CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 05, 2010

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

FORM 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010

or

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

Commission file number 0-10777

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of registrant's common stock, no par value, on November 2, 2010 was 30,364,809 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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PART I.   FINANCIAL INFORMATION

Forward-Looking Statements

This document may contain forward-looking statements concerning projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure, or other financial items, concerning plans and objectives of management for future operations, concerning future economic performance, or concerning any of the assumptions underlying or relating to any of the foregoing. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and may include the words “believes”, “plans”, “intends”, “expects”, “anticipate “forecasts” or words of similar meaning. While we believe that our forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from projections for a variety of reasons, to include, but not limited to: the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis and earthquakes) on the Company’s business and operations and on tourism, the military, and other major industries operating within the Hawaii market and any other markets in which the Company does business; the impact of legislation affecting the banking industry (including the Dodd-Frank Wall Street Reform and Consumer Protection Act); the impact of regulatory action on the Company and Central Pacific Bank; the impact of competitive products, services, pricing, and other competitive forces; movements in interest rates; loan delinquency rates and changes in asset quality; adverse conditions in the public debt market, the stock market or other capital markets, including any adverse changes in the price of the Company's stock; and a general deterioration or malaise in economic conditions, including the continued destabilizing factors in the financial industry and continued 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 and in financial institutions in general and in particular our bank. For further information on factors that could cause actual results to materially differ from projections, please see the Company’s publicly available Securities and Exchange Commission filings, including the Company’s Form 10-K for the last fiscal year. The Company does not update any of its forward-looking statements.

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

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 72,109	$ 87,897
Interest-bearing deposits in other banks	852,306	400,470
Investment securities:		
Trading, at fair value	22,237	-
Available for sale, at fair value	579,969	919,655
Held to maturity (fair value of $3,420 at September 30, 2010 and $4,804 at December 31, 2009)	3,298	4,704
Total investment securities	605,504	924,359
Loans held for sale	54,842	83,830
Loans and leases	2,367,320	3,041,980
Less allowance for loan and lease losses	217,602	205,279
Net loans and leases	2,149,718	2,836,701
Premises and equipment, net	71,144	75,189
Accrued interest receivable	11,323	14,588
Investment in unconsolidated subsidiaries	15,413	17,395
Other real estate	51,958	26,954
Goodwill	-	102,689
Other intangible assets	44,774	45,390
Bank-owned life insurance	141,587	139,811
Federal Home Loan Bank stock	48,797	48,797
Income tax receivable	39,757	39,839
Other assets	14,009	25,613
Total assets	$ 4,173,241	$ 4,869,522
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 590,064	$ 638,328
Interest-bearing demand	631,842	588,396
Savings and money market	1,076,213	1,195,815
Time	889,214	1,146,377
Total deposits	3,187,333	3,568,916
Short-term borrowings	201,674	242,429
Long-term debt	616,869	657,874
Other liabilities	76,850	54,314
Total liabilities	4,082,726	4,523,533
Equity:		

Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding 135,000 shares at September 30, 2010 and December 31, 2009		130,086		128,975
Common stock, no par value, authorized 185,000,000 shares, issued and outstanding 30,364,680 shares at September 30, 2010 and 30,328,764 shares at December 31, 2009		406,291		405,355
Surplus		63,183		63,075
Accumulated deficit		(513,088)		(257,931)
Accumulated other comprehensive loss		(5,966)		(3,511)
Total shareholders' equity		80,506		335,963
Non-controlling interest		10,009		10,026
Total equity		90,515		345,989
Total liabilities and equity	$	4,173,241	$	4,869,522

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest income:				
Interest and fees on loans and leases	$ 33,456	$ 48,594	$ 106,556	$ 159,317
Interest and dividends on investment securities:				
Taxable interest	3,885	9,768	15,639	27,555
Tax-exempt interest	184	937	889	3,254
Dividends	3	2	8	7
Interest on deposits in other banks	510	106	1,307	117
Interest on Federal funds sold and securities purchased under agreements to resell	-	3	-	9
Total interest income	38,038	59,410	124,399	190,259
Interest expense:				
Interest on deposits:				
Demand	181	364	689	1,040
Savings and money market	1,323	3,250	4,459	9,527
Time	3,666	6,218	11,455	24,331
Interest on short-term borrowings	387	144	882	416
Interest on long-term debt	5,112	5,982	15,280	18,960
Total interest expense	10,669	15,958	32,765	54,274
Net interest income	27,369	43,452	91,634	135,985
Provision for loan and lease losses	79,893	142,496	159,142	243,570
Net interest income (loss) after provision for loan and lease losses	(52,524)	(99,044)	(67,508)	(107,585)
Other operating income:				
Service charges on deposit accounts	2,793	4,052	8,982	11,537
Other service charges and fees	4,110	3,549	11,445	10,453
Income from fiduciary activities	751	874	2,373	2,843
Equity in earnings of unconsolidated subsidiaries	197	134	328	613
Fees on foreign exchange	171	170	502	431
Investment securities gains (losses)	-	(169)	831	(318)
Other than temporary impairment on securities (net of $7,323 recognized in other comprehensive loss for the nine months ended 2009)	-	-	-	(2,565)

Loan placement fees	130	188	307	748
Net gain on sales of residential loans	2,036	3,060	5,313	11,608
Income from bank-owned life insurance	1,062	1,599	4,136	4,183
Other	400	1,982	2,934	6,189
Total other operating income	11,650	15,439	37,151	45,722
Other operating expense:				
Salaries and employee benefits	14,370	16,582	43,614	50,526
Net occupancy	3,196	3,260	9,803	9,640
Equipment	1,333	1,497	4,115	4,571
Amortization of other intangible assets	2,215	1,582	5,204	4,553
Communication expense	1,041	1,087	3,099	3,201
Legal and professional services	3,267	2,957	14,333	8,519
Computer software expense	856	818	2,632	2,570
Advertising expense	574	948	2,177	2,416
Goodwill impairment	-	50,000	102,689	50,000
Foreclosed asset expense	(1,017)	5,523	4,918	7,952
Write down of assets	-	-	940	1,339
Other	5,835	5,239	24,987	27,722
Total other operating expense	31,670	89,493	218,511	173,009
Loss before income taxes	(72,544)	(173,098)	(248,868)	(234,872)
Income tax expense (benefit)	-	10,043	-	(19,918)
Net loss	(72,544)	(183,141)	(248,868)	(214,954)
Preferred stock dividends and accretion	2,119	2,030	6,289	5,896
Net loss available to common shareholders	$ (74,663)	$ (185,171)	$ (255,157)	$ (220,850)
Per common share data:				
Basic and diluted loss per share	$ (2.46)	$ (6.38)	$ (8.42)	$ (7.67)
Shares used in computation:				
Basic and diluted shares	30,309	29,030	30,295	28,801

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Cash flows from operating activities:		
Net loss	$ (248,868)	$ (214,954)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan and lease losses	159,142	243,570
Depreciation and amortization	5,798	6,322
Gain on sale of premises and equipment	-	(3,612)
Goodwill impairment	102,689	50,000
Write down of assets	940	1,339
Foreclosed asset expense	4,918	7,952
Amortization of other intangible assets	5,204	4,553
Net amortization of investment securities	1,563	2,341
Share-based compensation	108	125
Net loss (gain) on investment securities	(831)	318
Net change in trading securities	26,889	-
Other than temporary impairment on securities	-	2,565
Deferred income tax expense	2,439	17,057
Net gain on sales of residential loans	(5,313)	(11,608)
Ineffective portion of derivatives	-	(3,364)
Proceeds from sales of loans held for sale	753,986	1,410,480
Originations of loans held for sale	(680,091)	(1,392,232)
Equity in earnings of unconsolidated subsidiaries	(328)	(613)
Increase in cash surrender value of bank-owned life insurance	(3,845)	(4,180)
Decrease (increase) in income tax receivable	82	(24,357)
Net change in other assets and liabilities	24,620	11,993
Net cash provided by operating activities	149,102	103,695
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	229,657	191,121
Proceeds from sales of investment securities available for sale	439,435	43,672
Purchases of investment securities available for sale	(378,686)	(416,769)
Proceeds from maturities of and calls on investment securities held to maturity	1,380	3,324
Net loan principal repayments	253,358	204,445
Proceeds from sales of loans originated for investment	187,445	112,444
Proceeds from sale of other real estate	16,636	1,406
Proceeds from bank-owned life insurance	2,069	794
	-	7,207

Proceeds from sale of premises and equipment				
Purchases of premises and equipment		(1,753)		(5,369)
Distributions from unconsolidated subsidiaries		724		573
Contributions to unconsolidated subsidiaries		(227)		(4,228)
Net cash provided by investing activities		750,038		138,620
Cash flows from financing activities:				
Net decrease in deposits		(381,583)		(50,635)
Proceeds from long-term debt		50,000		-
Repayments of long-term debt		(90,864)		(90,815)
Net decrease in short-term borrowings		(40,755)		(26,643)
Cash dividends paid on preferred stock		-		(2,362)
Net proceeds from issuance of common stock and stock option exercises		-		3,196
Net proceeds from issuance of preferred stock and warrants		-		134,256
Other, net		110		109
Net cash used in financing activities		(463,092)		(32,894)
Net increase in cash and cash equivalents		436,048		209,421
Cash and cash equivalents at beginning of period		488,367		107,745
Cash and cash equivalents at end of period	$	924,415	$	317,166
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	31,739	$	57,797
Income taxes		-		1,532
Cash received during the period for:				
Income taxes		1,068		14,035
Supplemental disclosure of noncash investing and financing activities:				
Net change in common stock held by directors' deferred compensation plan	$	6	$	60
Net reclassification of loans to other real estate		44,298		17,910
Net transfer of loans to loans held for sale		39,594		26,559
Net transfer of investment securities available for sale to trading		49,126		-
Securitization of residential mortgage loans into available for sale mortgage backed securities		-		50,146
Dividends accrued on preferred stock		5,288		2,531
Accretion of preferred stock discount		1,001		991

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the "Company," "we," "us" or "our") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company's consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2009. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

2. GOING CONCERN AND REGULATORY MATTERS

We continue to operate in a difficult environment and have been significantly impacted by the unprecedented credit and economic market turmoil, as well as the recessionary economy. Deterioration in the Hawaii and California commercial real estate markets and related declines in property values in those markets has had a negative impact on our operating results since the latter half of 2007.

Going Concern

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. We are under a Consent Order (the "Consent Order") that, among other things, required us to increase and maintain our leverage and total risk-based capital ratios to at least 10% and 12%, respectively, by March 31, 2010. We were unable to meet these capital ratio requirements as of March 31, 2010 and as of the date of this filing. Our inability to meet the capital ratio requirements under the Consent Order, as well as further declines in our capital ratios, exposes us to additional restrictions and regulatory actions, including potential regulatory take-over. Our inability to meet existing regulatory requirements and the uncertainty as to our ability to meet future regulatory requirements raises substantial doubt about our ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon many factors, including regulatory action and the ability of management to achieve its recovery plan, which is discussed below. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Regulatory Matters

In December 2009, the members of the Board of Directors of Central Pacific Bank agreed to the Consent Order with the Federal Deposit Insurance Corporation (the "FDIC") and the Hawaii Division of Financial Institutions (the "DFI"), which requires the bank to improve its capital position, asset quality, liquidity and management oversight, among other matters. In addition to the capital ratio requirements described above, the bank must also maintain an adequate allowance for loan and lease losses at all times and systematically reduce our commercial real estate loans, particularly land development and construction loans. The bank must also obtain approval from the FDIC and DFI before paying cash dividends or making other payments from the bank to Central Pacific Financial Corp. ("CPF").

While the bank continues to work toward full compliance with the Consent Order, we were not in compliance with a number of requirements, including the leverage and total risk-based capital ratio requirements referred to above. Consistent with our recovery plan, which is described more fully below, we are actively pursuing initiatives to reduce the capital needs of our bank and continue to make progress in our capital raising efforts. On November 4, 2010, we entered into definitive agreements with two investors with respect to an investment in our common stock as further described under Note 19 – Subsequent Events. We are also diligently attempting to comply with the remaining provisions of the Consent Order.

In addition to the Consent Order, on July 2, 2010, CPF entered into a Written Agreement (the "Agreement") with the Federal Reserve Bank of San Francisco (the "FRBSF") and DFI. For the most part, the Agreement continues and formalizes the terms of the Memorandum of Understanding ("MOU") that the Company entered into on April 1, 2009 with the FRBSF and DFI, and the Agreement supersedes the MOU in its entirety. Among other matters, the Agreement provides that unless we receive the consent of the FRBSF and DFI, we cannot: (i) pay dividends; (ii) receive dividends or payments representing a reduction in capital from Central Pacific Bank; (iii) directly or through its non-bank subsidiaries make any payments on subordinated debentures or trust preferred securities; (iv) directly or through any non-bank subsidiaries incur, increase or guarantee any debt; or (v) purchase or redeem any shares of its stock. The Agreement also requires that our Board of Directors fully utilize the Company's financial and managerial resources to ensure that the bank complies with the Consent Order. Additionally, we were required to submit to the FRBSF an acceptable capital plan and cash flow projection. The Agreement is included in a Form 8-K which we filed on July 9, 2010, with the U.S. Securities and Exchange Commission.

On July 21, 2010, a major financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters" for further discussion of the Dodd-Frank Act.

Recovery Plan

In March 2010, we began implementing a recovery plan designed to improve our financial health and capital ratios by downsizing our bank and focusing on our core businesses and traditional markets in Hawaii.

In addition to seeking to raise capital externally, key elements of the recovery plan include, but are not limited to:

- Aggressively managing the bank's existing loan portfolios to minimize further credit losses and to maximize recoveries,
- Shrinking the bank's balance sheet, including through the sale of pledged securities and reducing public deposits and repurchase positions,
- Reducing the bank's loan portfolio through paydowns, restructurings, and note sales, and
- Lowering operating costs.

To monitor the execution of the recovery plan and our capital raising efforts, our Board formed a Recovery Committee in March 2010.

To date, we have executed the following as part of this plan:

- Reduced our nonperforming assets from $499.8 million at December 31, 2009 to $372.7 million at September 30, 2010.
- Sold investment securities totaling $462.6 million at a net gain of $1.1 million, which reduced our total investment securities as a percentage of total assets from 19.0% at December 31, 2009 to 14.5% at September 30, 2010.
- Reduced our credit risk exposure in the non-agency MBS and municipal securities portfolios by $52.7 million and $37.7 million, respectively. Our remaining exposure in the non-agency MBS and municipal securities portfolios as of September 30, 2010 were $17 thousand and $0.5 million, respectively.

- Reduced our total loan and lease portfolio to $2.4 billion at September 30, 2010 from $3.0 billion at December 31, 2009. During the third quarter of 2010, we completed a sale of Mainland commercial real estate and construction loans with an aggregate book value of $124.1 million, of which $41.2 million were nonperforming at the time of the sale.

- Maintained an allowance for loan and lease losses (the "Allowance") adequate to cover credit losses inherent in the loan portfolio as of September 30, 2010. Our Allowance as a percentage of total loans increased to 9.19% at September 30, 2010 from 6.75% at December 31, 2009. Our Allowance as a percentage of nonperforming assets increased to 58.39% at September 30, 2010 from 41.07% at December 31, 2009.

- Improved our liquidity position with cash and cash equivalents totaling $924.4 million at September 30, 2010, compared to $488.4 million at December 31, 2009.

- Made progress with our previously announced plans to significantly reduce our exposure to the Mainland market by closing two California loan production offices.
    - Initiated steps to reduce operating costs through personnel reductions and completed the previously announced consolidation of two retail branch locations in Honolulu within close proximity of each other.

The actions described above are designed to reduce our capital needs over time by reducing our credit risk exposure and establishing a more streamlined and focused organization with a reduced infrastructure, while we continue to seek new capital. However, there is no assurance that we will be able to successfully implement this recovery plan or that the elements contemplated by the recovery plan are sufficient to ensure that we will continue operating as a going concern. Receipt of a substantial amount of new capital is critical to our recovery. Without this new capital on a timely basis, we will likely experience further regulatory action, including the possibility of being placed in receivership. This would result in the Company's loss of ownership of the bank or its assets, which is likely to result in a loss of the entire value of our common stock. While we have entered into investment agreements with two Lead Investors as described under Note 19 below, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise.

Liquidity

At September 30, 2010, the Company has cash and cash equivalents of $924.4 million. We also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the Federal Home Loan Bank, secured repurchase agreements and the Federal Reserve discount window, available to meet our liquidity needs. As further discussed in Notes 10 and 11, the Company's liquidity position may be adversely affected by dividend limitations imposed on us and our access to these funding sources.

At September 30, 2010, on a stand alone basis, CPF had approximately $4.0 million of cash available to meet its ongoing obligations. Assuming CPF is able to control its operating expenditures within normal levels, it continues to defer payments on its trust preferred securities and dividends on its TARP Preferred Stock, and there are no unanticipated cash requirements, we believe CPF will be able to meet its normally expected expense obligations through the end of 2010. It is unclear whether CPF may be able to borrow funds without credit support from Central Pacific Bank, which may not be available. Incurring, renewing or guarantying indebtedness by CPF requires the advance approval of the FRBSF and DFI. Accordingly, there are no assurances that CPF will be able to obtain funding from the issuance of equity or debt in the future to allow it to continue to meet its financial obligations when its current cash is depleted.

Our ability to maintain adequate levels of liquidity is dependent on the successful execution of our recovery plan, and more specifically, our ability to further reduce our loan portfolio, improve our risk profile, increase our regulatory capital ratios, and comply with the provisions of the Consent Order.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued certain guidance included in ASC 860-10 which required more information about transfers of financial assets and where companies have continuing exposure to the risks related to transferred financial assets. We adopted the guidance effective January 1, 2010 and the adoption did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued certain guidance included in ASC 942-810 which changed how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. We adopted the guidance effective January 1, 2010 and the adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements. This ASU required new disclosures regarding transfers and activity within the three levels of fair value hierarchy, as well as enhanced disclosures regarding the class of assets disclosed and the inputs and valuation techniques used to determine fair value. We adopted this statement effective January 1, 2010 and the adoption did not have a material impact on our consolidated financial statements.

4. INVESTMENT SECURITIES

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(Dollars in thousands)		
September 30, 2010				
Available for Sale				
U.S. Government sponsored entities debt securities	$ 207,572	$ 1,453	$ -	$ 209,025
States and political subdivisions	12,705	-	-	12,705
U.S. Government sponsored entities mortgage-backed securities	351,403	6,677	(870)	357,210
Non-agency collateralized mortgage obligations	17	-	-	17
Other	989	23	-	1,012
Total	$ 572,686	$ 8,153	$ (870)	$ 579,969
Held to Maturity				
States and political subdivisions	$ 500	$ 8	$ -	$ 508
U.S. Government sponsored entities mortgage-backed securities	2,798	114	-	2,912
Total	$ 3,298	$ 122	$ -	$ 3,420
December 31, 2009				
Available for Sale				
U.S. Government sponsored entities debt securities	$ 207,292	$ 1,010	$ (659)	$ 207,643
States and political subdivisions	51,449	375	(339)	51,485
U.S. Government sponsored entities mortgage-backed securities	600,507	14,088	(1,507)	613,088
Non-agency collateralized mortgage obligations	52,691	-	(6,222)	46,469
Other	984	-	(14)	970
Total	$ 912,923	$ 15,473	$ (8,741)	$ 919,655
Held to Maturity				
States and political subdivisions	$ 500	$ 2	$ -	$ 502
U.S. Government sponsored entities mortgage-backed securities	4,204	98	-	4,302
Total	$ 4,704	$ 100	$ -	$ 4,804

The amortized cost and estimated fair value of investment securities at September 30, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2010	
Amortized	Estimated

	Cost	Fair Value
	(Dollars in thousands)	
Available for Sale		
Due in one year or less	$ 12,577	$ 12,590
Due after one year through five years	185,897	187,156
Due after five years through ten years	16,503	16,684
Due after ten years	5,300	5,300
Mortage-backed securities	351,403	357,210
Other	1,006	1,029
Total	$ 572,686	$ 579,969
Held to Maturity		
Due after one year through five years	$ 500	$ 508
Mortage-backed securities	2,798	2,912
Total	$ 3,298	$ 3,420

As part of our recovery plan, we completed the sale of certain available for sale investment securities during the first quarter of 2010 and received gross proceeds of $439.4 million. Gross realized gains and losses on the sales of the available for sale investment securities were $9.6 million and $8.8 million, respectively. We did not sell any available for sale investment securities during the second and third quarters of 2010. Proceeds from sales of available for sale investment securities were $36.4 million and $43.7 million for the three and nine months ended September 30, 2009, respectively. Gross realized gains and losses during the three months ended September 30, 2009 were $0.3 million and $0.4 million, respectively, while gross realized gains and losses during the nine months ended September 30, 2009 were $0.3 million and $0.6 million, respectively. The basis on which the cost of all securities sold was determined using the specific identification method.

In addition to these sales, in the first quarter of 2010, we transferred certain securities formerly classified as available for sale to trading securities as we intended to sell these securities in the near-term as part of our recovery plan. In the second quarter of 2010, we sold $23.2 million of these trading securities. We did not sell any trading securities in the third quarter of 2010. Gross realized gains and losses on the sale of these securities were $0.4 million and $0.1 million, respectively. The transfer of these securities to the trading category was accounted for at fair value and resulted in the recognition of a net unrealized gain of $0.4 million during the nine months ended September 30, 2010. As of September 30, 2010, we have $22.2 million in trading securities remaining.

Investment securities of $542.5 million and $747.4 million at September 30, 2010 and December 31, 2009, respectively, were pledged to secure public funds on deposit, securities sold under agreements to repurchase and other long-term and short-term borrowings. None of these securities were pledged to a secured party that has the right to sell or repledge the collateral as of the same periods.

Provided below is a summary of the five and forty investment securities which were in an unrealized loss position at September 30, 2010 and December 31, 2009, respectively.

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
At September 30, 2010:						
U.S. Government sponsored entities mortgage-backed securities	$ 75,420	$ (870)	$ -	$ -	$ 75,420	$ (870)
Other	-	-	17	-	17	-
Total temporarily impaired securities	$ 75,420	$ (870)	$ 17	$ -	$ 75,437	$ (870)
At December 31, 2009:						
U.S. Government sponsored entities debt securities	$ 89,172	$ (659)	$ -	$ -	$ 89,172	$ (659)
States and political subdivisions	6,956	(197)	3,696	(142)	10,652	(339)
U.S. Government sponsored entities mortgage-backed securities	70,213	(1,504)	55	(3)	70,268	(1,507)
Non-agency collateralized mortgage obligations	7,624	(162)	38,845	(6,060)	46,469	(6,222)
Other	-	-	970	(14)	970	(14)
	$ 173,965	$ (2,522)	$ 43,566	$ (6,219)	$ 217,531	$ (8,741)

Total temporarily impaired securities

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

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

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

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

5. LOANS AND LEASES

Loans, excluding loans held for sale, consisted of the following at the dates indicated:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 227,660	$ 260,784
Real estate:		
Construction	465,188	813,333
Mortgage - residential	748,518	823,274
Mortgage - commercial	785,965	972,537
Consumer	112,553	136,090
Leases	31,466	41,803
	2,371,350	3,047,821
Unearned income	(4,030)	(5,841)
Total loans and leases	$ 2,367,320	$ 3,041,980

Impaired loans requiring an allowance for loan and lease losses at September 30, 2010 and December 31, 2009 amounted to $227.1 million and $293.2 million, respectively, and included all nonaccrual loans greater than $0.5 million and all loans modified in a troubled debt restructuring. Impaired loans not requiring an allowance for loan and lease losses at September 30, 2010 and December 31, 2009 amounted to $94.8 million and $185.7 million, respectively.

6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the changes in the Allowance for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Balance, beginning of period	$ 201,959	$ 166,071	$ 205,279	$ 119,878
Provision for loan and lease losses	79,893	142,496	159,142	243,570
	281,852	308,567	364,421	363,448

Charge-offs	(79,047)	(104,153)	(169,757)	(159,911)
Recoveries	14,797	500	22,938	1,377
Net charge-offs	(64,250)	(103,653)	(146,819)	(158,534)
Balance, end of period	$ 217,602	$ 204,914	$ 217,602	$ 204,914

The increase in the Allowance in the third quarter and first nine months of 2010 was a direct result of the $79.9 million and $159.1 million provision for loan and lease losses (the “Provision”), respectively, offset by $64.3 million and $146.8 million in net loan charge-offs, respectively. The Provision for the third quarter of 2010 reflects an increase to the Allowance related to our commercial and residential mortgage portfolios at September 30, 2010, which was made after considering various factors, including the risk characteristics inherent in these portfolios, our outlook for economic and market factors, and input from our regulators.

7. SECURITIZATIONS

In prior years, we securitized certain residential mortgage loans with a U.S. Government sponsored entity and continue to service the residential mortgage loans. The servicing assets were recorded at their respective fair values at the time of securitization. The fair value of the servicing assets were determined using a discounted cash flow model based on market value assumptions at the time of securitization and is amortized in proportion to and over the period of net servicing income.

All unsold mortgage-backed securities were categorized as available for sale securities and were therefore recorded at their fair value of $10.4 million and $56.2 million at September 30, 2010 and December 31, 2009, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.4 million and unrealized losses of $0.5 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive loss (“AOCL”) at September 30, 2010 and December 31, 2009, respectively.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Prior to March 31, 2010, we reviewed the carrying amount of goodwill for impairment on an annual basis. Additionally, we performed an impairment assessment of goodwill and evaluate our other intangible assets whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may result in impairments to goodwill. Absent any impairment indicators, we performed our annual goodwill impairment test during the fourth quarter of each fiscal year.

Our impairment assessment of goodwill and other intangible assets involved the estimation of future cash flows and the fair value of reporting units to which goodwill is allocated. We reconciled the estimated fair values of our reporting units to our total market capitalization plus a control premium. Estimating future cash flows and determining fair values of the reporting units was judgmental and often involved the use of significant estimates and assumptions. These estimates and assumptions could have had a significant impact on whether or not an impairment charge was recognized and also the magnitude of the impairment charge.

During the first quarter of 2010, we determined that an impairment test was required because of the uncertainty regarding our ability to continue as a going concern combined with the fact that our market capitalization remained depressed. As a result of our impairment test, we determined that the remaining goodwill associated with our Hawaii Market reporting unit was impaired and we recorded a non-cash impairment charge of $102.7 million during that quarter. As of September 30, 2010, we had no goodwill remaining on our consolidated balance sheet.

Other intangible assets include a core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements. The following table presents changes in other intangible assets for the nine months ended September 30, 2010:

	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
			(Dollars in thousands)		
Balance, beginning of period	$ 23,401	$ 20,589	$ 1,190	$ 210	$ 45,390
Additions	-	4,588	-	-	4,588

Amortization	(2,005)	(3,049)	(105)	(45)	(5,204)
Balance, end of period	$ 21,396	$ 22,128	$ 1,085	$ 165	$ 44,774

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $1.6 million and $4.6 million for the three and nine months ended September 30, 2010, respectively, compared to $1.8 million and $9.7 million for the three and nine months ended September 30, 2009, respectively. Amortization of mortgage servicing rights was $1.5 million and $3.0 million for the three and nine months ended September 30, 2010, respectively, compared to $0.9 million and $2.4 million for the three and nine months ended September 30, 2009, respectively.

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

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Fair market value, beginning of period	$ 23,019	$ 12,107
Fair market value, end of period	22,228	19,633
Weighted average discount rate	8.5 %	8.6 %
Weighted average prepayment speed assumption	13.8	14.7

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

	September 30, 2010 Gross Carrying Value	Accumulated Amortization	Net	December 31, 2009 Gross Carrying Value	Accumulated Amortization	Net
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (23,246)	$ 21,396	$ 44,642	$ (21,241)	$ 23,401
Mortgage servicing rights	39,945	(17,817)	22,128	35,357	(14,768)	20,589
Customer relationships	1,400	(315)	1,085	1,400	(210)	1,190
Non-compete agreements	300	(135)	165	300	(90)	210
	$ 86,287	$ (41,513)	$ 44,774	$ 81,699	$ (36,309)	$ 45,390

Based on the core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements held as of September 30, 2010, estimated amortization expense for the remainder of fiscal 2010, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense				
	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
	(Dollars in thousands)				
2010 (remainder)	$ 669	$ 502	$ 35	$ 15	$ 1,221
2011	2,674	4,281	140	60	7,155
2012	2,674	3,531	140	60	6,405
2013	2,674	2,898	140	30	5,742
2014	2,674	2,417	140	-	5,231
2015	2,674	1,996	140	-	4,810

Thereafter	7,357	6,503	350	-	14,210
	$ 21,396	$ 22,128	$ 1,085	$ 165	$ 44,774

9. DERIVATIVES

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

Interest Rate Swap

In January 2008, we entered into a derivative transaction to hedge future cash flows from a portion of our then existing variable rate loan portfolio. Under the terms of the arrangement, we would receive payments equal to a fixed interest rate of 6.25% from January 2008 through January 2013 from the counterparty on a notional amount of $400 million. In return, we would pay the counterparty a floating rate, namely our prime rate, on the same notional amount. The purpose of the derivative transaction was to minimize the risk of fluctuations in interest payments received on our variable rate loan portfolio. The derivative transaction was designated as a cash flow hedge.

On September 1, 2009, we terminated the derivative transaction with the counterparty at its then fair market value of $18.0 million. As a result of the termination, we recorded an unrealized gain related to hedge effectiveness of $12.5 million as a component of AOCL and $5.5 million of hedge ineffectiveness as other operating income. The unrealized gain will be recognized into income over the original contract period of January 2013 using the effective yield method and we expect to reclassify $4.1 million of this gain into earnings within the next 12 months.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At September 30, 2010, we were a party to interest rate lock and forward sale commitments on $159.7 million and $48.4 million of mortgage loans, respectively.

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

		Asset Derivatives		Liability Derivatives	
Derivatives not Designated as Hedging Instruments	Balance Sheet Location	Fair Value at September 30, 2010	Fair Value at December 31, 2009	Fair Value at September 30, 2010	Fair Value at December 31, 2009
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 502	$ 1,035	$ 653	$ 1,217

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

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in AOCL on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCL into Earnings (Effective Portion)	Amount of Gain Recognized in Earnings on Derivative (Ineffective Portion)
		(Dollars in thousands)	

Three Months Ended September 30, 2010			
Interest rate contracts	$ -	$ 1,652	$ -
Three Months Ended September 30, 2009			
Interest rate contracts	182	647	1,258
Nine Months Ended September 30, 2010			
Interest rate contracts	-	5,263	-
Nine Months Ended September 30, 2009			
Interest rate contracts	(7,350)	(1,147)	5,461

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

Derivatives not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives		
	(Dollars in thousands)			
Three Months Ended September 30, 2010				
Interest rate contracts	Other operating income	$	(154	)
Three Months Ended September 30, 2009				
Interest rate contracts	Other operating income		238	
Nine Months Ended September 30, 2010				
Interest rate contracts	Other operating income		938	
Nine Months Ended September 30, 2009				
Interest rate contracts	Other operating income		(2,260	)

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At September 30, 2010, our bank maintained a $112.9 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of September 30, 2010, certain real estate loans totaling $241.9 million have been pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans. Future advances under this arrangement are subject to approval of the Federal Reserve. Furthermore, all terms and maturities of advances under this arrangement are at the discretion of the Federal Reserve and are generally limited to overnight borrowings. As of September 30, 2010, our bank was no longer eligible to access the Federal Reserve's primary credit facility but still maintained access to its secondary facility. There was no change in the level of credit available to the bank; however, future advances will have higher borrowing costs under the secondary facility.

The bank is a member of and maintained a $983.8 million line of credit with the Federal Home Loan Bank of Seattle ("FHLB") as of September 30, 2010. Short-term and long-term borrowings under this arrangement totaled $200.0 million and $508.3 million at September 30, 2010, respectively, compared to $549.6 million of long-term borrowings at December 31, 2009. There were no short-term borrowings under this arrangement at December 31, 2009. FHLB advances outstanding at September 30, 2010 were secured by interest-bearing deposits at the FHLB of $0.2 million, our bank's holdings of FHLB stock, other unencumbered investment securities with a fair value of $443.9 million and certain real estate loans totaling $601.0 million in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. Approximately $275.5 million was undrawn under this arrangement at September 30, 2010. The FHLB has no obligation to make future advances to the bank. Although the bank has not received any notice from the FHLB, the bank is in default under this arrangement by virtue of the Consent Order and the FHLB has the right to call all outstanding borrowings under this arrangement or take action against the assets securing these borrowings.

On August 20, 2009, we began deferring regularly scheduled interest payments on our outstanding junior subordinated debentures relating to our trust preferred securities. The terms of the junior subordinated debentures and the trust documents allow us to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. During the deferral period, which currently stands at five consecutive quarters, the respective trusts have suspended the declaration and payment of dividends on the trust preferred securities. Also during the deferral period, we may not, among other things and with limited exceptions, pay cash dividends on or repurchase our common stock or preferred stock or make any payment on outstanding debt obligations that rank equally with or junior to the junior subordinated debentures. During the deferral period, we will continue to accrue, and reflect in our consolidated financial statements, the deferred interest payments on our junior subordinated debentures. Accrued interest on our outstanding junior subordinated debentures relating to our trust preferred securities was \$4.2 million and \$1.8 million at September 30, 2010 and December 31, 2009, respectively.

11. EQUITY

Beginning in the third quarter of 2009, we suspended the payment of cash dividends on our outstanding Fixed Rate Cumulative Perpetual Preferred Stock (the “TARP Preferred Stock”). During the deferral period, we will continue to accrue, and reflect in our consolidated financial statements, the deferred dividends on our outstanding TARP Preferred Stock. Accrued dividends on our outstanding TARP Preferred Stock were \$9.6 million and \$4.3 million at September 30, 2010 and December 31, 2009, respectively.

In 2009, our Board of Directors suspended the payment of all cash dividends on our common stock. Our ability to pay dividends with respect to common stock is subject to obtaining approval from the FRBSF, DFI and U.S. Treasury, and is restricted until our obligations under our trust preferred securities and TARP Preferred Stock are brought current. Accordingly, we do not anticipate paying cash dividends in the foreseeable future. Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. In addition to obtaining approval from the FDIC and DFI, Hawaii law only permits Central Pacific Bank to pay dividends out of retained earnings. Given that the bank had an accumulated deficit of $483.3 million at September 30, 2010, the bank is prohibited from paying any dividends until this deficit is eliminated. Accordingly, we do not anticipate that the bank will be permitted to pay dividends for the foreseeable future.

12. SHARE-BASED COMPENSATION

Stock Option Activity

The following is a summary of stock option activity for the Company's stock option plans for the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	1,014,100	$ 21.12
Changes during the period:		
Expired	(106,972)	19.29
Forfeited	(38,170)	17.37
Outstanding at September 30, 2010	868,958	21.51

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the nine months ended September 30, 2010:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	21,020	$ 34.60
Changes during the period:		
Granted	275,000	1.83
Vested	(8,520)	34.27
Forfeited	(6,500)	33.83
Nonvested at September 30, 2010	281,000	2.56

Performance Shares and Stock Appreciation Rights

No performance shares or SARs were granted under the 2005 LTIP and 2008 LTIP during the nine months ended September 30, 2010.

The table below presents activity of performance shares under both the 2005 LTIP and 2008 LTIP for the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	80,464	$ 18.88
Changes during the period:		
Forfeited	(27,101)	18.88
Outstanding at September 30, 2010	53,363	18.88

The table below presents activity of SARs under both the 2005 LTIP and 2008 LTIP for the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	179,512	$ 19.24
Changes during the period:		
Vested	(3,799)	35.90
Forfeited	(58,821)	18.88
Outstanding at September 30, 2010	116,892	18.88

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss, net of taxes, were as follows:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Available for sale securities:		
Unrealized losses due to other-than-temporary impairment related to factors other than credit	$ -	$ (5,158)
All other unrealized gains	7,283	11,109
Unrealized holding gains (losses) on derivatives	(5,210)	53
Pension adjustments	(8,039)	(9,515)
Accumulated other comprehensive loss, net of tax	$ (5,966)	$ (3,511)

Components of comprehensive loss (net of taxes) for the periods indicated were as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Dollars in thousands)			
Net loss	$ (72,544)	$ (183,141)	$ (248,868)	$ (214,954)
Unrealized gain (loss) on investment securities	(646)	7,372	1,332	3,825
Unrealized loss on derivatives	(1,652)	(5,329)	(5,263)	(12,862)
Pension adjustments	516	72	1,476	1,619
Comprehensive loss	$ (74,326)	$ (181,026)	$ (251,323)	$ (222,372)

14. PENSION PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Interest cost	$ 437	$ 450	$ 1,311	$ 1,350
Expected return on assets	(428)	(350)	(1,284)	(1,050)
Amortization of unrecognized loss	514	525	1,542	1,575
Net periodic cost	$ 523	$ 625	$ 1,569	$ 1,875

The fair values of the defined benefit retirement plan as of September 30, 2010 and December 31, 2009 by asset category were as follows:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
September 30, 2010				
Money market accounts	$ 579	$ -	$ -	$ 579
Mutual funds	7,013	-	-	7,013
Government obligations	-	3,413	-	3,413
Common stocks	4,966	-	-	4,966
Preferred stocks	431	-	-	431
Corporate bonds and debentures	-	3,661	-	3,661
Limited partnerships	-	2,148	-	2,148
	$ 12,989	$ 9,222	$ -	$ 22,211
December 31, 2009				
Money market accounts	$ 720	$ -	$ -	$ 720
Mutual funds	7,850	-	-	7,850
Government obligations	-	3,327	-	3,327
Common stocks	5,180	-	-	5,180
Preferred stocks	223	-	-	223
Corporate bonds and debentures	-	2,538	-	2,538
Limited partnerships	-	2,315	-	2,315
	$ 13,973	$ 8,180	$ -	$ 22,153

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Service cost	$ -	$ 26	$ 18	$ 78
Interest cost	108	116	324	348
Amortization of unrecognized transition obligation	4	9	12	27
Amortization of prior service cost	(7)	5	(21)	15
Amortization of unrecognized loss	5	1	15	3
Net periodic cost	$ 110	$ 157	$ 348	$ 471

15. INCOME TAXES

The valuation allowance for net deferred tax assets at September 30, 2010 and December 31, 2009 was $167.5 million and $104.6 million, respectively. The $62.9 million increase in our valuation allowance during the first nine months of 2010 was attributable to an increase in our net deferred tax assets resulting from the net operating loss recognized in the first nine months of 2010. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the Company's cumulative three year loss position and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will be unable to realize the benefits of these deductible differences. The amount of the net deferred tax asset considered realizable, however, could change if estimates of future taxable income during the carryforward period change.

16. LOSS PER SHARE

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share data)			
Net loss	$ (72,544)	$ (183,141)	$ (248,868)	$ (214,954)
Preferred stock dividends and accretion	2,119	2,030	6,289	5,896
Net loss available to common shareholders	$ (74,663)	$ (185,171)	$ (255,157)	$ (220,850)
Weighted average shares outstanding - basic and diluted	30,309	29,030	30,295	28,801
Basic and diluted loss per share	$ (2.46)	$ (6.38)	$ (8.42)	$ (7.67)

A total of 2,909,760 potentially dilutive securities have been excluded from the dilutive share calculation for the three and nine months ended September 30, 2010, as their effect was antidilutive, compared to 2,932,659 for the three and nine months ended September 30, 2009.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

Investment Securities

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

Loans

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

Other Interest Earning Assets

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

Deposit Liabilities

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

Short-Term Borrowings and Long-Term Debt

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

Off-Balance Sheet Financial Instruments

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

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

Limitations

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

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

	September 30, 2010		December 31, 2009	
	Carrying/ notional amount	Estimated fair value	Carrying/ notional amount	Estimated fair value
	(Dollars in thousands)			
Financial assets				
Cash and due from banks	$ 72,109	$ 72,109	$ 87,897	$ 87,897
Interest-bearing deposits in other banks	852,306	852,306	400,470	400,470
Investment securities	605,504	605,626	924,359	924,459
Net loans and leases, including loans held for sale	2,204,560	2,146,973	2,920,531	2,928,475
Accrued interest receivable	11,323	11,323	14,588	14,588
Financial liabilities				
Deposits:				
Noninterest-bearing deposits	590,064	590,064	638,328	638,328

Interest-bearing demand and savings deposits	1,708,055	1,708,055	1,784,211	1,784,211
Time deposits	889,214	892,956	1,146,377	1,147,629
Total deposits	3,187,333	3,191,075	3,568,916	3,570,168
Short-term borrowings	201,674	201,228	242,429	242,476
Long-term debt	616,869	547,824	657,874	608,696
Accrued interest payable (included in other liabilities)	10,006	10,006	8,980	8,980
Off-balance sheet financial instruments				
Commitments to extend credit	463,765	2,319	541,825	2,709
Standby letters of credit and financial guarantees written	17,423	131	39,650	297
Interest rate options	159,677	(8)	89,943	(1,161)
Forward interest rate contracts	48,390	(143)	75,162	979
Forward foreign exchange contracts	-	-	2,184	2,187

Fair Value Measurements

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

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

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

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

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

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

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

	Fair Value	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
September 30, 2010				
Trading securities:				
U.S. Government sponsored entities mortgage-backed securities	$ 22,237	$ -	$ 22,237	$ -
Available for sale securities:				
U.S. Government sponsored entities debt securities	209,025	-	209,025	-
States and political subdivisions	12,705	-	-	12,705
U.S. Government sponsored entities mortgage-backed securities	357,210	-	357,210	-
Non-agency collateralized mortgage obligations	17	-	-	17
Other	1,012	1,012	-	-
Derivatives:				
Interest rate contracts	(151)	-	(151)	-
Total	$ 602,055	$ 1,012	$ 588,321	$ 12,722
December 31, 2009				
Available for sale securities:				
U.S. Government sponsored entities debt securities	$ 207,643	$ -	$ 207,643	$ -
States and political subdivisions	51,485	-	37,707	13,778
U.S. Government sponsored entities mortgage-backed securities	613,088	-	613,088	-
Non-agency collateralized mortgage obligations	46,469	-	-	46,469
Other	970	970	-	-
Derivatives:				
Interest rate contracts	(182)	-	(182)	-
Total	$ 919,473	$ 970	$ 858,256	$ 60,247

For the nine months ended September 30, 2010 and 2009, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Available for sale securities	Available for sale non-agency collateralized mortgage obligations (1)
	(Dollars in thousands)	

Balance at December 31, 2009	$	13,778	$	46,469
Principal payments received		(1,073)		(1,052)
Realized net losses included in net loss		-		(7,275)
Unrealized net gains included in other comprehensive loss		-		6,222
Sales		-		(44,347)
Balance at September 30, 2010	$	12,705	$	17
Balance at December 31, 2008	$	14,244	$	106,091
Principal payments received		(353)		(35,888)
Unrealized net losses included in other comprehensive loss		-		(4,635)
Balance at September 30, 2009	$	13,891	$	65,568

(1) Represents available for sale non-agency collateralized mortgage obligations previously classified as Level 2 for which the market became inactive during 2008; therefore the fair value measurement was derived from discounted cash flow models using unobservable inputs and assumptions.

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at September 30, 2010 and December 31, 2009, the following table provides the level of valuation assumptions used to determine the respective fair values:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
September 30, 2010				
Loans held for sale (1)	$ 7,083	$ -	$ 7,083	$ -
Impaired loans (1)	282,273	-	282,273	-
Other real estate (2)	51,958	-	51,958	-
December 31, 2009				
Loans held for sale (1)	$ 18,161	$ -	$ 18,161	$ -
Impaired loans (1)	440,538	-	440,538	-
Goodwill (3)	102,689	-	-	102,689
Other real estate (2)	26,954	-	26,954	-

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

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

(3) Represents carrying value subsequent to write-downs for impairment.

In accordance with the provisions of FASB Codification Topic 350, Intangibles—Goodwill and Other, during the first quarter of 2010, the carrying amount of goodwill was considered fully impaired. Accordingly, we recognized a non-cash impairment charge of $102.7 million in the first quarter of 2010 (see Note 8). As of September 30, 2010, we had no goodwill remaining on our consolidated balance sheet.

18. SEGMENT INFORMATION

We have three reportable segments: Commercial Real Estate, Hawaii Market and Treasury. The segments reported are consistent with internal functional reporting lines. They are managed separately because each unit has different target markets, technological requirements, marketing strategies and specialized skills.

The Commercial Real Estate segment includes construction and real estate development lending in Hawaii, California and Washington. The Hawaii Market segment includes retail branch offices, commercial lending, residential mortgage lending and servicing, indirect auto lending, trust services and retail brokerage services. A full range of deposit and loan products and various other banking services are offered. The Treasury segment is responsible for managing the Company's investment securities portfolio and wholesale funding activities. The All Others category includes activities such as electronic banking, data processing and management of bank owned properties.

The accounting policies of the segments are consistent with the Company's accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. The majority of the Company’s net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

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

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

	Commercial Real Estate	Hawaii Market	Treasury	All Others	Total
			(Dollars in thousands)		
Three months ended September 30, 2010:					
Net interest income	$ 9,868	$ 17,001	$ 500	$ -	$ 27,369
Intersegment net interest income (expense)	(6,958)	6,740	773	(555)	-
Provision for loan and lease losses	(64,316)	(15,577)	-	-	(79,893)
Other operating income	228	9,633	1,587	202	11,650
Other operating expense	294	(19,782)	(337)	(11,845)	(31,670)
Administrative and overhead expense allocation	(1,637)	(10,013)	(102)	11,752	-
Income taxes	-	-	-	-	-
Net income (loss)	$ (62,521)	$ (11,998)	$ 2,421	$ (446)	$ (72,544)
Three months ended September 30, 2009:					
Net interest income	$ 20,790	$ 16,680	$ 5,982	$ -	$ 43,452
Intersegment net interest income (expense)	(12,337)	14,451	(5,857)	3,743	-
Provision for loan and lease losses	(128,900)	(13,596)	-	-	(142,496)
Other operating income	232	11,948	3,167	92	15,439
Goodwill impairment	-	(50,000)	-	-	(50,000)
Other operating expense (excluding goodwill impairment)	(6,203)	(21,381)	(815)	(11,094)	(39,493)
Administrative and overhead expense allocation	(1,241)	(8,884)	(81)	10,206	-
Income taxes	(11,299)	2,012	(583)	(173)	(10,043)
Net income (loss)	$ (138,958)	$ (48,770)	$ 1,813	$ 2,774	$ (183,141)
Nine months ended September 30, 2010:					
Net interest income	$ 35,479	$ 50,061	$ 6,094	$ -	$ 91,634
Intersegment net interest income (expense)	(25,170)	24,568	333	269	-
Provision for loan and lease losses	(106,416)	(52,726)	-	-	(159,142)
Other operating income	697	29,283	7,107	64	37,151
Goodwill impairment	-	(102,689)	-	-	(102,689)
Other operating expense (excluding goodwill impairment)	(14,690)	(62,257)	(1,354)	(37,521)	(115,822)
Administrative and overhead expense allocation	(4,047)	(30,270)	(318)	34,635	-
Income taxes	-	-	-	-	-
Net income (loss)	$ (114,147)	$ (144,030)	$ 11,862	$ (2,553)	$ (248,868)

Nine months ended September 30, 2009:					
Net interest income	$ 69,877	$ 50,608	$ 15,500	$ -	$ 135,985
Intersegment net interest income (expense)	(38,536)	41,960	(10,883)	7,459	-
Provision for loan and lease losses	(215,100)	(28,470)	-	-	(243,570)
Other operating income	733	34,831	6,156	4,002	45,722
Goodwill impairment	-	(50,000)	-	-	(50,000)
Other operating expense (excluding goodwill impairment)	(20,309)	(65,967)	(2,741)	(33,992)	(123,009)
Administrative and overhead expense allocation	(3,654)	(26,434)	(260)	30,348	-
Income taxes	16,588	6,271	(1,795)	(1,146)	19,918
Net income (loss)	$ (190,401)	$ (37,201)	$ 5,977	$ 6,671	$ (214,954)
At September 30, 2010:					
Investment securities	$ -	$ -	$ 605,504	$ -	$ 605,504
Loans and leases (including loans held for sale)	839,695	1,582,467	-	-	2,422,162
Other	(44,279)	6,887	1,087,139	95,828	1,145,575
Total assets	$ 795,416	$ 1,589,354	$ 1,692,643	$ 95,828	$ 4,173,241
At December 31, 2009:					
Investment securities	$ -	$ -	$ 924,359	$ -	$ 924,359
Loans and leases (including loans held for sale)	1,475,760	1,650,050	-	-	3,125,810
Other	(113,918)	173,935	645,397	113,939	819,353
Total assets	$ 1,361,842	$ 1,823,985	$ 1,569,756	$ 113,939	$ 4,869,522

19. SUBSEQUENT EVENTS

We evaluated the effects of events that have occurred subsequent to September 30, 2010 and identified the following transactions warranting disclosure:

On November 1, 2010, we sold a property with an aggregate carrying value of $12.0 million for total net proceeds of $19.6 million. Accordingly, a gain of $7.6 millon will be recognized in connection with the sale during the fourth quarter of 2010.

On November 4, 2010, we announced that CPF has entered into definitive agreements with affiliates of The Carlyle Group and Anchorage Capital Group, L.L.C. (collectively, the “Lead Investors”) pursuant to which each Lead Investor agreed to invest approximately $98 million in common stock of the Company. This investment is part of an expected aggregate $325 million capital raise by the Company from institutional and other investors. The closing of each Lead Investor’s investment is conditioned upon the Company raising the remaining $130 million from other investors and exchanging its TARP preferred stock for common stock and amending its TARP warrant on specified terms. The closing is further conditioned on, among other things, receipt of requisite regulatory approvals and the Company’s receipt of approval from the NYSE to issue the common stock in the capital raise in reliance on the shareholder approval exception set forth in Section 312.05 of the NYSE listed company manual (or, in the event that the NYSE does not provide such approval, receipt of shareholder approval of the issuance of common stock in the capital raise). The Company also plans to conduct a $20 million rights offering after the closing of the capital raise that will allow current shareholders or their transferees to purchase shares of common stock at the same purchase price per share as the Lead Investors. There is no assurance that we will be able to satisfy all the closing conditions and successfully complete the capital raise.

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

Overview

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

Central Pacific Bank is a full-service community bank with 35 branches and more than 120 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans. The bank also has a loan production office in California. As part of our recovery plan, which is described more fully under "—Capital Resources" below, we plan to significantly reduce our exposure to the Mainland.

Recent Events

On November 4, 2010, we announced that CPF has entered into definitive agreements with affiliates of The Carlyle Group and Anchorage Capital Group, L.L.C. (collectively, the "Lead Investors") pursuant to which each Lead Investor agreed to invest approximately $98 million in common stock of the Company. This investment is part of an expected aggregate $325 million capital raise by the Company from institutional and other investors. The closing of each Lead Investor's investment is conditioned upon the Company raising the remaining $130 million from other investors and exchanging its TARP preferred stock for common stock and amending its TARP warrant on specified terms. The closing is further conditioned on, among other things, receipt of requisite regulatory approvals and the Company's receipt of approval from the NYSE to issue the common stock in the capital raise in reliance on the shareholder approval exception set forth in Section 312.05 of the NYSE listed company manual (or, in the event that the NYSE does not provide such approval, receipt of shareholder approval of the issuance of common stock in the capital raise). The Company also plans to conduct a $20 million rights offering after the closing of the capital raise that will allow current shareholders or their transferees to purchase shares of common stock at the same purchase price per share as the Lead Investors. There is no assurance that we will be able to satisfy all the closing conditions and successfully complete the capital raise.

Regulatory Matters

We are under the Consent Order that requires our bank to improve our capital position, asset quality, liquidity and management oversight, among other matters. Specifically, we were required to increase and maintain our leverage and total risk-based capital ratios to at least 10% and 12%, respectively, by March 31, 2010. In addition to these capital ratio requirements, we are also required to maintain an adequate allowance for loan and lease losses at all times and systematically reduce our commercial real estate loans, particularly land development and construction loans. We must also obtain approval from the FDIC and DFI before paying cash dividends or making other payments from the bank to Central Pacific Financial Corp.

While the bank continues to work toward full compliance with the Consent Order, we were not in compliance with a number of requirements, including the leverage and total risk-based capital ratio requirements referred to above. Consistent with our recovery plan, we are actively pursuing initiatives to reduce the capital needs of our bank and continue to make progress in our capital raising efforts as described above. We are also diligently attempting to comply with the remaining provisions of the Consent Order.

In addition to the Consent Order, on July 2, 2010, CPF entered into a Written Agreement (the “Agreement”) with the FRBSF and DFI. For the most part, the Agreement continues and formalizes the terms of the Memorandum of Understanding (“MOU”) that the Company entered into on April 1, 2009 with the FRBSF and DFI, and the Agreement supersedes the MOU in its entirety. Among other matters, the Agreement provides that unless we receive the consent of the FRBSF and DFI, we cannot: (i) pay dividends; (ii) receive dividends or payments representing a reduction in capital from Central Pacific Bank; (iii) directly or through its non-bank subsidiaries make any payments on subordinated debentures or trust preferred securities; (iv) directly or through any non-bank subsidiaries incur, increase or guarantee any debt; or (v) purchase or redeem any shares of its stock. The Agreement also requires that our Board of Directors fully utilize the Company’s financial and managerial resources to ensure that the bank complies with the Consent Order. Additionally, we were required to submit to the FRBSF an acceptable capital plan and cash flow projection. The Agreement is included in a Form 8-K which we filed on July 9, 2010, with the U.S. Securities and Exchange Commission.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act contains numerous provisions that will affect all banks and bank holding companies, and will fundamentally change the system of oversight described in Part I, Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the caption “Supervision and Regulation.” The Dodd-Frank Act includes provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and, for large financial institutions, enforcing compliance with federal consumer financial laws. At the federal level, the FDIC will continue to examine us for compliance with such laws.

- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (the “DIF”) and increase the floor of the size of the DIF.

- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

- Require the FDIC and FRB to seek to make their respective capital requirements for state nonmember banks and bank holding companies countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

- Make permanent the $250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

- Increase the authority of the Federal Reserve to examine us and any of our non-bank subsidiaries.

- Authorize the FDIC to assess the cost of examinations (the FDIC does not currently assess fees for examining Central Pacific Bank).

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The environment in which banking organizations will now operate, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot now be foreseen. The specific impact of the Dodd-Frank Act on our current activities or new financial activities we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally.

Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. We are under the Consent Order that, among other things, required us to increase and maintain our leverage and total risk-based capital ratios to at least minimums of 10% and 12%, respectively, by March 31, 2010. We were unable to meet these capital ratio requirements as of March 31, 2010 and as of the date of this filing. Our inability to meet the capital ratio requirements under the Consent Order, as well as further declines in our capital ratios exposes us to additional restrictions and regulatory actions, including potential regulatory take-over. Our inability to meet existing regulatory requirements and the uncertainty as to our ability to meet future regulatory requirements raises substantial doubt about our ability to continue as a going concern. Management's plans concerning these matters are discussed under "—Capital Resources" below and in Note 2 to the Consolidated Financial Statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

We maintain an allowance for loan and lease losses (the "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 construction market. In addition, various regulatory agencies, as an integral part of their examination, periodically review our Allowance and may provide input with respect to the methodology or judgments we utilize to estimate the Allowance. After considering these factors, an overall required Allowance is calculated. Based on our estimate of the level of Allowance required, a provision for loan and lease losses (the "Provision") is recorded to maintain the Allowance at an appropriate level.

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

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, a range of loss estimates could reasonably have been used to determine the Allowance and Provision. Accordingly, actual results could differ from those estimates.

While general economic conditions in some of the markets we serve are beginning to show signs of stabilization, conditions remain challenging and may result in an increase in loan delinquencies, an increase in loan charge-offs or a need for additional increases in our Allowance, any of which would require an increase in our Provision. We are unable to accurately predict future changes in the real estate market or its impact on our Provision.

Loans Held for Sale

Loans held for sale consists of Hawaii residential mortgage loans, as well as Hawaii and Mainland construction and commercial real estate loans. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis while the Hawaii and Mainland construction and commercial real estate loans are recorded at the lower of cost or fair value on an individual basis.

Loans originated with the intent to be held in our portfolio are subsequently transferred to held for sale when a decision is made to sell these loans. At the time of a loan's transfer to the held for sale account, 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 operations 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 operations 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.

Goodwill and Other Intangible Assets

Prior to March 31, 2010, we reviewed the carrying amount of goodwill for impairment on an annual basis. Additionally, we performed an impairment assessment of goodwill and evaluate our other intangible assets whenever events or changes in circumstances indicate that their carrying values may not be recoverable. 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 Commercial Real Estate reporting unit and versions of the guideline company, guideline transaction and discounted cash flow methodologies for our Hawaii Market reporting unit. Significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may have resulted in impairments to goodwill. Absent any impairment indicators, we performed our goodwill impairment test during the fourth quarter of each fiscal year.

Our impairment assessment of goodwill and other intangible assets involves, among other valuation methods, the estimation of future cash flows and the fair value of reporting units to which goodwill is allocated. Estimating future cash flows and determining fair values of the reporting units is subject to judgments and often involves the use of significant estimates and assumptions, including assumptions about the future growth and potential volatility in revenues and costs, capital expenditures, industry economic factors and future business strategy. The variability of the factors we used to perform a goodwill impairment test depended on a number of conditions, including uncertainty about future events and cash flows. All such factors were interdependent and, therefore, did not change in isolation. Accordingly, our accounting estimates may have materially changed from period to period due to changing market factors. If we had used other assumptions and estimates or if different conditions occur in future periods, including, but not limited to, changes in other reporting units or operating segments, future operating results could be materially impacted.

During the first quarter of 2010, we determined that an impairment test was required because of the uncertainty regarding our ability to continue as a going concern combined with the fact that our market capitalization remained depressed. As a result of our impairment test, we determined that the remaining goodwill associated with our Hawaii Market reporting unit was impaired and we recorded a non-cash impairment charge of $102.7 million. As of September 30, 2010, we had no goodwill remaining on our consolidated balance sheet.

Deferred Tax Assets and Tax Contingencies

Deferred tax assets ("DTAs") and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets 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 deferred tax assets may not be realized, which would result in a charge to earnings. In 2009, we established a valuation allowance against our net DTAs. Accordingly, See "— Results of Operations — Income Taxes" below.

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 14 to the Consolidated Financial Statements. 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, 2009, we used a weighted-average discount rate of 5.9% and an expected long-term rate of return on plan assets of 8.0%, which affected the amount of pension liability recorded as of year-end 2009 and the amount of pension expense to be recorded in 2010. 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. A 0.25% change in the discount rate assumption would impact 2010 pension expense by less than $0.1 million and year-end 2009 pension liability by $0.8 million, while a 0.25% change in the asset return rate would impact 2010 pension expense by less than $0.1 million.

Impact of Recently Issued Accounting Pronouncements on Future Filings

In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires a greater level of disaggregated information about the credit quality of loan and leases and the allowance for loan and lease losses. This ASU also requires additional disclosures related to past due information, credit quality indicators and information related to loans modified in a troubled debt restructuring. This ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

Financial Summary

During the third quarter of 2010, we reported a net loss of $72.5 million, or $2.46 per diluted share, compared to a net loss of $16.1 million, or $0.60 per diluted share, reported in the second quarter of 2010 and a net loss of $183.1 million, or $6.38 per diluted share, reported in the third quarter of 2009. The net loss for the third quarter of 2010 included a provision for loan and lease losses of $79.9 million, compared to $20.4 million in the second quarter of 2010 and $142.5 million in the third quarter of 2009. The current quarter's Provision reflects an increase to the Allowance at September 30, 2010 related to our commercial and residential mortgage portfolios.

The net loss for the first nine months of 2010 was $248.9 million, compared to a net loss of $215.0 million for the comparable prior year period. The net loss recognized for the first nine months of 2010 included a non-cash goodwill impairment charge of $102.7 million.

The following table presents annualized returns on average assets, average shareholders' equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders' equity less average intangible assets, which includes goodwill, core deposit premium, customer relationships and non-compete agreements. Average intangible assets were $23.1 million and $57.3 million for the three and nine months ended September 30, 2010, respectively, and $178.1 million and $179.2 million for the comparable prior year periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Loss on average assets	(6.84) %	(13.59) %	(7.45) %	(5.26) %
Loss on average shareholders' equity	(192.08)	(121.43)	(158.00)	(45.71)
Loss on average tangible equity	(226.71)	(172.29)	(217.23)	(63.99)
Basic and diluted loss per common share	$ (2.46)	$ (6.38)	$ (8.42)	$ (7.67)

Material Trends

The global and U.S. economies continue to stabilize following the economic downturn caused by disruptions in the financial system in 2008. Signs of stabilization of the financial markets and growth in the U.S. economy were partly attributable to various initiatives of the U.S. government. Initiatives such as the Emergency Economic Stabilization Act and the American Recovery and Reinvestment Act have thus far helped the financial markets and U.S. economy. Additionally, the FRB implemented a number of initiatives to provide stability and additional liquidity to the financial markets in 2008. These initiatives included providing additional liquidity to the asset-backed commercial paper and money markets and planned purchases of short-term debt obligations issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The FRB lowered the federal funds benchmark rate to a range of zero to 0.25% and the discount rate to 0.50% in 2008 and has kept these rates at those levels through the third quarter of 2010. There is some uncertainty as to how the financial markets and U.S. economy will react once the U.S. government begins to exit the private market or if the FRB begins to tighten its monetary policy.

The majority of our operations are concentrated in the state of Hawaii, and to a lesser extent, in California and a few western states. Our business performance is significantly influenced by conditions in the banking industry, macro economic conditions and the real estate markets in Hawaii and California. 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 declining gross state product, high unemployment and declining personal income.

Hawaii’s economy is expected to continue seeing more signs of stabilization for the remainder of 2010 and modest growth in 2011, according to the Hawaii State Department of Business, Economic Development & Tourism (“DBEDT”). Tourism remains Hawaii’s most significant economic driver. DBEDT reported total visitor arrivals and visitor expenditures are expected to post gains of 4.6% and 8.2%, respectively, in 2010 as compared to 2009. The Department of Labor and Industrial Relations reported that Hawaii’s seasonally adjusted unemployment rate remained unchanged from June 2010 to September 2010 at 6.3% and Hawaii’s unemployment rate remained below the national seasonally adjusted unemployment rate of 9.6%. DBEDT projects real personal income and real gross state product to grow by a modest 0.3% and 1.2%, respectively, in 2010.

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 20.4% for single-family homes and 21.4% for condominiums for the nine months ended September 2010 compared to the nine months ended September 2009. The median sales price for single-family homes on Oahu for the nine months ended September 2010 was $599,000, representing an increase of 4.2% from the prior year. The median sales price for condominiums on Oahu for the nine months ended September 2010 remained unchanged from the prior year at $305,000. Expectations from local real estate experts and economists are for the Hawaii real estate market to show improvement during the remainder of 2010, however, there is no assurance that this will occur. As part of our plans to reduce our credit risk exposure, we have taken and will continue to take, steps to reduce certain sectors of our commercial real estate and construction loan portfolios. We ceased commercial real estate lending on the Mainland in April 2008, limited commercial real estate lending in Hawaii starting in January 2009 and have not made any new construction loans in Hawaii since June 2009. In addition, as part of the recovery plan, we continue to look for opportunities to sell certain real estate secured assets both in Hawaii and on the Mainland.

Potential impediments to recovery in the Hawaii economy include projected budget shortfalls for the Hawaii state government in 2010 and 2011. To address these shortfalls, the Hawaii state government may initiate additional layoffs, furloughs and program cuts, as they have in the past.

The California Association of Realtors ("CAR") reported that September 2010 unit home sales were down 12.2% from the same period a year ago, while the median sales price increased by 4.5% from year ago levels. Labor markets within the state remained weak through the first nine months of 2010 as California's seasonally adjusted unemployment rate persisted at 12.4% at September 2010 and continues to be well above the national unemployment rate of 9.6%. The California state government's budget crisis is expected to continue. Having already issued IOUs once before to preserve cash, California's government faces a $20 billion shortfall and is looking at further cuts in wages, furloughs and government programs.

As we have seen over the past few years, our operating results are significantly impacted by the economy in Hawaii and California and the higher risk nature of our loan portfolio. Loan demand, deposit growth, provision for loan and lease losses, 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 do not improve or continue to deteriorate, our results of operations would be negatively impacted. Credit losses have had a significant negative impact on our capital ratios and if our losses continue and we are not successful in raising substantial new capital, we will be undercapitalized.

Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as “net interest margin.” Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis (“net interest income”) for the three and nine months ended September 30, 2010 and 2009 is set forth below.

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	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	$ 793,014	0.25 %	$ 510	$ 166,365	0.25 %	$ 106
Federal funds sold & securities purchased under agreements to resell	-	-	-	10,978	0.13	3
Taxable investment securities (1)	499,863	3.11	3,888	924,659	4.23	9,770
Tax-exempt investment securities (1)	13,820	8.19	283	93,661	6.15	1,441
Loans and leases, net of unearned income (2)	2,642,538	5.03	33,456	3,672,714	5.26	48,594
Federal Home Loan Bank stock	48,797	-	-	48,797	-	-
Total interest earning assets	3,998,032	3.79	38,137	4,917,174	4.85	59,914
Nonearning assets	244,465			471,748		
Total assets	$ 4,242,497			$ 5,388,922		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 611,027	0.12 %	$ 181	$ 553,218	0.26 %	$ 364
Savings and money market deposits	1,062,900	0.49	1,323	1,443,260	0.89	3,250
Time deposits under $100,000	522,688	1.57	2,069	595,792	2.28	3,429
Time deposits $100,000 and over	405,379	1.56	1,597	684,272	1.62	2,789
Short-term borrowings	201,907	0.76	387	257,079	0.22	144
Long-term debt	632,482	3.21	5,112	592,041	4.01	5,982
Total interest-bearing liabilities	3,436,383	1.23	10,669	4,125,662	1.53	15,958
Noninterest-bearing deposits	574,309			587,002		
Other liabilities	70,725			62,955		
Total liabilities	4,081,417			4,775,619		
Shareholders' equity	151,068			603,268		
Non-controlling interests	10,012			10,035		
Total equity	161,080			613,303		

Total liabilities and equity	$ 4,242,497		$ 5,388,922	
Net interest income		$ 27,468		$ 43,956
Net interest margin	2.74 %		3.56 %	

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	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	$ 679,588	0.26 %	$ 1,307	$ 79,468	0.20 %	$ 117
Federal funds sold & securities purchased under agreements to resell	-	-	-	9,552	0.13	9
Taxable investment securities (1)	574,793	3.63	15,647	846,076	4.34	27,562
Tax-exempt investment securities (1)	24,717	7.38	1,368	111,804	5.97	5,006
Loans and leases, net of unearned income (2)	2,836,099	5.02	106,556	3,848,970	5.53	159,317
Federal Home Loan Bank stock	48,797	-	-	48,797	-	-
Total interest earning assets	4,163,994	4.01	124,878	4,944,667	5.19	192,011
Nonearning assets	291,438			506,618		
Total assets	$ 4,455,432			$ 5,451,285		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 609,068	0.15 %	$ 689	$ 530,928	0.26 %	$ 1,040
Savings and money market deposits	1,094,603	0.54	4,459	1,326,005	0.96	9,527
Time deposits under $100,000	529,807	1.62	6,403	657,852	2.60	12,773
Time deposits $100,000 and over	485,136	1.39	5,052	853,791	1.81	11,558
Short-term borrowings	225,820	0.52	882	169,725	0.33	416
Long-term debt	646,594	3.16	15,280	613,489	4.13	18,960
Total interest-bearing liabilities	3,591,028	1.22	32,765	4,151,790	1.75	54,274
Noninterest-bearing deposits	578,123			585,337		
Other liabilities	66,251			77,102		
Total liabilities	4,235,402			4,814,229		
Shareholders' equity	210,012			627,016		
Non-controlling interests	10,018			10,040		
Total equity	220,030			637,056		
Total liabilities and equity	$ 4,455,432			$ 5,451,285		
Net interest income			$ 92,113			$ 137,737
Net interest margin		2.95 %			3.72 %	

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

Net interest income expressed on a taxable-equivalent basis of $27.5 million for the third quarter of 2010, decreased by $16.5 million, or 37.5%, from the third quarter of 2009, while taxable-equivalent net interest income for the first nine months of 2010 declined by $45.6 million, or 33.1%, to $92.1 million from the comparable prior year period. The decrease was primarily the result of a significant reduction in average loans and leases and investment securities as we continued our efforts to reduce our credit risk exposure, downsize our balance sheet and improve our liquidity position. The decrease in net interest income also reflects a decline in average yields earned on interest earning assets, which exceeded the decline in average rates paid on our interest-bearing liabilities. The decrease in average yields earned on our interest earning assets was directly attributable to the declining interest rate environment, reductions in our higher yielding commercial real estate loan portfolios, and our decision to maximize liquidity by maintaining significant balances in lower yielding cash and cash equivalent accounts.

Interest Income

Taxable-equivalent interest income of $38.1 million for the third quarter of 2010 decreased by $21.8 million, or 36.3%, from the third quarter of 2009, while taxable-equivalent interest income of $124.9 million for the first nine months of 2010 decreased by $67.1 million, or 35.0%, from the comparable prior year period. The current quarter decrease was primarily attributable to a significant decline in average loans and leases and investment securities and the average yields earned thereon as described above. Average loans and leases decreased by $1.0 billion in the current quarter compared to the third quarter of 2009, contributing to approximately $13.5 million of the current quarter interest income decline, while average yields earned on loans and leases decreased by 23 basis points ("bp") in the current quarter, resulting in lower interest income of approximately $2.1 million. The $424.8 million decrease in average taxable investment securities in the third quarter of 2010 from the comparable prior year period contributed to $4.5 million of the current quarter decrease, while the 112 bp reduction in average yields earned on taxable investment securities contributed to $2.6 million of the decrease.

Consistent with the above, the year-to-date decrease in taxable-equivalent interest income was primarily attributable to a significant decline in average loans and leases and investment securities and the average yields earned thereon. In addition, higher nonaccrual loan balances further contributed to the year-to-date decrease. During the first nine months of 2010, average loans and leases decreased by $1.0 billion from the first nine months of 2009, reducing interest income by approximately $42.0 million during the period, while average yields earned on loans and leases decreased by 51 bp, resulting in a reduction in interest income of approximately $14.7 million. Average taxable investment securities for the first nine months of 2010 decreased by $271.3 million from the comparable prior year period, contributing to $8.8 million of the year-to-date interest income decrease, while the 71 bp reduction in average yields earned on taxable investment securities contributed to $4.5 million of the interest income decrease.

Interest Expense

Interest expense of $10.7 million for the third quarter of 2010 decreased by $5.3 million, or 33.1%, from the comparable prior year quarter, while interest expense of $32.8 million for the first nine months of 2010 decreased by $21.5 million, or 39.6%, from the comparable prior year period. The decrease in interest expense during the current quarter and first nine months of 2010 was primarily attributable to the overall decline in average rates paid on savings and money market deposits, time deposits and long-term debt, and an overall decrease in average savings and money market and time deposit balances.

The 40 bp decline in average rates on savings and money market deposits contributed to $1.4 million of the current quarter decrease in interest expense, the 71 bp decline in average rates on time deposits under $100,000 contributed to $1.1 million of the current quarter decrease, and the 80 bp decline on average rates on long-term debt contributed to $1.2 million of the current quarter decrease. Additionally, the overall decrease in average balances of savings and money market and all time deposits also resulted in a decrease in interest expense of $0.8 million and $1.5 million, respectively, during the current quarter.

For the first nine months of 2010, interest expense decreased by $21.5 million, or 39.6%, from the first nine months of 2009. The 42 bp decline in average rates on savings and money market deposits contributed to $4.2 million of the decrease in interest expense, declines of 98 bp and 42 bp in average rates on time deposits under $100,000 and time deposits $100,000 and over contributed to $4.8 million and $2.7 million, respectively, of the decrease in interest expense, and the 97 bp decline on average rates on long-term debt contributed to $4.5 million of the decrease in interest expense from the comparable prior year period. Additionally, the overall decrease in average balances of savings and money market and all time deposits also resulted in a decrease in interest expense of $1.7 million and $7.5 million, respectively, compared to the first nine months of 2009.

Net Interest Margin

Our net interest margin was 2.74% for the third quarter of 2010, compared to 3.56% for the third quarter of 2009, while our net interest margin for the first nine months of 2010 was 2.95%, compared to 3.72% for the comparable prior year period. As described above, the sequential-quarter and year-over-year compression in our net interest margin was attributable to lower yields on our interest earning assets as we continued our efforts to reduce our higher yielding commercial real estate loan portfolio to improve our credit risk profile and our efforts to maximize balance sheet liquidity by maintaining elevated levels of lower yielding cash and cash equivalent accounts. Additionally, in conjunction with our recovery plan, we sold available for sale securities for gross proceeds of $439.4 million during the latter part of March 2010. Because a significant amount of these proceeds were held as cash and cash equivalents throughout the second and third quarters, our net interest margin for the third quarter and first nine months of 2010 was adversely impacted by these securities sales.

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

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

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Nonperforming Assets		
Nonaccrual loans (including loans held for sale):		
Commercial, financial and agricultural	$ 3,901	$ 8,377
Real estate:		
Construction	245,675	362,557
Mortgage-residential	45,936	55,603
Mortgage-commercial	25,102	45,847
Leases	97	466
Total nonaccrual loans	320,711	472,850
Other real estate	51,958	26,954
Total nonperforming assets	372,669	499,804
Accruing loans delinquent for 90 days or more:		
Commercial, financial and agricultural	98	-
Real estate:		
Construction	240	228
Mortgage-residential	580	2,680
Consumer	209	232
Leases	-	152
Total accruing loans delinquent for 90 days or more	1,127	3,292
Restructured loans still accruing interest:		
Real estate:		
Construction	-	2,745
Mortgage-residential	13,335	3,565
Consumer	334	-
Total restructured loans still accruing interest	13,669	6,310
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 387,465	$ 509,406
Total nonperforming assets as a percentage of loans and leases, loans held for sale and other real estate	15.06 %	15.85 %
Total nonperforming assets and accruing loans delinquent for 90 days or more as a percentage of loans and leases, loans held for sale and other real estate	15.11 %	15.96 %

Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as a percentage of loans and leases, loans held for sale and other real estate	15.66	%	16.16	%

Nonperforming assets, which includes nonaccrual loans and leases, nonperforming loans classified as held for sale and foreclosed real estate, totaled $372.7 million at September 30, 2010, compared to $499.8 million at December 31, 2009. The decrease from fiscal 2009 was primarily attributable to sales of loans and foreclosed properties of $113.9 million, paydowns of $109.5 million and charge-offs and write-downs of $102.6 million. Offsetting these decreases were the following significant additions to nonperforming assets: Hawaii construction and development loans totaling $93.3 million, Mainland construction and development loans totaling $40.7 million, Hawaii residential mortgage loans totaling $27.2 million, Mainland commercial mortgage loans totaling $22.3 million, and Hawaii commercial mortgage loans totaling $17.7 million.

Restructured loans included in nonperforming assets at September 30, 2010 consisted of 10 Hawaii construction and commercial real estate loans with a combined principal balance of $37.8 million, four Mainland construction and commercial real estate loans with a combined principal balance of $8.2 million, and 62 Hawaii residential mortgage loans with a combined principal balance of $24.7 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these restructured loans were matured and/or in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $13.7 million of restructured loans still accruing interest at September 30, 2010, including one residential mortgage loan of $58 thousand that was more than 90 days delinquent.

Provision and Allowance for Loan and Lease Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 201,959	$ 166,071	$ 205,279	$ 119,878
Provision for loan and lease losses	79,893	142,496	159,142	243,570
Charge-offs:				
Commercial, financial and agricultural	963	11,830	6,944	17,712
Real estate:				
Construction	52,481	73,253	101,255	113,887
Mortgage-residential	4,122	8,682	19,345	13,589
Mortgage-commercial	20,819	7,736	40,011	10,111
Consumer	662	1,256	2,201	3,216
Leases	-	1,396	1	1,396
Total charge-offs	79,047	104,153	169,757	159,911
Recoveries:				
Commercial, financial and agricultural	277	142	2,017	284
Real estate:				
Construction	6,018	-	11,626	53
Mortgage-residential	143	4	218	58
Mortgage-commercial	8,010	2	8,024	7
Consumer	302	352	965	975
Leases	47	-	88	-
Total recoveries	14,797	500	22,938	1,377
Net charge-offs	64,250	103,653	146,819	158,534
Balance at end of period	$ 217,602	$ 204,914	$ 217,602	$ 204,914

Annualized ratio of net charge-offs to average loans	9.73 %	11.29 %	6.90 %	5.49 %

Our Allowance at September 30, 2010 totaled $217.6 million, an increase of $12.3 million, or 6.0%, from year-end 2009. The increase in our Allowance was a direct result of the $159.1 million Provision recognized during the first nine months of 2010, offset by $146.8 million in net loan charge-offs during the nine-month period, concentrated primarily on loans with direct exposure to the construction and commercial real estate markets in California and Hawaii.

Our Provision was $79.9 million during the third quarter of 2010, compared to $20.4 million in the second quarter of 2010 and $142.5 million in the third quarter of 2009.

As previously discussed, the current quarter's Provision reflects an increase to the Allowance related to our commercial and residential mortgage loan portfolios at September 30, 2010. During the quarter, we adjusted the general reserve factors used to calculate the Allowance for our commercial mortgage portfolios both in Hawaii and on the Mainland, as well as our residential mortgage loan portfolio, including the owner occupied, investor, and home equity segments. Our decision to increase the general reserves established for these loan categories were made after considering various quantitative and qualitative factors. These considerations included, but were not limited to, our recent loss history, a revised assessment of projected national and local economic and market conditions, the potential negative impact that the weak commercial and residential real estate markets may have on these portfolios, and input from our regulators. The application of higher general reserve factors resulted in an increase to the Allowance attributable to our residential mortgage and commercial mortgage portfolios of $20.6 million and $17.3 million, respectively.

At September 30, 2010, our Allowance as a percentage of our total loan portfolio increased significantly from 6.75% at December 31, 2009 to 9.19% at September 30, 2010. Similarly, our Allowance as a percentage of our nonperforming assets also increased significantly from 41.07% at December 31, 2009 to 58.39% at September 30, 2010.

Despite the sequential quarter decrease in our nonperforming assets and our belief that we have begun to see initial signs of stabilization in the overall economy and the commercial real estate markets in Hawaii and on the Mainland, the increase to both of these ratios was deemed appropriate to reflect the potential risk still inherent in our loan portfolio as evidenced by the increased charge-off activity that we experienced during the third quarter of 2010, the fact that we continue to experience downward, albeit slower, negative credit migration, and to consider the risk of further declines in property values securing our commercial and residential mortgage loans.

Various regulatory agencies periodically perform independent reviews of our Allowance and our Allowance methodology. Because we remain under a Consent Order, these agencies may require us to increase our Allowance based on their judgments about information available to them at the time of their examination.

Depending on the overall performance of the local and national economies, the strength of the Hawaii and California commercial real estate markets and the accuracy of our assumptions and judgments concerning our loan portfolio, further adverse credit migration may continue due to the upcoming maturity of additional loans, the possibility of further declines in collateral values and the potential impact of continued financial stress on our borrowers, sponsors and guarantors as they attempt to endure the challenges of the current economic environment. While we have seen preliminary signs of improvement, we expect these challenging economic conditions to persist over the coming quarters.

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

Other Operating Income

Total other operating income of $11.7 million for the third quarter of 2010 decreased by $3.8 million, or 24.5%, from the third quarter of 2009. The decrease was primarily due to a non-cash gain related to the ineffective portion of a cash flow hedge of $1.3 million recorded in the year-ago quarter, lower service charges on deposit accounts of $1.3 million, lower gains on sales of residential mortgage loans of $1.0 million as refinance activity has declined from the prior year, and lower income from bank-owned life insurance of $0.5 million. These decreases were partially offset by higher loan servicing fees of $0.7 million.

For the nine months ended September 30, 2010, total other operating income of $37.2 million decreased by $8.6 million, or 18.7%, over the comparable prior year period. The decrease was primarily due to lower net gains on sales of residential mortgage loans of $6.3 million, lower service charges on deposit accounts of $2.6 million, and a $3.6 million gain related to the sale of a parcel of land and $3.4 million in non-cash gains related to the ineffective portion of a cash flow hedge recorded in the first nine months of 2009. These decreases were partially offset by higher unrealized gains on outstanding interest rate locks of $3.2 million and an OTTI charge on three non-agency collateralized mortgage obligations of $2.6 million recorded in the first nine months of 2009.

Other Operating Expense

Total other operating expense for the third quarter of 2010 was $31.7 million, compared to $89.5 million in the third quarter of 2009. The decrease was primarily attributable to the $50.0 million non-cash goodwill impairment charge recorded in the third quarter of 2009, and decreases in credit-related charges (which include write-downs of loans held for sale, foreclosed asset expense, and changes in the reserve for unfunded commitments) and salaries and employee benefits of $6.3 million and $2.2 million, respectively.

For the nine months ended September 30, 2010, other operating expense of $218.5 million increased by $45.5 million, or 26.3%, over the comparable prior year period. The increase was primarily due to a higher non-cash goodwill impairment charge of $102.7 million recorded in the first nine months of 2010 compared to the $50.0 million non-cash goodwill impairment charge recorded in the first nine months of 2009 and an increase in legal and professional services of $5.8 million, partially offset by reductions in salaries and employee benefits of $6.9 million and lower credit-related charges of $5.7 million.

Income Taxes

In third quarter of 2009, we established a full valuation allowance against our net DTAs. The establishment of the valuation allowance was based upon our recent net operating losses and the existence of a three-year cumulative loss, which led to our conclusion that it was more likely than not that our DTAs would not be fully realized. In determining the extent of the valuation allowance, management also considered, among other things, carryback/carryforward periods available to us and trends in our historical and projected earnings. At September 30, 2010, our valuation allowance totaled $167.5 million, compared to $104.6 million at December 31, 2009.

As a result of the establishment of the valuation allowance, our effective tax rate was 0% during the third quarter and first nine months of 2010 as we did not recognize any income tax benefit. During the third quarter of 2009, our effective tax rate was -5.8% and we recognized an income tax expense of $10.0 million. During the first nine months of 2009, our effective tax rate was 8.5% and we recognized an income tax benefit of $19.9 million. The effective tax rate for the third quarter and first nine months of 2009 was impacted by a non-cash charge related to the establishment of a valuation allowance of $61.4 million against our net DTAs as described above, the settlement of a state tax contingency in the first quarter of 2009 which provided a tax benefit of $2.2 million, as well as the disproportionate recognition of federal and state tax credits and the generation of tax-exempt income. The Company earns a tax benefit from tax credits and tax exempt income irrespective of the level of pre-tax income. This results in a favorable impact to our overall effective tax rate during periods in which the Company is near break-even or experiencing a pre-tax loss.

Financial Condition

Total assets at September 30, 2010 were $4.2 billion, compared to $4.9 billion at December 31, 2009.

Loans and Leases

Loans and leases, net of unearned income, of $2.4 billion at September 30, 2010, decreased by $674.7 million, or 22.2%, from December 31, 2009. The decrease was primarily due to a reduction in the Mainland loan portfolio totaling $339.6 million and a reduction in the Hawaii construction and commercial real estate loan portfolio totaling $245.6 million. The decreases in these portfolios reflect a sale of Mainland commercial real estate and construction loans in September 2010 with an aggregate book value of $124.1 million, of which $41.2 million were nonperforming at the time of the sale, $56.6 million in additional loan sales, transfers to loans held for sale totaling $39.6 million, transfers to other real estate owned totaling $44.3 million, as well as net charge-offs of $146.8 million and paydowns of $276.6 million.

Construction and Development Loans

At September 30, 2010, the construction and development loan portfolio (excluding owner-occupied loans) totaled $454.5 million, or 19.2% of the total loan portfolio. Of this amount, $331.0 million were located in Hawaii and $123.5 million were located on the Mainland. This portfolio decreased by $366.9 million from December 31, 2009.

The allowance for loan and lease losses allocated for these loans was $87.5 million at September 30, 2010, or 19.2% of the total outstanding balance. Of this amount, $65.3 million related to construction and development loans in Hawaii and $22.2 million related to construction and development loans on the Mainland.

Nonperforming construction and development assets in Hawaii totaled $201.2 million at September 30, 2010, or 4.8% of total assets. At September 30, 2010, this balance was comprised of portfolio loans totaling $183.9 million and foreclosed properties totaling $17.3 million. Nonperforming assets related to this sector totaled $268.6 million at December 31, 2009.

Nonperforming construction and development assets on the Mainland totaled $89.9 million at September 30, 2010, or 2.2% of total assets. At September 30, 2010, this balance was comprised of portfolio loans totaling $60.0 million and foreclosed properties totaling $29.9 million. Nonperforming assets related to this sector totaled $143.8 million at December 31, 2009.

Deposits

Total deposits of $3.2 billion at September 30, 2010 reflected a decrease of $381.6 million, or 10.7%, from December 31, 2009. The decrease was primarily attributable to a $257.2 million decrease in time deposits, largely due to a planned reduction in government owned accounts as part of our recovery plan initiative to downsize our bank. Besides the decrease in time deposits, noninterest-bearing demand deposits and savings and money market deposits also decreased during the first nine months of 2010 by $48.3 million and $119.6 million, respectively. Interest-bearing demand deposits increased during the first nine months of 2010 by $43.4 million. Core deposits, which we define to be demand deposits, savings and money market deposits, and time deposits less than $100,000, totaled $2.8 billion at September 30, 2010 and decreased by $149.5 million from December 31, 2009.

Capital Resources

Common and Preferred Equity

Shareholders' equity totaled $80.5 million at September 30, 2010, compared to $336.0 million at December 31, 2009. The decline in total shareholders' equity was the result of continued operating losses primarily driven by increased credit costs and the aforementioned goodwill impairment charge.

Total shareholders' equity includes $130.1 million of TARP Preferred Stock issued in connection with our participation in the U.S. Treasury's TARP Capital Purchase Program. The TARP Preferred Stock qualifies as a component of Tier 1 capital. We began deferring dividend payments on the TARP Preferred Stock in the third quarter of 2009 and accrued dividends on our outstanding TARP Preferred Stock was $9.6 million at September 30, 2010.

Trust Preferred Securities

We have five statutory trusts, CPB Capital Trust I, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of $105.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty. We began deferring interest and dividend payments on the subordinated debentures and the trust preferred securities in the third quarter of 2009. During the deferral period, which currently stands at five consecutive quarters, the respective trusts are likewise suspending the declaration and payment of dividends on the trust preferred securities. Also during the deferral period, we may not, among other things and with limited exceptions, pay cash dividends on or repurchase our common stock or preferred stock or make any payment on outstanding debt obligations that rank equally with or junior to the junior subordinated debentures. Accordingly, we also suspended the payment of cash dividends on our TARP Preferred Stock. During the deferral period, we will continue to accrue, and reflect in our consolidated financial statements, the deferred interest payments on our junior subordinated debentures. At September 30, 2010, accrued interest on our outstanding junior subordinated debentures relating to our trust preferred securities was $4.2 million.

In the past, the FRB has permitted certain cumulative preferred securities having the characteristics of trust preferred securities to qualify as Tier 1 capital for bank holding companies. This treatment is expected to continue under the Dodd-Frank Act for our existing cumulative preferred securities. However, the Dodd-Frank Act will prohibit us from treating any such securities issued after May 19, 2010 as Tier 1 capital.

Recovery Plan

In March 2010, we began implementing a recovery plan designed to improve our financial health and capital ratios by downsizing our bank and focusing on our core businesses and traditional markets in Hawaii.

In addition to seeking to raise capital externally, key elements of the recovery plan include, but are not limited to:

- Aggressively managing the bank’s existing loan portfolios to minimize further credit losses and to maximize recoveries,

- Shrinking the bank’s balance sheet, including through the sale of pledged securities and reducing public deposits and repurchase positions,

- Reducing the bank's loan portfolio through paydowns, restructurings, and note sales, and
- Lowering operating costs.

To monitor the execution of the recovery plan and our capital raising efforts, our Board formed a Recovery Committee in March 2010.

To date, we have executed the following as part of this plan:

- Reduced our nonperforming assets from $499.8 million at December 31, 2009 to $372.7 million at September 30, 2010.
- Sold investment securities totaling $462.6 million at a net gain of $1.1 million, which reduced our total investment securities as a percentage of total assets from 19.0% at December 31, 2009 to 14.5% at September 30, 2010.
- Reduced our credit risk exposure in the non-agency MBS and municipal securities portfolios by $52.7 million and $37.7 million, respectively. Our remaining exposure in the non-agency MBS and municipal securities portfolios as of September 30, 2010 were $17 thousand and $0.5 million, respectively.
- Reduced our total loan and lease portfolio to $2.4 billion at September 30, 2010 from $3.0 billion at December 31, 2009. During the third quarter of 2010, we completed a sale of Mainland commercial real estate and construction loans with an aggregate book value of $124.1 million, of which $41.2 million were nonperforming at the time of the sale.
- Maintained an Allowance adequate to cover credit losses inherent in the loan portfolio as of September 30, 2010. Our Allowance as a percentage of total loans increased to 9.19% at September 30, 2010 from 6.75% at December 31, 2009. Our Allowance as a percentage of nonperforming assets increased to 58.39% at September 30, 2010 from 41.07% at December 31, 2009.
- Improved our liquidity position with cash and cash equivalents totaling $924.4 million at September 30, 2010, compared to $488.4 million at December 31, 2009.
- Made progress with our previously announced plans to significantly reduce our exposure to the Mainland market by closing two California loan production offices.
- Initiated steps to reduce operating costs through personnel reductions and completed the previously announced consolidation of two retail branch locations in Honolulu within close proximity of each other.

The actions described above are designed to reduce our capital needs over time by reducing our credit risk exposure and establishing a more streamlined and focused organization with a reduced infrastructure, while we continue to seek new capital. However, there is no assurance that we will be able to successfully implement this recovery plan or that the elements contemplated by the recovery plan are sufficient to ensure that we will continue operating as a going concern. Receipt of a substantial amount of new capital is critical to our recovery. Without this new capital on a timely basis, we will likely experience further regulatory action, including the possibility of being placed in receivership. This would result in the Company's loss of ownership of the bank or its assets, which is likely to result in a loss of the entire value of our common stock. While we have entered into investment agreements with two Lead Investors as described under "—Recent Events" above, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise.

Holding Company Capital Resources

CPF is required to act as a source of strength to the bank under the Bank Holding Company Act. All of the funds CPF received from the sale of the TARP Preferred Stock have been contributed by CPF to the bank as capital. CPF is obligated to pay its expenses, as well as dividends on the TARP Preferred Stock and payments on its junior subordinated debentures which fund payments on the outstanding trust preferred securities. CPF has limited capital resources to meet these obligations. In the past, CPF has primarily relied upon dividends from the bank for its cash flow needs; however, as a Hawaii state-chartered bank, it is prohibited from declaring or paying dividends greater than its retained earnings. As of September 30, 2010, the bank had an accumulated deficit of $483.3 million. The bank will need to eliminate the deficit and generate positive retained earnings before it can pay any dividends; therefore, we do not anticipate receiving dividends from the bank in the foreseeable future.

As of September 30, 2010, on a stand alone basis, CPF had approximately $4.0 million of cash available to meet its ongoing obligations. Assuming CPF is able to control its operating expenditures within normal levels, it continues to defer payments on its trust preferred securities and dividends on its TARP Preferred Stock, and there are no unanticipated cash requirements, we believe CPF will be able to meet its normally expected expense obligations through the end of 2010. However, during the first half of 2011, CPF may require additional funds in order to continue meeting its financial obligations. While we have entered into investment agreements with two Lead Investors as described under "—Recent Events" above, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise on a timely basis or at all. Sources of funds that may be available to CPF include the sale of equity securities or borrowing. Given our efforts to obtain additional capital, in the short term, the sale of equity securities other than through a recapitalization may not be practical. It is unclear whether CPF may be able to borrow funds from third parties without credit support from the bank, which may not be available. CPF cannot incur additional indebtedness without the advance approval of the FRBSF and DFI. If CPF is not able to raise additional capital to meet its cash needs, management will seek approval from its regulators to obtain temporary financial support from the bank. No agreement as to any such support has yet been obtained. Accordingly, there are no assurances that CPF will be able to obtain funding from the issuance of equity or debt in the future to allow it to continue to meet its financial obligations when its current available cash is depleted.

Capital Ratios

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

The following table sets forth the Company's capital ratios, as well as the minimum capital adequacy requirements applicable generally to all financial institutions as of the dates indicated. In addition, FDIC-insured institutions must maintain leverage, Tier 1 and total risk-based capital ratios of at least 5%, 6% and 10%, respectively, and not be subject to a regulatory capital directive to be considered "well capitalized" under the prompt corrective action provisions of the FDIC Improvement Act of 1991. The Company's and the bank's leverage capital and total risk-based capital ratios were below the levels required for a "well capitalized" regulatory designation. In addition, as of the date of this filing, the bank was subject to, and was not in compliance with, the capital directive in the Consent Order which requires that it achieve and maintain a leverage capital ratio of at least 10% and a total risk-based capital ratio of at least 12% by March 31, 2010. We are uncertain when, or if, we will be able to meet these capital ratio requirements. While the $325 million capital raise contemplated by the investment agreements with the Lead Investors would be sufficient to raise our capital to meet these capital ratio requirements as of September 30, 2010, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise.

(Dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company						
At September 30, 2010:						
Leverage capital	$ 185,287	4.4 %	$ 168,710	4.0 %	$ 210,887	5.0 %
Tier 1 risk-based capital	185,287	7.2	102,520	4.0	153,779	6.0
Total risk-based capital	219,702	8.6	205,039	8.0	256,299	10.0
At December 31, 2009:						
Leverage capital	$ 334,309	6.8 %	$ 196,478	4.0 %	$ 245,597	5.0 %
Tier 1 risk-based capital	334,309	9.6	139,064	4.0	208,596	6.0
Total risk-based capital	379,848	10.9	278,128	8.0	347,660	10.0
Central Pacific Bank						
At September 30, 2010:						
Leverage capital	$ 197,001	4.7 %	$ 168,657	4.0 %	$ 210,821	5.0 %
Tier 1 risk-based capital	197,001	7.7	102,474	4.0	153,711	6.0
Total risk-based capital	231,391	9.0	204,947	8.0	256,184	10.0
At December 31, 2009:						
Leverage capital	$ 334,193	6.8 %	$ 196,273	4.0 %	$ 245,342	5.0 %
Tier 1 risk-based capital	334,193	9.6	138,976	4.0	208,464	6.0
Total risk-based capital	379,705	10.9	277,953	8.0	347,441	10.0

Liquidity and Borrowing Arrangements

Our objective in managing liquidity is to maintain a balance between sources and uses of funds in order to economically meet the cash requirements of customers for loans and deposit withdrawals and participate in lending and investment opportunities as they arise. We monitor our liquidity position in relation to changes in loan and deposit balances on a daily basis to ensure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources. We have employed, and continue to employ, a number of measures to improve our liquidity position, which includes reducing our reliance on non-core funding sources by maintaining core deposits and decreasing our loan-to-deposit ratio to 74.3% at September 30, 2010 from 85.2% at December 31, 2009, as well as liquidating $462.6 million of investment securities in the first nine months of 2010. Furthermore, we also intend to pursue the possibility of additional loan sales (both individually and in bulk), however, no formal plan has been finalized and specific loans have not yet been identified for sale.

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

The bank is a member of and maintained a $983.8 million line of credit with the FHLB as of September 30, 2010. Short-term and long-term borrowings under this arrangement totaled $200.0 million and $508.3 million at September 30, 2010, respectively, compared to $549.6 million of long-term borrowings at December 31, 2009. The bank has maintained the $200.0 million in short-term borrowings since March 2010. There were no short-term borrowings under this arrangement at December 31, 2009. FHLB advances outstanding at September 30, 2010 were secured by interest-bearing deposits at the FHLB of $0.2 million, our bank's holdings of FHLB stock, other unencumbered investment securities with a fair value of $443.9 million and certain real estate loans totaling $601.0 million in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. Approximately $275.5 million was undrawn under this arrangement at September 30, 2010. However, the FHLB has no obligation to make future advances to the bank. Although the bank has not received any notice from the FHLB, the bank is in default under this arrangement by virtue of the Consent Order and the FHLB has the right to call all outstanding borrowings under this arrangement or take action against the assets securing these borrowings.

The bank also maintained a $112.9 million line of credit with the Federal Reserve discount window as of September 30, 2010. There were no borrowings under this arrangement at September 30, 2010 and December 31, 2009. As of September 30, 2010, advances under this arrangement are secured by certain real estate loans totaling $241.9 million. At September 30, 2010, the entire $112.9 million was potentially available to the bank for future borrowings; however, the Federal Reserve has the right to decline to make advances under this line of credit. At September 30, 2010, the bank was not eligible to access the Federal Reserve's primary credit facility but maintained access to its secondary facility. There was no change in the level of credit available to the bank; however, advances will have higher borrowing costs under the secondary facility. All terms and maturities of advances under this arrangement are at the discretion of the Federal Reserve and are generally limited to overnight borrowings.

At December 31, 2009, short-term borrowings consisted primarily of $239.7 million in securities sold under agreement to repurchase with government entities. In March 2010, as part of the recovery plan initiative to shrink the balance sheet, all securities sold under agreement to repurchase were paid-off and closed. The balance of securities sold under agreement to repurchase has remained at zero from March 31, 2010 through September 30, 2010.

Our liquidity may be negatively impacted by an inability to access the capital markets or by unforeseen demands on cash. Over the past few years, sources of credit in the capital markets have tightened as mortgage loan delinquencies increased, demand for mortgage loans in the secondary market decreased, securities and debt ratings were downgraded and a number of institutions defaulted on their debt. The market disruptions that started in 2007 have continued through the first nine months of 2010, making it significantly more difficult for financial institutions to obtain funds by selling loans in the secondary market or through borrowings. In addition, our ability to access capital markets has been and will continue to be impacted by our significant losses, the anticipated continued deterioration in our loan portfolio through 2010, the requirements of the Consent Order, lower credit ratings and our capital structure. Our liquidity may be further strained if our deposit customers withdraw funds due to uncertainties surrounding our financial condition or questions as to our ability to continue as a going concern.

Our ability to maintain adequate levels of liquidity is dependent on the successful execution of our recovery plan, and more specifically, our ability to further reduce our loan portfolio, improve our risk profile, increase our regulatory capital ratios, raise additional capital, and comply with the provisions of the Consent Order. Beyond the challenges specific to our situation, our liquidity may also be negatively impacted by further weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in our contractual obligations since December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at September 30, 2010 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), the Company's management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting information required to be disclosed by the Company, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Controls

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

The following risk factors have been updated from the risk factors previously disclosed in our Annual Report on Form 10-K for the period ended December 31, 2009, filed with the SEC.

We are subject to a number of requirements and prohibitions under the Consent Order and the Agreement, require substantial additional capital and may be subject to additional limitations on our business and additional regulatory actions, including a federal conservatorship or receivership for the bank, if we cannot comply with the Consent Order and the Agreement or if our financial condition continues to deteriorate.

Central Pacific Bank is subject to the Consent Order which requires it to improve its capital position, asset quality, liquidity and management oversight, among other matters. The bank was required to increase its Tier 1 capital to maintain a minimum leverage capital ratio and total risk-based capital ratio of at least 10% and 12%, respectively, by March 31, 2010. In addition, the bank must, among other things, maintain an adequate allowance for loan and lease losses at all times and systematically reduce the amount of commercial real estate loans, particularly land development and construction loans. In the meantime, the condition of the bank's loan portfolio may continue to deteriorate and thus continue to deplete the bank's capital and other financial resources.

Central Pacific Financial Corp. is subject to the Agreement with the FRBSF and DFI dated July 2, 2010, which supersedes the MOU dated April 1, 2009 in its entirety with such regulators. Among other matters, the Agreement provides that unless we receive the consent of the FRBSF and DFI, we cannot: (i) pay dividends; (ii) receive dividends or payments representing a reduction in capital from Central Pacific Bank; (iii) directly or through its non-bank subsidiaries make any payments on subordinated debentures or trust preferred securities; (iv) directly or through any non-bank subsidiaries incur, increase or guarantee any debt; or (v) purchase or redeem any shares of its stock. The Agreement requires that the Board of Directors fully utilize the Company's financial and managerial resources to ensure that the bank complies with the Consent Order. Additionally, we were required to submit to the FRBSF an acceptable capital plan and cash flow projection.

As of the date of this filing, we were not in compliance with a number of requirements of the Consent Order, including the leverage and total risk-based capital ratio requirements of 10.0% and 12.0%, respectively. As of September 30, 2010 we would have required $224.9 million of additional capital to be in compliance with such ratios. A change in the financial condition of the bank after September 30, 2010 would change the amount of capital required to comply with these ratios. While the $325 million capital raise contemplated by the investment agreements with the Lead Investors would be sufficient to raise our capital to meet these capital ratio requirements as of September 30, 2010, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise. We must raise substantial additional capital in order to remain in business. If we fail to consummate the capital raise or suffer a continued deterioration in our financial condition, we may be subject to additional limitations on our business and additional regulatory actions. Possible enforcement actions against us include 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, a federal conservatorship or receivership for the bank, a sale or transfer of bank assets, the termination of insurance for deposits, the issuance of removal and prohibition orders against institution-affiliated parties, and the enforcement of such actions through injunctions or restraining orders. If these events occur, Central Pacific Financial Corp. would likely suffer a complete loss of the value of its ownership interest in the bank and our shareholders would likely suffer a complete loss of the value of their shares.

The proposed investment by the two Lead Investors are subject to numerous conditions which may not be satisfied.

The investments contemplated by the definitive agreements with the Lead Investors are subject to numerous conditions, many of which are outside of our control and may not be satisfied. The closing of each Lead Investor's investment is conditioned upon the Company raising the remaining $130 million (of an expected aggregate $325 million capital raise) from other investors and exchanging its TARP preferred stock for common stock and amending its TARP warrant on specified terms. We may not secure sufficient investments from other investors to meet the remaining $130 million due to our financial condition, market conditions or otherwise. While the Company is in discussions with the Treasury regarding the terms of the exchange of its TARP preferred stock, there is no assurance that the Treasury will agree to the terms of the exchange or, if the terms are modified to be acceptable to the Treasury, that such modified terms will be acceptable to the Lead Investors. The closing is further conditioned on, among other things, receipt of requisite regulatory approvals and the Company's receipt of approval from the NYSE to issue the common stock in the capital raise in reliance on the shareholder approval exception set forth in Section 312.05 of the NYSE listed company manual (or, in the event that the NYSE does not provide such approval, receipt of shareholder approval of the issuance of common stock in the capital raise). We cannot assure you that these conditions will be satisfied timely or at all. If we fail to consummate the capital raise, we may not be able to continue as a going concern, we may file for bankruptcy and the bank may be placed into FDIC receivership.

Raising additional capital would substantially dilute existing shareholders and will likely have an adverse affect on the market price of our common stock.

As described above, we need to raise a substantial amount of capital to meet the capital directives of the Consent Order and to ensure that we continue as a going concern and have entered into definitive agreements with two Lead Investors. If we successfully consummate the planned $325 million capital raise, the ownership interest of current investors and our earnings per share will be substantially diluted. As a result of the potential sale of a large number of common shares and given the fact that we would need to issue these shares at prices significantly less than their recent trading price, the market price of our common stock could decline significantly and current shareholders would have only a minimal stake in our Company.

In addition to the Consent Order and the Agreement, governmental regulation and regulatory actions against us may further impair our operations or restrict our growth.

In addition to the requirements of the Consent Order and the Agreement, we are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors. 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. Within the last several years, Congress and the President have passed and enacted significant changes to these statutes and regulations, including the Dodd-Frank Act.

There can be no assurance that such changes to the statutes and regulations or to their interpretation will not adversely affect our business. 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 FRB, FDIC and DFI. 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.

In particular, President Obama signed the Dodd-Frank Act into law on July 21, 2010. The Dodd-Frank Act provides for a comprehensive overhaul of the financial services industry within the United States. While the full effects of the legislation on us cannot yet be determined, it could result in higher compliance and other costs, reduced revenues and higher capital and liquidity requirements, among other things, which could adversely affect our business.

In addition, bank regulatory authorities have the authority to bring enforcement actions against banks and bank holding companies 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. Possible 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.

Our Allowance may not be sufficient to cover actual loan losses, which could adversely affect our results of operations. Additional loan losses will likely 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. During the first nine months of 2010, our Provision amounted to $159.1 million, compared to $348.8 million in 2009 and $171.7 million in 2008. Our current Allowance 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;
- 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, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as the requirements of the Consent Order. If our assumptions prove to be incorrect, our current Allowance may not be sufficient. Because of the uncertainty in the economy and volatility in the credit and real estate markets, we made significant adjustments to our Allowance starting in 2008. In 2009 and thus far through 2010, we continued to make significant additional adjustments to our Allowance due to our high concentration of commercial real estate and construction loans, as well as the ongoing economic downturn and the deterioration in the Hawaii and California real estate markets. We may need to make additional adjustments in our Allowance for the remainder of 2010, and possibly beyond, due to the anticipated ongoing deterioration in the local and national real estate markets and economies.

In addition, third parties, including our federal and state regulators, periodically evaluate the adequacy of our Allowance and may communicate with us concerning the methodology or judgments that we have raised in determining the Allowance. As a result of this input, we may be required to assign different grades to specific credits, increase our Provision, and/or recognize further loan charge-offs. Specifically, the Consent Order requires the bank to maintain an adequate allowance for loan and lease losses at all times. During the third quarter of 2010, we increased our Allowance related to our commercial and residential mortgage portfolios after considering various factors, including input from our regulators. To ensure that we maintain an adequate Allowance at all times in accordance with the Consent Order, we may be required to record additional adjustments based on information available to our regulators at the time of their examinations. Any further increase in our Allowance or loan charge-offs could have a material adverse effect on our results of operations.

CPF has limited cash resources.

As of September 30, 2010, on a stand alone basis, CPF had approximately $4.0 million of cash available to meet its ongoing obligations. Assuming CPF is able to control its operating expenditures within normal levels, it continues to defer payments on its trust preferred securities and dividends on its TARP Preferred Stock, and there are no unanticipated cash requirements, we believe CPF will be able to meet its normally expected expense obligations through the end of 2010. However, during the first half of 2011, CPF may require additional funds in order to continue meeting its financial obligations. While we have entered into investment agreements with two Lead Investors as described above, there is no assurance that we will be able to satisfy all the closing conditions in the investment agreements and successfully complete the capital raise on a timely basis or at all. Sources of funds that may be available to CPF include the sale of equity securities or borrowing. Given the Company's efforts to obtain additional capital, in the short term, the sale of equity securities other than through a recapitalization may not be practical. It is unclear whether CPF may be able to borrow funds from third parties without credit support from the bank, which may not be available. CPF cannot incur additional indebtedness without the advance approval of the FRBSF and DFI. If CPF is not able to raise additional capital to meet its cash needs, management will seek approval from its regulators to obtain temporary financial support from the bank. No agreement as to any such support has yet been obtained. Accordingly, there are no assurances that CPF will be able to obtain funding from the issuance of equity or debt to allow it to continue to meet its financial obligations when its current available cash is depleted. If CPF cannot obtain funds to meet its obligations, it would be required to curtail its operations, including its efforts to obtain additional capital, and may have to consider liquidation, a sale of the bank, or other actions to deal with its obligations. If this were to occur, it is likely that the shareholders of CPF would suffer a loss of their entire investment in the Company.

The FHLB has entered into a consent order with the Federal Housing Finance Agency. If our investment in the FHLB is classified as other-than-temporarily impaired or as permanently impaired, our earnings and stockholder’s equity could decrease.

We own stock in the FHLB. We hold this stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB's advance program. The aggregate cost and fair value of our FHLB stock was $48.8 million as of September 30, 2010.

On October 25, 2010, the FHLB entered into a consent order with the Federal Housing Finance Agency (the "FHFA"), which requires the FHLB to take certain specified actions related to its business and operations. Following the filing of the FHLB's second quarter 2011 quarterly report on Form 10-Q with the Securities and Exchange Commission, and once the FHLB reaches and maintains certain thresholds, the bank may begin repurchasing member capital stock at par. Further, the FHLB may again be in position to redeem certain capital stock from members and begin paying dividends once the FHLB:

- achieves and maintains certain other financial and operational metrics;
- remediates certain concerns regarding its oversight and management, asset improvement program, capital adequacy and retained earnings, risk management, compensation practices, examination findings, and information technology; and
- returns to a "safe and sound" condition as determined by the FHFA.

Any stock repurchases, redemptions and dividend payments will be subject to FHFA approval. There continues to be a risk that the FHLB may not be permitted to redeem capital stock from members and begin paying dividends in the future, and that our investment in FHLB stock could be impaired at some time in the future. If this occurs, our earnings and stockholders' equity would be negatively impacted.

We may not be able to attract and retain skilled people.

Our success depends in large part on our ability to attract and retain key people. There are a limited number of qualified persons in Hawaii with the knowledge and experience required to successfully implement our recovery plan. The more senior the executive, the more difficult it is to locate suitable candidates in the local market. Accordingly, in many circumstances, it is necessary for us to recruit potential candidates from the Mainland. At this time, new senior executives are required to be approved by our regulators. Suitable candidates for positions may decline to consider employment with the Company given its current financial condition and the existing uncertainties, particularly since in some circumstances; this would require that the employee relocate from the Mainland to Hawaii, where other employment opportunities in the banking industry may be limited. In addition, in the current circumstances, it may be difficult for us to offer compensation packages that would be sufficient to convince candidates that are acceptable to our regulators and meet our requirements to agree to become our employee and/or relocate. Our financial condition and the existing uncertainties may result in existing employees seeking positions at other companies where these issues are not present. The unexpected loss of services of other key personnel could have a material adverse impact on our business because of a loss of their skills, knowledge of our market and years of industry experience. If we are not able to promptly recruit qualified personnel, which we require to conduct our operations, our business and our ability to successfully implement our recovery plan could be adversely affected.

On June 23, 2010, we received regulatory approval for the appointment of John C. Dean as Executive Chairman of the Board of Central Pacific Financial Corp. and Central Pacific Bank from the FDIC, FRB, and DFI. On August 23, 2010, we received regulatory approval for the appointment of Lawrence D. Rodriguez as Chief Financial Officer of Central Pacific Financial Corp. and Central Pacific Bank from the FDIC, FRB, and DFI. In June 2010, we hired R. William Wilson as Executive Vice President of Special Credits to assist us with the reduction of problem assets and other credit risk management functions. As of the date of this filing, we are operating without a named Chief Executive Officer and Chief Credit Officer and are unable to determine when, or if, we will be able to fill these positions. Mr. Dean is currently serving as the acting Chief Executive Officer and Chief Credit Officer for the

Company.

The recent turnover in key positions in our finance and credit departments could increase the risk that our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accurately accumulated by management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and depend on the sufficiency of the personnel involved in those functions. There has been recent turnover in key positions in our finance and credit departments as part of the implementation of our recovery plan. The fact that we have new finance and credit personnel could increase the risk that our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Item 6. Exhibits

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

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)

Date: November 5, 2010

/s/ John C. Dean
John C. Dean
Executive Chairman

/s/ Lawrence D. Rodriguez
Lawrence D. Rodriguez
Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.
Exhibit Index

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002