
Mortgage:					
- residential	1,239,259	1,035,397	896,099	746,261	820,983
- commercial	600,081	672,248	700,069	760,306	970,285
Consumer	310,688	143,383	108,810	112,949	136,090
Leases	6,241	10,504	17,702	28,163	41,803
Total loans and leases	2,630,601	2,203,944	2,064,447	2,169,444	3,041,980
Allowance for loan and lease losses	(83,820)	(96,413)	(122,093)	(192,854)	(205,279)
Net loans	$ 2,546,781	$ 2,107,531	$ 1,942,354	$ 1,976,590	$ 2,836,701

The following table sets forth the geographic distribution of our loan portfolio and related Allowance as of December 31, 2013.

Table 9. Geographic Distribution

	Hawaii	U.S. Mainland (Dollars in thousands)	Total
Commercial, financial and agricultural	$ 255,987	$ 142,729	$ 398,716
Real estate:			
Construction	71,585	4,031	75,616
Mortgage:			
- residential	1,238,530	729	1,239,259
- commercial	453,313	146,768	600,081
Consumer	230,664	80,024	310,688
Leases	6,241	-	6,241
Total loans and leases	2,256,320	374,281	2,630,601
Allowance for loan and lease losses	(66,639)	(17,181)	(83,820)
Net loans and leases	$ 2,189,681	$ 357,100	$ 2,546,781

Commercial, Financial and Agricultural

Loans in this category consist primarily of term loans and lines of credit to small and middle-market businesses and professionals. The borrower's business is typically regarded as the principal source of repayment, although our underwriting policy and practice generally requires additional sources of collateral, including real estate and other business assets, as well as personal guarantees where possible to mitigate risk. Risks of credit losses could be greater in this loan category relative to secured loans where a greater percentage of the loan amount is usually covered by collateral. Nonetheless, any collateral or personal guarantees obtained on commercial loans can mitigate the increased risk and help to reduce credit losses.

Our historical approach to commercial lending involves teams of lending and cash management personnel who focus on relationship development including loans, deposits and other bank services to new and existing commercial clients.

Real Estate—Construction

Construction loans include both residential and commercial development projects. Each construction project is evaluated for economic viability. Construction loans pose higher credit risks than typical secured loans. In addition to the financial strength of the borrower, construction loans have the added element of completion risk, which is the risk that the project will not be completed on time and within budget, resulting in additional costs that could affect the economic viability of the project and market risk at the time construction is complete.

The increase in our construction loan portfolio from 2005 through 2007 was representative of our historical focus on this segment and a real estate market that had been strong with increased development activity in all of our markets. However, beginning in the second half of 2007, some of our residential construction loans in California began exhibiting heightened levels of risk with some borrowers abandoning their construction plans and defaulting on their loans due to a range of factors, including declining real estate values. New construction lending was therefore substantially curtailed. In 2008 through 2010, real estate values continued to deteriorate in Hawaii and California, adding considerable pressure on our construction loan portfolio. Beginning in 2011 and continuing through 2013, real estate values have shown stability. However, as required by our regulators, we further reduced our exposure to this sector and decreased our construction loan portfolio by $152.7 million in 2011, $64.9 million in 2012, and an additional $20.6 million in 2013.

Real Estate—Mortgage

The following table sets forth information with respect to the composition of the Real Estate—Mortgage loan portfolio as of the dates indicated.

Table 10. Mortgage Loan Portfolio Composition

	December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential:										
1-4 units	$1,138,533	61.9 %	$968,194	56.7 %	$846,953	53.1 %	$692,515	46.0 %	$716,753	40.0 %
5 or more units	100,726	5.5	67,203	3.9	49,146	3.1	53,746	3.6	104,230	5.8
Commercial, industrial and other	600,081	32.6	672,248	39.4	700,069	43.8	760,306	50.4	970,285	54.2
Total	$1,839,340	100.0%	$1,707,645	100.0%	$1,596,168	100.0%	$1,506,567	100.0%	$1,791,268	100.0%

Residential

Residential mortgage loans include fixed- and adjustable-rate loans primarily secured by single-family owner-occupied residences in Hawaii, fixed rate loans secured by multi-family residential properties, and home equity lines of credit and loans. Our home equity lines of credit, which typically carry floating interest rates, accounted for approximately 14% of our residential mortgage portfolio. Maximum loan-to-value ratios of 80% are typically required for fixed- and adjustable-rate loans secured by single-family owner-occupied residences, although higher levels are permitted with accompanying mortgage insurance. We emphasize residential mortgage loans for owner-occupied primary residences. First mortgage loans secured by residential properties generally carry a moderate level of credit risk. With an average loan size of approximately $0.4 million, marketable collateral and a Hawaii residential real estate market that has been relatively stable, credit losses on residential mortgages had been minimal during the past several years. However, economic conditions including unemployment levels, future changes in interest rates and other market factors can impact the marketability and value of collateral and thus the level of credit risk inherent in the portfolio.

Residential mortgage loan balances as of December 31, 2013 totaled $1.2 billion, increasing by $203.9 million, or 19.7%, from the $1.0 billion held at year-end 2012, which increased by $139.3 million, or 15.5%, from the $896.1 million held at year-end 2011. As previously mentioned, residential mortgage originations remained strong throughout most of 2013 fueled by the historically low interest rate environment driving strong refinancing activity.

Residential mortgage loans held for sale at December 31, 2013 totaled $12.4 million, a decrease of $25.9 million, or 67.7%, from the December 31, 2012 balance of $38.3 million, which increased by $0.4 million, or 1.1%, from the December 31, 2011 balance of $37.9 million. In 2013, 2012 and 2011, we did not securitize any residential mortgage loans.

Commercial

Real estate mortgage loans secured by commercial properties continue to represent a sizable portion of our loan portfolio. Our historical policy with respect to commercial mortgages is that loans be made for sound purposes, have a definite source and/or plan of repayment established at inception, and be backed up by reliable secondary sources of repayment and satisfactory collateral with good marketability. Loans secured by commercial property carry a greater risk than loans secured by residential property due to operating income risk. Operating income risk is the risk that the borrower will be unable to generate sufficient cash flow from the operation of the property. The commercial real estate market and interest rate conditions through economic cycles will impact risk levels.

Consumer Loans

The following table sets forth the major components of our consumer loan portfolio as of the dates indicated.

Table 11. Consumer Loan Portfolio Composition

	December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Automobile	$ 149,780	48.2 %	$ 70,219	48.9 %	$ 64,343	59.1 %	$ 66,955	59.2 %	$ 87,721	64.5 %
Other revolving credit plans	61,835	19.9	35,074	24.5	34,505	31.7	34,396	30.5	36,665	26.9
Other	99,073	31.9	38,090	26.6	9,962	9.2	11,598	10.3	11,704	8.6
Total	$ 310,688	100.0%	$ 143,383	100.0%	$ 108,810	100.0%	$ 112,949	100.0%	$ 136,090	100.0%

For consumer loans, credit risk is managed on a pooled basis. Considerations include an evaluation of the quality, character and inherent risks in the loan portfolio, current and projected economic conditions and past loan loss experience. Consumer loans represent a moderate credit risk. Loans in this category are generally either unsecured or secured by personal assets such as automobiles. The average loan size is generally small and risk is diversified among many borrowers. Our policy is to utilize credit-scoring systems for most of our consumer loans, which offer the ability to modify credit exposure based on our risk tolerance and loss experience.

Consumer loans totaled $310.7 million at December 31, 2013, increasing by $167.3 million, or 116.7%, from 2012's year-end balance of $143.4 million, which increased by $34.6 million, or 31.8%, compared to the $108.8 million held at year-end 2011. At December 31, 2013, automobile loans, primarily indirect dealer loans, comprised 48.2% of consumer loans outstanding.

Total automobile loans of $149.8 million at year-end 2013 increased by $79.6 million, or 113.3%, from 2012's year-end balance of $70.2 million, which increased by $5.9 million, or 9.1%, from $64.3 million at year-end 2011. The current year increase is primarily due to the purchases of auto loan portfolios for $67.7 million, which includes a $2.8 million premium over the $64.9 million outstanding balance.

In 2013, we purchased participation interests in student loans, which had an outstanding balance of $16.0 million at December 31, 2013. We did not have any participation interests in student loans at December 31, 2012. In addition, we issued solar photovoltaic loans which totaled $17.9 million at December 31, 2013, compared to $25 thousand at December 31, 2012.

Interest Reserves

Our policies require interest reserves for construction loans, including loans to build commercial buildings, residential developments (both large tract projects and individual houses), and multi-family projects.

The outstanding principal balance of loans with interest reserves was $27.4 million at December 31, 2013, compared to $59.4 million in the prior year, while remaining interest reserves was $2.4 million, or 8.7% of the outstanding principal balance of loans with interest reserves at December 31, 2013, compared to $0.1 million, or 0.2% of the outstanding principal balance of loans with interest reserves at December 31, 2012.

Interest reserves allow the Company to advance funds to borrowers to make scheduled payments during the construction period. These advances typically are capitalized and added to the borrower's outstanding loan balance, although we have the right to demand payment under certain circumstances. Our policy is to determine if interest reserve amounts are appropriately included in each project's construction budget and are adequate to cover the expected duration of the construction period.

The amount, terms, and conditions of the interest reserve are established when a loan is originated, although we generally have the option to demand payment if the credit profile of the borrower changes. We evaluate the viability and appropriateness of the construction project based on the project's complexity and feasibility, the timeline, as well as the creditworthiness of the borrowers, sponsors and/or guarantors, and the value of the collateral.

In the event that unfavorable circumstances alter the original project schedule (e.g., cost overruns, project delays, etc.), our policy is to evaluate whether or not it is appropriate to maintain interest capitalization or demand payment of interest in cash and will work with the borrower to explore various restructuring options, which may include obtaining additional equity and/or requiring additional collateral. We may also require borrowers to directly pay scheduled interest payments.

Our process for determining that construction projects are moving as planned are detailed in our lending policies and guidelines. Prior to approving a loan, the Company and borrower generally agree on a construction budget, a pro forma monthly disbursement schedule, and sales/leaseback assumptions. As each project progresses, the projections are measured against actual disbursements and sales/lease results to determine if the project is on schedule and performing as planned.

The specific monitoring requirements for each loan vary depending on the size and complexity of the project and the experience and financial strength of the borrower, sponsor and/or guarantor. At a minimum, to ensure that loan proceeds are properly disbursed and to assess whether it is appropriate to capitalize interest or demand cash payment of interest, our monitoring process generally includes:

- Physical inspection of the project to ensure work has progressed to the stage for which payment is being requested;
- Verification that the work completed is in conformance with plans and specifications and items for which disbursement is requested are within budget; and
- Determination that there continues to be satisfactory project progress.

In certain rare circumstances, we may decide to extend, renew, and/or restructure the terms of a construction loan. Reasons for the restructure can range from cost overruns to project delays and the restructuring can result in additional funds being advanced or an extension of the maturity date of the loan. Prior to the loan being restructured, our policy is to perform a detailed analysis to ensure that the economics of the project remain feasible and that the risks to the Company are within acceptable lending guidelines.

Concentrations of Credit Risk

As of December 31, 2013, approximately $1.9 billion, or 72.8% of loans outstanding were real estate related, including construction loans, residential mortgage loans and commercial mortgage loans.

Substantially all of our loans are made to companies and individuals with headquarters in, or residing in, the states of Hawaii and California. Consistent with our focus of being a Hawaii-based bank, 86% of our loan portfolio was concentrated in the Hawaii market while 14% was concentrated in the U.S. Mainland as of December 31, 2013.

Our foreign credit exposure as of December 31, 2013 was minimal and did not exceed 1% of total assets.

Maturities and Sensitivities of Loans to Changes in Interest Rates

Table 12 sets forth the maturity distribution of the loan portfolio at December 31, 2013. Table 13 sets forth the sensitivity of amounts due after one year to changes in interest rates at December 31, 2013. Both tables exclude real estate loans (other than construction loans) and consumer loans.

Table 12. Maturity Distribution of Commercial and Construction Loans

	Maturing			
	One year or less	Over one through five years	Over five years	Total
	(Dollars in thousands)			
	$ 36,361	$ 226,069	$ 136,286	$ 398,716

Commercial, financial and agricultural				
Real estate - construction	19,612	42,803	13,201	75,616
Total	$ 55,973	$ 268,872	$ 149,487	$ 474,332

At year-end 2013, 11.8% of our commercial and construction loans had maturities of one year or less, decreasing from the prior year's proportion of 29.7%. Meanwhile, loans in the one-through-five-years category increased to 56.7% in 2013 from 40.3% at year-end 2012 and loans in the greater-than-five-years category increased to 31.5% from 30.0% due to the aforementioned decrease in the one year or less maturity category.

Table 13. Maturity Distribution of Fixed and Variable Rate Loans

	Maturing		
	Over one through five years	Over five years	Total
	(Dollars in thousands)		
With fixed interest rates	$ 62,858	$ 38,246	$ 101,104
With variable interest rates	206,014	111,241	317,255
Total	$ 268,872	$ 149,487	$ 418,359

Of the loans with maturities in excess of one year at year-end 2013, 24.2% had fixed interest rates, while 75.8% had variable rates, which compares to 32.6% and 67.4%, respectively, at year-end 2012.

Provision and Allowance for Loan and Lease Losses

As described above under "—Critical Accounting Policies and Use of Estimates," the Provision is determined by management's ongoing evaluation of the loan portfolio and our assessment of the ability of the Allowance to cover inherent losses. Our methodology for determining the adequacy of the Allowance and Provision takes into account many factors, including the level and trend of nonperforming and potential problem loans, net charge-off experience, current repayment by borrowers, fair value of collateral securing specific loans, changes in lending and underwriting standards and general economic factors, nationally and in the markets we serve.

The Allowance consists of two components: allocated and unallocated. To calculate the allocated component, we combine specific reserves required for individual loans (including impaired loans), reserves required for pooled graded loans and loan concentrations, and reserves required for homogeneous loans (e.g., consumer loans and residential mortgage loans). We use a loan grading system whereby loans are segregated by risk. Certain graded commercial and commercial real estate loans are analyzed on an individual basis. Other graded loans are analyzed on an aggregate basis based on loss experience for the specific loan type; risks inherent in concentrations by geographic location, collateral or property type; and recent changes in loan grade and delinquencies. The determination of an allocated Allowance for homogeneous loans is done on an aggregate level based upon various factors including h