CENTRAL PACIFIC FINANCIAL CORP
Form 10-K
February 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal year ended December 31, 2010

or

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

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)

Registrant s telephone number, including area code:

(808) 544-0500

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yesx Noo

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

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

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

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer x	Smaller Reporting Company o

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

As of June 30, 2010, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $42,804,000. As of February 3, 2011, the number of shares of common stock of the registrant outstanding was 1,527,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the 2011 annual meeting of shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent stated herein. The proxy statement will be filed within 120 days after the end of the fiscal year covered by this annual report on

Form 10-K.

PART 1

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

- the effect of and our failure to timely comply with all of the requirements of the Consent Order (the Consent Order) with the Federal Deposit Insurance Corporation (FDIC) and the State of Hawaii Division of Financial Institutions (DFI), the Written Agreement (the FRB Agreement) with the Federal Reserve Bank of San Francisco (FRBSF) and DFI, the contemplated Memorandum of Understanding with the FDIC and the DFI (the MOU) described below and any further regulatory actions;

- our ability to complete the planned recapitalization of the Company including the $325 million capital raise through a private placement offering (the Private Placement);

- our ability to execute on our recovery plan;

- oversupply of inventory and adverse conditions in the Hawaii and California real estate markets and further weakness in the construction industry;

- adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, further deterioration in asset quality and further losses in our loan portfolio;

- the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis and earthquakes) on the Company s business and operations and on tourism, the military, and other major industries operating within the Hawaii market and any other markets in which the Company does business;

- deterioration or malaise in 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 in general and in financial institutions in particular;

- the impact of regulatory action on the Company and Central Pacific Bank and legislation affecting the banking industry;

- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), other regulatory reform, including but not limited to government-sponsored enterprise reform, and any related rules and regulations on our business operations and competitiveness, including the impact of executive compensation restrictions, which may affect our ability to retain and recruit executives in competition with other firms who do not operate under those restrictions;

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

- our ability to operate as a going concern and the potential adverse reaction of our customers, employees, vendors, and community;

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

- inflation, interest rate, securities market and monetary fluctuations;

- movements in interest rates;

- negative trends in our market capitalization and adverse changes in the price of the Company s common shares;

- political instability;

- acts of war or terrorism;

- changes in consumer spending, borrowings and savings habits;

- technological changes;

- changes in the competitive environment among financial holding companies and other financial service providers;

- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

- ability to retain and attract skilled employees;

- changes in our organization, compensation and benefit plans; and

- our success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

General

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

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

Through our bank and its subsidiaries, we offer full-service commercial banking with 34 bank branches and 120 ATMs located throughout the state of Hawaii. Our administrative and main offices are located in Honolulu and we have 27 branches on the island of Oahu. We operate four branches on the island of Maui, two branches on the island of Hawaii and one branch on the island of Kauai. We also have an office in California. As part of our recovery plan, we are no longer originating new loans on the mainland and this office is solely focused on servicing our existing mainland lending relationships. Our bank s deposits are insured by the FDIC up to applicable limits. The bank is not a member of the Federal Reserve System.

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

We derive our income primarily from interest and fees on loans, interest on investment securities and fees received in connection with deposit and other services. Our major operating expenses are the interest paid by our bank on deposits and borrowings, salaries and employee benefits and general operating expenses. Our bank relies on a foundation of locally generated deposits. For financial reporting purposes, we have the following four reportable segments: (1) Commercial Real Estate, (2) Hawaii Market, (3) Treasury, and (4) Other. For further information about our reporting segments, including information about the assets and operating results of each, see Note 26 Segment Information in the accompanying consolidated financial statements.

Our operations, like those of other financial institutions that operate in our market, are significantly influenced by economic conditions in Hawaii, including the strength of the real estate market, as well as the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. See Supervision and Regulation Regulatory Agencies below for information about the Consent Order, FRB Agreement and the contemplated MOU to which we are subject and the remainder of Supervision and Regulation below for other information about the regulation of our holding company and bank.

On June 23, 2010, we received regulatory approval for the appointment of John C. Dean as Executive Chairman of the Board of CPF and the 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 CPF and the 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. On November 23, 2010, we appointed A. Catherine Ngo as Chief Administrative Officer and Executive Vice President of the Company and the bank. Currently, we are operating without a named Chief Executive Officer and Chief Credit Officer. Mr. Dean is currently serving as the acting Chief Executive Officer and Chief Credit Officer for the Company.

Since December 2009, our bank has been subject to 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.

During the past three months, we completed a number of key milestones as we pursued our previously announced plans to raise $325 million of new capital through the Private Placement. We entered into definitive agreements in November 2010 (which were later amended) with affiliates of each of The Carlyle Group (Carlyle) and Anchorage Capital Group, L.L.C (Anchorage and, together with Carlyle, the Lead Investors) pursuant to which each lead investor agreed to invest approximately $98.6 million in our common stock at a purchase price of $10.00 per share (after giving effect to the reverse stock split referred to below). In December 2010, we entered into separate subscription agreements with additional investors, including certain of our directors and officers and their affiliates, pursuant to which the additional investors have agreed to invest an aggregate of approximately $127.8 million in our common stock, which together with the investments of the Lead Investors, would aggregate to the $325 million of new capital that we are seeking, at a purchase price of $10.00 per share (after giving effect to the reverse stock split). We expect to enter into additional subscription agreements and amendments to the investment agreements and certain existing subscription agreements to finalize allocations of the $325 million capital raise in anticipation of satisfying all closing conditions. As a result of these amendments and new subscription agreements, we expect that each lead investor will be investing approximately $94.6 million and the other investors will invest the remaining amount of approximately $135.8 million.

In December 2010, the U.S. Treasury (the Treasury) agreed to exchange our Fixed Rate Cumulative Perpetual Preferred Stock (the TARP Preferred Stock) purchased by the Treasury under the Troubled Assets Relief Program (TARP) and accrued and unpaid dividends thereon for approximately $56.1 million in our common stock (the TARP Exchange), subject to the execution of a definitive exchange agreement. The number of shares in the TARP Exchange will be based on the same per share purchase price as payable by the Lead Investors and the additional investors in the Private Placement. The Company and Treasury also agreed to amend the ten-year warrant to purchase shares of common stock (the TARP Warrant) issued to the Treasury in connection with the Treasury s investment in the TARP Preferred Stock to, among other things, reduce the exercise price to the same per share purchase price in the Private Placement. The closings of the Private Placement and TARP Exchange are conditional upon one another, along with the receipt of requisite regulatory approvals and other customary closing conditions. We expect to complete the Private Placement and TARP Exchange in February 2011, assuming the satisfaction of all remaining conditions to closing. Assuming completion of the Private Placement, our regulatory capital ratios are expected to exceed the minimum levels required by the Consent Order. However, we cannot provide absolute assurance that all remaining closing conditions will be satisfied timely or at all. If we do not complete the Private Placement on a timely basis, we will be unable to comply with the capital ratio requirements in the Consent Order and may be subject to the regulatory restrictions described below.

In anticipation of the completion of the Private Placement and TARP Exchange, we effected a 1-for-20 reverse split on February 2, 2011. The reverse stock split was previously approved by our shareholders at the shareholder meeting on May 24, 2010. No fractional shares of common stock were issued as a result of the reverse stock split. For each holder of common stock, the number of shares held prior to the effectiveness of the reverse stock split were divided by twenty and, if the resulting number was not a whole number, then such number was rounded up to the next nearest whole number. Except as otherwise specified, the share and per share amounts included in this filing have been restated to give effect to this reverse stock split. For more information on the reverse stock split, please see our proxy statement for the 2010 shareholders meeting filed with the SEC.

As previously announced and as part of the recapitalization, we also intend to commence a rights offering following the closing of the Private Placement and TARP Exchange whereby shareholders of record as of the close of business on the trading day immediately preceding the closing date will receive transferable rights to purchase newly issued shares of our common stock at a purchase price of $10.00 per share (after giving effect to the reverse stock split). The rights will provide for the purchase of up to $20.0 million of the Company s common stock by holders of such rights.

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Assuming the Private Placement and TARP Exchange are completed, we will be subject to certain ongoing obligations under the Investment Agreements with the Lead Investors, the subscription agreements with the additional investors and the exchange agreement with the Treasury as described below. Each lead investor will be entitled to a Board seat so long as it owns, together with its affiliates, 10% or more of our common stock and to an observer to the Board so long as it owns, together with its affiliates, 5% or more of our common stock. The Treasury will be entitled to an observer to the Board so long as it owns, together with its affiliates, 5% or more of common stock (treating the warrant it holds on an as exercised basis). Each lead investor and the additional investors are also entitled to certain preemptive rights in connection with certain equity issuances by CPF. Each lead investor, the additional investors and the Treasury will also have the benefit of certain registration rights under their respective agreements with us. Additionally, the Company agreed to provide the investors certain indemnities under the agreements. The summaries of the various agreements mentioned above are qualified by reference to the full text of those agreements. For additional information on the Investment Agreements and amendments thereto and the subscription agreements, see the Company s Current Reports on Form 8-K, filed previously.

Although the bank expects to be in compliance with the capital ratio requirements in the Consent Order following the completion of the Private Placement, it currently is not and following such completion will not be in compliance with a number of other requirements of the Consent Order and FRB Agreement. We cannot assure you whether or when we will be in full compliance with all of the remaining requirements in the Consent Order and FRB Agreement or whether or when the Consent Order and FRB Agreement will be lifted or terminated. Even if lifted or terminated, we may still be subject to memoranda of understanding or other agreements with regulators that restrict our activities or that continue to impose capital ratio requirements. The requirements and restrictions of the Consent Order are judicially enforceable and the Company or bank s failure to comply with such requirements and restrictions may subject the Company and bank to additional regulatory restrictions including: the imposition of civil monetary penalties; the termination of insurance of deposits; the issuance of removal and prohibition orders against institution-affiliated parties; the appointment of a conservator or receiver for the bank; the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, if we again fall below the capital ratio requirements; and the enforcement of such actions through injunctions or restraining orders.

In addition to the Consent Order, on July 2, 2010, CPF entered into the FRB Agreement with the FRBSF and DFI which supersedes in its entirety the terms of the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI. Among other matters, the FRB 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 FRB 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.

On January 28, 2011, the bank received a form of Memorandum of Understanding (the MOU) from the FDIC and DFI relating to the Bank Secrecy Act (the BSA). Under the draft MOU, the bank will be required to (i) fully comply with the BSA and anti-money laundering requirements, (ii) implement a plan to ensure such compliance, including improving and maintaining an adequate system of internal controls, bolstering policies on customer due diligence, providing for comprehensive independent testing to validate compliance, and maintaining an adequate compliance staff, (iii) correct all deficiencies identified by our regulators and (iv) provide them with progress reports. We expect the MOU to become effective by the end of February 2011.

Our Services

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

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

(1) *Residential Mortgage Lending.* Residential mortgage loans include both fixed and adjustable-rate loans primarily secured by single-family owner-occupied residences in Hawaii. We typically require loan-to-value ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk. With an average loan size of approximately $0.4 million, marketable collateral and, until the past several years, a historically stable residential real estate market, credit losses on residential mortgages had been minimal during the past several years. However, changes in interest rates, the economic recession and other market factors have impacted, and future changes may continue to impact, the marketability and value of collateral and the financial condition of our borrowers and thus the level of credit risk inherent in the portfolio.

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

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

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

(4) *Construction Lending.* Construction lending encompasses the financing of both residential and commercial construction projects. Similar to commercial real estate lending, construction projects are subject to a high degree of credit risk given the long delivery time frames for projects. Our construction portfolio has deteriorated significantly since the latter part of 2007 and we have, and will continue to, take aggressive steps to reduce our exposure to this sector.

As part of the directives included in the Consent Order, we have systematically reduced our commercial real estate and construction loan portfolios over the past several quarters, particularly in the land development area.

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

Our Market Area and Competition

Based on deposit market share among FDIC-insured financial institutions in Hawaii, Central Pacific Bank, was the fourth-largest depository institution in the state of Hawaii at September 30, 2010.

The banking and financial services industry in the state of Hawaii generally, and in our target market areas, is highly competitive. We compete for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, credit unions and other nonbank financial service providers. Some of these competitors are much larger in total assets and capitalization, have greater access to capital markets and/or have maintained stronger performance than us in the downturn in the economy.

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

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

Business Concentrations

No individual or single group of related accounts is considered material in relation to the assets or deposits of our bank, or in relation to the overall business of the Company. However, approximately 84% of our loan portfolio held for investment at December 31, 2010 consisted of real estate-related loans, including construction loans, residential mortgage loans and commercial mortgage loans. See Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Loan Portfolio.

Our business activities are now focused primarily in Hawaii and we are no longer originating new loans out of the mainland. Consequently, our results of operations and financial condition are impacted by the general economic trends in Hawaii, and to a lesser extent in California, particularly in the commercial and residential real estate markets. During periods of economic strength, the real estate market and the real estate industry typically perform well, during periods of economic weakness, they typically are adversely affected.

Our Subsidiaries

Central Pacific Bank is the principal wholly-owned subsidiary of Central Pacific Financial Corp. Other wholly-owned subsidiaries include: CPB Capital Trust I; CPB Capital Trust II; CPB Statutory Trust III; CPB Capital Trust IV; CPB Statutory Trust V; CPB Real Estate, Inc.; Citibank Properties, Inc.; CB Technology, Inc.; and CPHL.

Central Pacific Bank or its wholly-owned subsidiary, CPHL, also owns 50% of the following Hawaii limited liability companies: Pacific Access Mortgage, LLC; Gentry HomeLoans, LLC; and Towne Island Mortgage, LLC.

Supervision and Regulation

Set forth below is a description of the significant elements of the laws and regulations and other regulatory matters applicable to us and our bank. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to us and our bank could have a material effect on our business.

Regulatory Agencies

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

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

Central Pacific Bank, as a Hawaii-chartered bank, is subject to primary supervision, periodic examination and regulation by the DFI and FDIC. The bank is also subject to certain regulations promulgated by the FRB. If, as a result of an examination of the bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of its operations are unsatisfactory, or that it or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict its growth, to assess civil monetary penalties, to remove officers and directors, institute a receivership, and ultimately to terminate its deposit insurance, which for a Hawaii-chartered bank would result in a revocation of its charter. The DFI separately holds many of the same remedial powers.

Regulatory Actions

As previously discussed, on December 8, 2009, the Board of Directors of Central Pacific Bank agreed to the Consent Order with the FDIC and DFI, which required our bank to improve its capital position, asset quality, liquidity and management oversight, among other matters. In addition to the capital ratio requirements described above, our 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. Our bank must also obtain approval from the FDIC and DFI before paying cash dividends or making other payments from our bank to CPF.

The Consent Order was filed as an exhibit to the 2009 annual report on Form 10-K as Exhibit 10.28 and the FDIC has made a copy of the Consent Order available on their website at www.fdic.gov. The contents of the FDIC website are not incorporated by reference into this filing. The Consent Order will remain in effect until modified or terminated by the FDIC and DFI.

Although the bank expects to be in compliance with the capital ratio requirements in the Consent Order following the completion of the Private Placement, it currently is not and following completion of the Private Placement will not be in compliance with a number of requirements. See Item 1A. Risk Factors for a discussion of the potential consequences that could result from failure to comply with the requirements of the Consent Order. See Note 2 of the accompanying consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data for a discussion of our recovery plan.

In addition to the Consent Order, on July 2, 2010, CPF entered into the FRB Agreement with the FRBSF and DFI which supersedes in its entirety the terms of the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI. Among other matters, the FRB 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 FRB 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 FRB Agreement is included in a Form 8-K which we filed on July 9, 2010, with the SEC.

In addition, we expect to also be subject to the MOU by the end of February 2011 as further described above.

Bank Holding Company Activities

In general, the BHC Act limits the business of bank holding companies which have not elected financial holding company status to banking, managing or controlling banks and other activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. We have not elected financial holding company status and are currently not eligible for such status. As a result of the Gramm-Leach-Bliley Act of 1999 (the GLB Act), which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity that is either (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the FRB). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

If a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries must be well capitalized and well managed and (ii) it must file a declaration with the FRB that it elects to be a financial holding company. A depository institution subsidiary is considered to be well capitalized if it satisfies the requirements for this status discussed under Capital Adequacy and Prompt Corrective Action below. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least satisfactory in its most recent examination.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act of 1977 (the CRA). See Community Reinvestment Act below.

The BHC Act generally limits acquisitions by bank holding companies that are not qualified as financial holding companies to commercial banks and companies engaged in activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto. Financial holding companies are also permitted to acquire companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities without prior FRB approval. CPF has not filed a declaration electing financial holding company status and has no current intention to do so.

The BHC Act, the Federal Bank Merger Act, Hawaii law and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition of more than 5.0% of the voting shares of a commercial bank or its parent holding company. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant s performance record under the CRA (see Community Reinvestment Act below) and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Affiliate Transactions

Transactions between our subsidiary bank, on the one hand, and CPF and its other subsidiaries, on the other hand, are regulated by the FRB. These regulations limited the types and amounts of transactions (including loans due and extensions of credit from our subsidiary bank) that may take place and generally require those transactions to be on an arm s length basis. These regulations generally do not apply to transactions between a U.S. bank subsidiary and its subsidiaries. In general, these regulations require that any extensions of credit must be secured by designated amounts of specified collateral and must be limited, as to any one of CPF or its non-bank subsidiaries, to 10% of our subsidiary bank s capital stock and surplus, and, as to the holding company and all such non-bank subsidiaries in the aggregate, to 20% of our subsidiary bank s capital stock and surplus. These restrictions, other than the 10% of capital limit on covered transactions with any one affiliate, are also applied to transactions between banks and their financial subsidiaries. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization. For example, commencing in July 2011, the Dodd-Frank Act will require that the 10% of capital limit on covered transactions begin to apply to financial subsidiaries. It also requires, commencing in July 2011, that derivative transactions under which a bank (or a subsidiary) has credit exposure to an affiliate will be treated as covered transactions, with the term credit exposure to be defined by the FRB under its existing rulemaking authority.

Source of Strength Doctrine

FRB policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Act codifies this policy as a statutory requirement. Such support may be required by the FRB at times when we might otherwise determine not to provide it. Any capital loan by a bank holding company to any of its subsidiary banks is subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Capital Requirements

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The FDIC and DFI have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization s assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution s or holding company s capital, in turn, is classified in one of three tiers depending on type:

- *Core Capital (Tier 1).* Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets.

- *Supplementary Capital (Tier 2).* Tier 2 capital includes, among other things, perpetual preferred stock and related surplus not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations.

- *Market Risk Capital (Tier 3).* Tier 3 capital includes qualifying unsecured subordinated debt.

We, like other bank holding companies, are required to maintain Tier 1 capital and total risk-based capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). Our subsidiary bank, like other depository institutions, is required to maintain similar capital levels under capital adequacy guidelines. However, as described under Regulatory Actions above, we are currently subject to higher ratios as a result of the Consent Order and FRB Agreement.

Bank holding companies and banks subject to the market risk capital guidelines are required to incorporate market and interest rate risk components into their risk-based capital standards. Under the market risk capital guidelines, capital is allocated to support the amount of market risk related to a financial institution s ongoing trading activities.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for bank holding companies and national banks that either have received the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-based capital measure for market risk. All other bank holding companies and banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Prompt Corrective Action

The Federal Deposit Insurance Act (FDIA), as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), requires among other things, federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. The FDICIA establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution s capital category will depend upon how its capital levels compare with various relevant capital measures and certain other factors as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

Under FDICIA, a depository institution is deemed to be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, a leverage ratio of 4.0% or greater (3.0% in certain circumstances) and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0% (3.0% in certain circumstances); (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to or deemed to be in a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The following table sets forth the Company s capital ratios, as well as the minimum requirements to be deemed adequately capitalized applicable generally to all financial institutions as of the dates indicated. As of December 31, 2010, the bank was subject to, and was not in compliance with, the capital directive in the Consent Order which required that it achieve and maintain a leverage capital ratio of at least 10% and total risk-based capital ratio of at least 12% by March 31, 2010, as mentioned above.

	Actual		Minimum required to be adequately capitalized		Minimum required to be well-capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company						
As of December 31, 2010:						
Tier 1 risk-based capital	$ 180,626	7.6 %	$ 94,544	4.0 %	$ 141,815	6.0 %
Total risk-based capital	212,259	9.0	189,087	8.0	236,359	10.0
Leverage capital	180,626	4.4	163,454	4.0	204,318	5.0
As of December 31, 2009:						
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
Leverage capital	334,309	6.8	196,478	4.0	245,597	5.0
Central Pacific Bank						
As of December 31, 2010:						
Tier 1 risk-based capital	$ 197,626	8.4 %	$ 94,592	4.0 %	$ 141,888	6.0 %
Total risk-based capital	229,271	9.7	189,183	8.0	236,479	10.0
Leverage capital	197,626	4.8	163,500	4.0	204,376	5.0
As of December 31, 2009:						
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
Leverage capital	334,193	6.8	196,273	4.0	245,342	5.0

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The federal regulatory authorities risk-based capital guidelines are based upon the 1988 Capital Accord of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. In 2004, the Basel Committee published a new capital accord to replace its 1988 capital accord, with an update in November 2005 (Basel II). In December, 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III . Basel III, when implemented by the U.S. bank agencies and fully phased-in, will require bank holdings companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances (which for many asset classes is itself broken into a foundation approach and an advanced or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures.

In November 2007, the U.S. banking and thrift agencies adopted a definitive final rule for implementing Basel II in the United States that would apply only to internationally active banking organizations, or core banks defined as those with consolidated total assets of $250 billion or more or consolidated on-balance-sheet foreign exposures of $10 billion or more. The final rule became effective as of April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they will not be required to apply them. The rule also allows a banking organization s primary federal supervisor to determine that the application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile, or scope of operations. In July 2008, the agencies issued a proposed rule that would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. The Company is not required to comply with Basel II and has made a determination not to apply the Basel II requirements.

On September 3, 2009, the Treasury issued a policy statement (the Treasury Policy Statement) entitled Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms. The Treasury Policy Statement was developed in consultation with the U.S. bank regulatory agencies and sets forth eight core principles intended to shape a new international capital accord. Six of the core principles relate directly to bank capital requirements. The Treasury Policy Statement contemplates changes to the existing regulatory capital regime that would involve substantial revisions to, if not replacement of, major parts of the Basel I and Basel II capital frameworks and effect all regulated banking organizations and other systemically important institutions. The Treasury Policy Statement repeatedly calls for higher and stronger capital requirements for bank and non-bank financial firms known as Tier 1 FHCs that are deemed to pose a risk to financial stability due to their combination of size, leverage, interconnectedness and liquidity risk. Central Pacific Financial Corp. would not be deemed a Tier 1 FHC.

The Treasury Policy Statement suggested that changes to the regulatory capital framework be phased in over a period of several years. The recommended schedule provides for implementation of reforms by December 31, 2012, although it is possible that U.S. bank regulatory agencies could officially adopt, or informally implement, new capital standards at an earlier date.

Following the issuance of the Treasury Policy Statement, on December 17, 2009, the Basel Committee issued a set of proposals (the Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital, with the most significant changes being to Tier 1 capital. Most notably, the Capital Proposals would disqualify certain structured capital instruments, such as trust preferred securities, from Tier 1 capital status. The Capital Proposals would also re-emphasize that common equity is the predominant component of Tier 1 capital by adding a minimum common equity to risk-weighted assets ratio and requiring that goodwill, general intangibles and certain other items that currently must be deducted from Tier 1 capital instead be deducted from common equity as a component of Tier 1 capital. The Capital Proposals also leave open the possibility that the Basel Committee will recommend changes to the minimum Tier 1 capital and total risk-based capital ratios of 4.0% and 8.0%, respectively.

Concurrently with the release of the Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the Liquidity Proposals, and together with the Capital Proposals, the 2009 Basel Committee Proposals). The Liquidity Proposals have three key elements, including the implementation of (i) a liquidity coverage ratio designed to ensure that a bank maintains an adequate level of unencumbered, high quality assets sufficient to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a net stable funding ratio designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors and that supervisors should use in monitoring the liquidity risk profiles of supervised entities.

Final provisions to the Basel Committee s proposal are expected to be implemented by December 31, 2012. Ultimate implementation of such proposals in the U.S. will be subject to the discretion of the U.S. bank regulators, and the regulations or guidelines adopted by such agencies may, of course, differ from the 2009 Basel Committee Proposals and other proposals that the Basel Committee may promulgate in the future.

Insolvency of an Insured Depository Institution

If the FDIC were appointed the conservator or receiver of an insured depository institution such as Central Pacific Bank, upon its insolvency or in certain other events, the FDIC has the power: (i) to transfer any of the depository institution s assets and liabilities to a new obligor without the approval of the depository institution s creditors; (ii) to enforce the terms of the depository institution s contracts pursuant to their terms; or (iii) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of deposit liabilities and certain claims for administrative expenses against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including claims of debt holders of the institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever sought to repudiate any debt obligations of Central Pacific Bank, the debt holders would be treated differently from, and could receive, if anything, substantially less than, the depositors of the depository institution.

Legislative Initiatives

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

In October 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Under EESA, the Treasury was granted the authority to purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions. In addition, the Treasury was also granted the authority to inject capital in financial institutions through the purchase of equity stakes in a wide variety of banks and thrifts under a program known as the TARP s Capital Purchase Program (the CPP). The primary purpose of the Treasury s initiatives is to stabilize and provide liquidity to the U.S. financial markets.

On February 10, 2009, Treasury Secretary Timothy Geithner announced a new comprehensive financial stability plan (the Financial Stability Plan), which earmarked the second $350 billion of unused funds originally authorized under EESA. The major elements of the Financial Stability Plan included: (i) a capital assistance program that has invested in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a public-private investment fund intended to leverage public and private capital with public financing to purchase up to $500 billion to $1 trillion of legacy toxic assets from financial institutions, and (iv) assistance for homeowners by providing up to $75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

On February 17, 2009, President Barack Obama signed into law The American Recovery and Reinvestment Act of 2009 (ARRA), more commonly known as the economic stimulus or economic recovery package. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients that are in addition to those previously announced by the Treasury until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury s consultation with the recipient s appropriate regulatory agency.

In June 2009, the Obama administration proposed a wide range of regulatory reforms that could potentially have significant effects on the financial services industry in the United States. Significant aspects of the Obama administration s proposals included, among other things, proposals (i) that any financial firm whose combination of size, leverage and interconnectedness could pose a threat to financial stability (known as Tier 1 FHCs) be subject to certain enhanced regulatory requirements, (ii) that federal bank regulators require loan originators or sponsors to retain part of the credit risk of securitized exposures, (iii) that there be increased regulation of broker-dealers and investment advisers, (iv) for the creation of a federal consumer financial protection agency that would, among other things, be charged with applying consistent regulations to similar products (such as imposing certain notice and consent requirements on consumer overdraft lines of credit), (v) that there be comprehensive regulation of OTC derivatives, (vi) that the controls on the ability of banking institutions to engage in transactions with affiliates be tightened, and (vii) that financial holding companies be required to be well-capitalized and well-managed on a consolidated basis.

On October 22, 2009, the FRB issued a comprehensive proposal on incentive compensation policies (the Incentive Compensation Proposal) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Proposal, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. The Incentive Compensation Proposal also contemplates a detailed review by the FRB of the incentive compensation policies and practices of a number of large, complex banking organizations. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Proposal provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged at higher deposit assessment rates than such banks would otherwise be charged. The scope and content of the U.S. banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect our and our subsidiaries ability to hire, retain and motivate key employees.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act includes the following provisions that, among other things:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, 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 December 31, 2012 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. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities do not apply to our debt and equity instruments issued before May 19, 2010, as we are grandfathered under an exception for depositary institution holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. 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.

The U.S. Congress, state lawmaking bodies and federal and state regulatory agencies continue to consider a number of wide-ranging and comprehensive proposals for altering the structure, regulation and competitive relationships of the nation s financial institutions, including rules and regulations related to the broad range of reform proposals set forth by the Obama administration described above.

Although the EESA, TARP and ARRA have helped to stabilize the financial markets, it is not clear at this time what the long-term impact of these initiatives will be. Furthermore, other liquidity and funding initiatives of the FRB and other agencies that have been previously announced, and any additional programs that may be initiated in the future may have a significant impact on the financial markets, the U.S. banking and financial industries, the broader U.S. and global economies, and more importantly, the local economies in the markets that we serve.

Dividends

We are incorporated in Hawaii and are governed by Hawaii law. As a bank holding company, our ability to pay dividends is affected by the ability of our bank subsidiary to pay dividends to us. Under Hawaii law, the ability of our subsidiary bank to pay dividends or make other capital distributions to us is subject to the Hawaii state law that prohibits a state-chartered bank from declaring or paying dividends greater than its retained earnings. As of December 31, 2010, the bank had an accumulated deficit of $483.9 million. In addition, federal law generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized.

As a result of the FRB Agreement and the terms of our trust preferred securities and the TARP Preferred Stock, dividend payments require approval by our regulators and the Treasury and are restricted until our obligations under our trust preferred securities and TARP Preferred Stock are brought current. Assuming the completion of the Private Placement, we will seek regulatory approval to pay all deferred payments under our trust preferred securities. In addition, the TARP Preferred Stock and all accrued and unpaid dividends thereon will be exchanged into common stock assuming the completion of the TARP Exchange. However, under our exchange agreement with the Treasury, any dividend payments will continue to require the approval of the Treasury until the earlier of January 9, 2012 and such time as the Treasury ceases to own any of our or our affiliates securities. See Part II, Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities Dividends for a further discussion of our dividends.

Deposit Insurance

Substantially all of the deposits of our bank subsidiary are insured up to applicable limits by the DIF of the FDIC and are subject to deposit insurance assessments to maintain the DIF.

Pursuant to EESA, the maximum deposit insurance amount has been increased from $100,000 to $250,000 per depositor. EESA, as amended by the Helping Families Save Their Homes Act of 2009, provides that the basic deposit insurance limit will return to $100,000 after December 31, 2013. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. The FDIC also implemented the Temporary Liquidity Guarantee Program (TLGP) which insured all deposits held in non-interest bearing transactional accounts regardless of amount for a fee. The TLGP applied to all U.S. depository institutions insured by the FDIC and all U.S. bank holding companies, unless they have opted out of the TLGP or the FDIC has terminated their participation. The bank chose to participate in the FDIC s TLGP, however, this program expired on December 31, 2010.

All FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, or FICO, an agency of the Federal government established to recapitalize the predecessor to the DIF. These assessments will continue until the FICO bonds mature in 2017.

On November 17, 2009, the FDIC imposed a prepayment requirement on most insured depository organizations, requiring that the organizations prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for each calendar quarter for calendar years 2010, 2011 and 2012. The FDIC stated that the prepayment requirement was a result of a negative balance in the DIF. The bank did not make this prepayment as the FDIC did not require it to do so. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011; however, as further discussed below, the FDIC has elected to forego this increase under a new DIF restoration plan adopted in October 2010.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates scheduled to take place on January 1, 2011 and maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

Depositor Preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public personal information about consumers to nonaffiliated third parties. These limitations require notices and disclosure of privacy policies to consumers and in some circumstances allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The Treasury has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as our bank and broker-dealer subsidiaries. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the Treasury s Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in or providing investment-related advice or assistance to a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC or authorization from the Treasury. Failure to comply with these sanctions could have serious legal and reputational consequences.

Employees

At December 31, 2010, we employed 921 persons, 838 on a full-time basis and 83 on a part-time basis. We are not a party to any collective bargaining agreement.

Protection of Net Operating Losses

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

On November 23, 2010, our board declared a dividend of preferred share purchase rights (Rights) in respect of our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the Tax Benefits Preservation Plan), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for $6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of 4.99% or more of our common stock (a Threshold Holder). There is no guarantee, however, that the Tax Benefits Preservation Plan will prevent the Company from experiencing an ownership change. Adoption of the Tax Benefits Preservation Plan was required by our agreements with the Lead Investors.

To further protect our tax benefits, on January 26, 2011, our board approved a proposed amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the Protective Charter Amendment). At our annual meeting of shareholders on April 27, 2011, we intend to propose the amendment for shareholder approval. The Protective Charter Amendment also does not guarantee that we will not experience an ownership change.

Available Information

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

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

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any one or a combination of these risks occurs, our business, financial condition or results of operations could be materially and adversely affected. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occurs, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly and you could lose all or part of your investment.

Risk Factors That May Affect Our Business

We must raise substantial additional capital in a short period of time in order to remain in business.

Although we have entered into various agreements with respect to the proposed recapitalization of the Company, the Company has not been in compliance with the Consent Order nor its capital directive since March 2010. The financial condition of the bank and the Company has deteriorated significantly since that time and on December 31, 2010, the Company s shareholders equity totaled only $66.1 million and the Company s net tangible equity per common share and book value per common share were negative. It is essential that we close the Private Placement (or another similar financing) in a short period of time. If we fail to do so, it is possible that our capital would continue to deteriorate and we would suffer additional regulatory actions, including a potential federal conservatorship or receivership for the bank, or a requirement that we sell or transfer our assets or take other action which would likely result in a complete loss of the value of CPF s ownership interest in the bank and a complete loss of the value of the shares held by our shareholders. More information with respect to the status of the recapitalization and the terms and provisions of the agreements entered into in connection therewith is contained in the Business General section of this filing.

We are subject to a number of requirements and prohibitions under regulatory orders imposed on us and we cannot assure you whether or when such orders will be lifted.

The bank has been subject to the Consent Order since December 9, 2009, 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 Consent Order requires the bank to, 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 addition, the Company is subject to the FRB Agreement with the FRBSF and DFI dated July 2, 2010, which supersedes in its entirety the Memorandum of Understanding that the Company entered into on April 1, 2009 with the FRBSF and DFI. Among other matters, the FRB 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 the bank; (iii) directly or through our 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 our stock. The FRB 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. We were also required to submit to the FRBSF an acceptable capital plan and cash flow projection.

Besides the Consent Order and the FRB Agreement, we also expect to be subject to the MOU by the end of February 2011.

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. Although we expect to be in compliance with these capital ratio requirements assuming the completion of the Private Placement, the Private Placement remains subject to certain closing conditions, including receipt of requisite regulatory approvals and other customary conditions. We must raise the additional capital contemplated by the Private Placement in a short period of time in order to remain in business. In addition, we will not be in compliance with a number of other requirements in the Consent Order even assuming the Private Placement is completed.

Completion of the Private Placement is subject to various closing conditions which may not be satisfied.

Completion of the Private Placement is subject to various conditions, certain of which are outside of our control, and may not be satisfied. The remaining closing conditions to the Private Placement include receipt of requisite regulatory approvals and other customary closing conditions. We cannot assure you that all conditions will be satisfied timely or at all. If we fail to consummate the Private Placement, 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.

We have incurred significant losses and cannot assure you that we will be profitable in the near term or at all.

We have incurred significant losses over the past few years, including net losses of $251.0 million for the year ended December 31, 2010, $313.7 million for the year ended December 31, 2009 and $138.4 million for the year ended December 31, 2008, primarily due to credit costs, including a significant provision for loan and lease losses. Although we have taken a number of steps to reduce our credit exposure, at December 31, 2010, we still had $302.8 million in nonperforming assets and it is possible that we will continue to incur elevated credit costs over the near term, which would adversely impact our overall financial performance and results of operations. We cannot assure you that we will return to profitability in the near term or at all even if we complete our recapitalization.

If the Private Placement and the TARP Exchange are completed, our existing shareholders interests will be substantially diluted and the market price of our common stock may decrease to a level at or below the purchase price in the Private Placement.

As described above, we expect to complete the Private Placement and the TARP Exchange, assuming the satisfaction of the remaining conditions. Because a large number of common shares is contemplated to be issued in the Private Placement and the TARP Exchange at a price that is significantly less than the recent trading price of our common shares, the ownership interest of existing shareholders and our earnings per share will be substantially diluted and the market price of our common stock may decrease to a level at or below the purchase price in the Private Placement.

Assuming the completion of the Private Placement and TARP Exchange, subsequent resales of our common shares in the public market may cause the market price of our common shares to fall.

We plan to issue a large number of common shares to the investors in the Private Placement and to the Treasury in the TARP Exchange. Carlyle and Anchorage will have certain registration rights with respect to the common shares held by them following a one-year lock-up period provided in their respective investment agreements. The other investors will have certain registration rights with respect to the common shares purchased by them in the Private Placement until six months following the completion of the Private Placement. In addition, in connection with the planned TARP Exchange, we will provide the Treasury with certain registration rights with respect to the common shares issued to the Treasury in the TARP Exchange. The registration rights for Carlyle and Anchorage will allow them to sell their common shares without compliance with the volume and manner of sale limitations under Rule 144 promulgated under the Securities Act and the registration rights for the other investors allow them to sell their common shares before their holding period under Rule 144 expires. The market value of our common shares could decline as a result of sales by the investors from time to time of a substantial amount of the common shares held by them.

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

In our agreements with the investors in the Private Placement, we agreed to indemnify the investors for a broad range of claims, including losses resulting from the inaccuracy or breach of representations or warranties made by us in such agreements and the breach by us to perform our covenants contained in such agreements, even if the Private Placement is not completed. While these indemnities are subject to various limitations, if claims were successfully brought against us, it could potentially result in significant losses for the Company.

Assuming the completion of the Private Placement, Carlyle and Anchorage will become substantial holders of our common shares.

Assuming the completion of the Private Placement, Carlyle and Anchorage will each become holders of approximately 24% of our outstanding common shares and each will have a representative and an observer on our and the bank s Board of Directors. Although Carlyle and Anchorage each entered into certain passivity agreements with the FRB in connection with their proposed investments in us, Carlyle and Anchorage each will have substantial influence over our corporate policy and business strategy. In addition, Carlyle and Anchorage will each have pre-emptive rights to maintain their percentage ownership of our common shares in the event of certain issuances of securities by us. In pursuing their economic interests, Carlyle and Anchorage may have interests that are different from the interests of our other shareholders.

Even if the Private Placement is completed, the proceeds received may not be sufficient to satisfy our capital and liquidity needs in the future or to satisfy changing regulatory requirements, and we may need to raise additional capital.

Assuming the Private Placement is completed, the proceeds will be used to strengthen our capital base as required by the Consent Order. As mentioned above, our capital ratios are expected to exceed the levels required by the Consent Order upon completion of the Private Placement and is expected to be at well-capitalized levels for regulatory purposes. However, despite the anticipated increase in our capital base, if economic conditions continue to be difficult or worsen or fail to improve in a timely manner, or if our operations or financial condition continues to deteriorate or fails to improve, particularly in the residential and commercial real estate markets where our business is located, we may need to raise additional capital. Factors affecting whether we would need to raise additional capital include, among others, additional provisions for loan and lease losses and loan charge-offs, changing requirements of regulators and other risks discussed in this Risk Factors section. If we had to raise additional capital, there can be no assurance that we would be able to do so in the amounts required and in a timely manner, or at all. In addition, any additional capital raised may be significantly dilutive to our existing shareholders and may result in the issuance of securities that have rights, preferences and privileges that are senior to our common shares.

There is substantial doubt about our ability to continue as a going concern.

We are subject to the Consent Order and FRB Agreement which impose a number of requirements as described above and will be subject to the MOU by the end of February 2011. Although we expect to be in compliance with the capital ratio requirements of the Consent Order assuming the completion of the Private Placement, the Private Placement remains subject to certain closing conditions, including receipt of requisite regulatory approvals and other customary conditions. Furthermore, even if we do successfully complete the Private Placement, there is no assurance that the proceeds received from the Private Placement will be sufficient to satisfy our future capital and liquidity needs as described above. In addition, we will not be in compliance with a number of other requirements in the Consent Order even assuming the Private Placement is completed. Accordingly, the potential uncertainty that exists as to our ability to meet existing or future regulatory requirements raises substantial doubt about our ability to continue as a going concern. Our audited financial statements were prepared under the assumption that we will continue our operations on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. If we cannot continue as a going concern, our shareholders will lose some or all of their investment in the Company.

In addition, our customers, employees, vendors, correspondent institutions, and others with whom we do business may react negatively to the substantial doubt about our ability to continue as a going concern. This negative reaction may lead to heightened concerns regarding our financial condition that could result in a significant loss in deposits and customer relationships, key employees, vendor relationships and our ability to do business with correspondent institutions upon which we rely.

CPF has limited cash resources.

As of December 31, 2010, on a stand alone basis, CPF had approximately $6.0 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 would be able to meet its normally expected expense obligations through the first half of 2011. Assuming the Private Placement is completed, CPF will retain a portion of the proceeds to fund its ongoing obligations. However, if we do not timely complete the Private Placement and TARP Exchange, CPF will require additional funds in order to continue meeting its financial obligations past the first half of 2011. While we expect the Private Placement and the TARP Exchange to be completed in February 2011, there is no assurance that we will be able to satisfy all of the remaining closing conditions in the investment agreements and the exchange agreement timely. 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.

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

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

We do not anticipate that our planned recapitalization, including the Private Placement, the TARP Exchange or the rights offering will cause an ownership change within the meaning of Section 382. In addition, in order to reduce the likelihood that future transactions in our common shares will result in an ownership change, on November 23, 2010, we adopted a Tax Benefits Preservation Plan, which provides an economic disincentive for any person or group to become an owner, for relevant tax purposes, of 4.99% or more of our common shares. To further protect our tax benefits, on January 26, 2011, our board approved the proposed Protective Charter Amendment which we intend to submit for shareholder approval at our annual meeting of shareholders on April 27, 2011. However, we cannot ensure that our ability to use our NOLs to offset income will not become limited in the future. As a result, we could pay taxes earlier and in larger amounts than would be the case if our NOLs were available to reduce our federal income taxes without restriction.

Because of our participation in the TARP and under the terms of our exchange agreement with the Treasury, we are subject to restrictions on compensation paid to our executives, which may make it difficult to attract and retain key members of management.

Pursuant to the terms of the TARP CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the Treasury owns any debt or equity securities acquired pursuant to TARP. These standards generally apply to our five most highly compensated senior executive officers, including our Executive Chairman and Chief Financial Officer, and/or certain of these restrictions also apply up to the next 20 most highly compensated senior executives. The standards include, among other things:

- ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution;
- a required clawback of any bonus or incentive compensation paid to a senior executive officer and the next twenty most highly compensated employees based on materially inaccurate financial statements or any other materially inaccurate financial performance metric criteria;
- a prohibition on making golden parachute payments to senior executive officers and the next five most highly compensated employees;
- an agreement not to deduct for tax purposes annual compensation in excess of $500,000 for each senior executive officer; and
- limitations on bonuses and incentive compensation.

We depend on the services of existing management to carry out our business strategy and our recovery plan which we began implementing in March 2010 to improve our financial health and capital ratios. In addition, our success depends in large part on our ability to attract and retain other key employees, in particular, a Chief Executive Officer, which is currently an open position. See We may not be able to attract and retain skilled people below. The loss of the services of any management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our results of operations, financial condition and prospects. In particular, the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in future periods and make it more difficult to attract suitable candidates to serve as executive officers.

We are also obligated to comply with any subsequent amendments to these restrictions for so long as we remain subject to such restrictions.

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

The performance of our Hawaii and California commercial real estate and construction loans depends on a number of factors, including improvement of the real estate market in which we operate. As we have seen in the Hawaii and California construction and commercial real estate markets since the latter part of 2007, the strength of the real estate market and the results of our operations could continue to be negatively affected by the economic downturn. While we are no longer originating new loans out of our Mainland operations, we still have a sizable California loan portfolio and the performance of that portfolio continues to be subject to market conditions in California.

Declines in the market for commercial property are causing commercial borrowers to suffer losses on their projects and they may be unable to repay their loans. Defaults of these loans or further deterioration in the credit worthiness of any of these borrowers would further negatively affect our financial condition, results of operations and prospects. Declines in housing prices and the supply of existing houses for sale are causing residential developers who are our borrowers to also suffer losses on their projects and encounter difficulty in repaying their loans. Since the third quarter of 2007, we have significantly increased our provision for loan and lease losses as a result of these challenging conditions. During the year ended December 31, 2010, our provision for loan and lease losses amounted to $159.5 million, compared to $348.8 million in 2009 and $171.7 million in 2008, while our percentage of nonperforming assets to total loans and leases, loans held for sale and other real estate was 13.18% for the year ended December 31, 2010, compared to 15.85% in 2009 and 3.52% in 2008. Credit costs were elevated through 2010 and we cannot assure you that we will have an adequate provision for loan and lease losses to cover future losses. If we suffer greater losses than we are projecting, our recovery plan and the ability to improve our position will be materially adversely affected.

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

The U.S. economy entered into one of the longest economic recessions to have occurred since the Great Depression of the 1930 s in December 2007. During this time, the global and U.S. economies experienced a protracted slowdown in business activity as a result of disruptions in the financial system, including a lack of confidence in the worldwide credit markets. Dramatic declines in the housing market, along with decreasing home prices and increasing delinquencies and foreclosures, negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and increasing unemployment negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy resulted in decreased lending by financial institutions to their customers and to each other. The market turmoil and tightening of credit consequently led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions experienced decreased access to deposits and borrowings. The resultant economic pressure on consumers and businesses and the lack of confidence in the financial markets adversely affected our business, financial condition, results of operations and stock price.

Although general economic trends and market conditions have since stabilized to some degree, a continued economic slowdown in Hawaii or a worsening of current market conditions in general would likely result in additional adverse effects on us, including: (i) loan delinquencies may continue to increase; (ii) problem assets and foreclosures may continue to increase leading to more loan charge-offs; (iii) demand for our products and services may decline; (iv) low cost or non-interest bearing deposits may continue to decrease; and (v) collateral for loans made by us, especially involving real estate, may continue to decline in value, in turn reducing customers borrowing power and reducing the value of assets and collateral associated with our existing loans.

A large number of our commercial real estate and construction loan portfolios both in Hawaii and on the mainland contributed to substantial credit losses and has significantly weakened our financial condition. Our previous focus on these higher yielding assets allowed us to realize greater returns in years when the economy was performing well. However, because there are inherent risks associated with this type of lending, our credit risk profile was significantly higher than other financial institutions with more balanced asset mixes. As a result, our high concentration of commercial real estate and construction loans, combined with the aforementioned deterioration in these sectors caused by the economic downturn, had and may continue to have a significantly more adverse impact on our operating results than many other banks across the nation. Although we have taken a number of steps to reduce our credit risk exposure over the past several quarters, we still had $302.8 million in nonperforming assets at December 31, 2010. If our borrowers continue to experience financial difficulty, or if property values securing our real estate loans decline further, we will continue to incur elevated credit costs due to the composition of our loan portfolio even if market conditions stabilize or improve.

Our allowance for loan and lease losses may not be sufficient to cover actual loan losses, which could adversely affect our results of operations. Additional loan losses 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 year ended December 31, 2010, our provision for loan and lease losses amounted to $159.5 million, compared to $348.8 million in 2009 and $171.7 million in 2008. Our current allowance for loan and lease losses may not be sufficient to cover future loan losses. We may experience significant loan losses that could have a material adverse effect on our operating results. Management, makes various assumptions and judgments about the collectibility of our loan portfolio, which are regularly reevaluated and are based in part on:

- current economic conditions and their estimated effects on specific borrowers;

- an evaluation of the existing relationships among loans, potential loan losses and the present level of the allowance for loan and lease losses;

- results of examinations of our loan portfolios by regulatory agencies; and

- management s internal review of the loan portfolio.

In determining the size of the allowance for loan and lease losses, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as the requirements of the Consent Order and other regulator input. If our assumptions prove to be incorrect, our current allowance for loan and lease losses may not be sufficient. Because of the uncertainty in the economy, volatility in the credit and real estate markets, including specifically, the deterioration in the Hawaii and California real estate markets and our high concentration of commercial real estate and construction loans, we made significant adjustments to our allowance for loan and lease losses in 2008, 2009 and 2010 and may need to make additional adjustments in the future. In addition, third parties, including our federal and state regulators, periodically evaluate the adequacy of our allowance for loan and lease losses and may communicate with us concerning the methodology or judgments that we have raised in determining the allowance for loan and lease losses. As a result of this input, we may be required to assign different grades to specific credits, increase our provision for loan and lease losses, and/or recognize further loan charge-offs. Specifically, the Consent Order requires the bank to maintain an adequate allowance for loan and lease losses at all times. To ensure that we maintain an adequate allowance for loan and lease losses 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.

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

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

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

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

Our line of credit with the FHLB serves as our primary outside source of liquidity. By virtue of the Consent Order, the bank is in default under its arrangement with the FHLB. Although the bank has not received any notice, the FHLB has the right to call all outstanding borrowings under this arrangement and is not obligated to make future advances. Our maximum borrowing term is limited to two years. The Federal Reserve discount window also serves as an additional outside source of liquidity. Borrowings under this arrangement are through the Federal Reserve s secondary facility and are subject to providing additional information regarding the financial condition of the bank and reasons for the borrowing. The duration of borrowings from the Federal Reserve discount window are generally for a very short period, usually overnight. In the event that these outside sources of liquidity become unavailable to us, we will need to seek additional sources of liquidity, including selling assets. We cannot assure you that we will be able to sell assets at a level to allow us to repay borrowings or meet our liquidity needs.

In February 2009, our collateral arrangement with the FHLB converted from a blanket pledge arrangement to a physical possession arrangement whereby we are required to deliver certain original loan documents to the FHLB for the collateral securing our advances. In December 2010, the FHLB expanded the physical possession arrangement to require copies of all loan documents for the collateral securing advances. As a result, should the FHLB elect to call any of our outstanding borrowings, they would maintain possession of the collateral we pledged and could assume legal ownership of the assets in the event we are unable to meet our obligations.

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

In addition, the bank s ability to accept brokered deposits has been restricted, and the interest rates we may pay are constrained, both of which could impact our liquidity.

In addition to the Consent Order, the FRB Agreement and the MOU, 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, the FRB Agreement and the contemplated MOU, we are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Statutes and regulations affecting our business may be changed at any time and the interpretation of these statutes and regulations by examining authorities may also change.

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

- the capital that must be maintained;
- the kinds of activities that can be engaged in;
- the kinds and amounts of investments that can be made;
- the locations of offices;
- insurance of deposits and the premiums that we must pay for this insurance; and
- how much cash we must set aside as reserves for deposits.

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. See the sections captioned Legislative Initiatives and Supervision and Regulation in Item 1. Business for further discussion of these regulations.

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 financial condition and the current regulatory environment, 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, 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.

Currently, 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. As further discussed in Part I, Item 1. Business, we have also experienced significant turnover on our executive management team during fiscal 2010, including the appointments of a new Executive Chairman of the Board in June 2010 and a new Chief Financial Officer in August 2010. Also, as referred to above, we are currently operating without a named Chief Credit Officer. The recent changes to our executive management team, combined with the turnover within 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.

A large percentage of our real estate loans are construction loans which involve the additional risk that a project may not be completed, increasing the risk of loss.

Approximately 17% of our real estate loan portfolio as of December 31, 2010 was comprised of construction loans. Seventy-three percent of these construction loans were in Hawaii while 27% were located on the mainland. Many of our construction loans are reliant upon sponsors and/or guarantors for additional support. Repayment of construction loans is dependent upon the successful completion of the construction project, on time and within budget, and the successful sale of a completed project or the conversion of the construction loan into a term loan. If a borrower is unable to complete a construction project or if the marketability or value of the completed development is impaired, proceeds from the sale of the subject property may be insufficient to repay the loan.

In recent periods, our construction loan portfolio has been significantly impacted by an increase in loan delinquencies and defaults, as well as declining collateral values resulting from the downturn in the commercial real estate markets in Hawaii and California and the significant negative impact this had on our borrowers, guarantors, and many of the projects securing our construction loans. Even if economic conditions stabilize or improve, our construction loan portfolio may continue to experience material credit losses due to our high concentration of loans with exposure to this sector, combined with the continuing uncertainty surrounding many of the projects securing our existing construction loans and the diminished capacity of many of our construction borrowers and guarantors.

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

Our results of operations have been, and in future periods, will continue to be significantly impacted by the economy in Hawaii, and to a lesser extent, other markets we are exposed to, including California.

Approximately 84% of our loan portfolio as of December 31, 2010 was comprised of loans primarily collateralized by real estate, with the majority of these loans concentrated in Hawaii.

Deterioration of the economic environment in Hawaii, California or other markets we are exposed to, including a continued decline or worsening declines in the real estate market and single-family home resales or a material external shock, may significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. In the event of a default with respect to any of these loans, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest on the loan. Over the past three years, material declines in the value of the real estate assets securing many of our commercial real estate loans has led to significant credit losses in this portfolio. As a result of our particularly high concentration of commercial real estate and construction loans, the risk within our portfolio is higher than many financial institutions and, as a result, our portfolio had been and remains particularly susceptible to significant credit losses during economic downturns and adverse changes in the real estate market. Because of our high concentration of loans secured by real estate (the majority of which were originated several years ago), it is possible that we will continue to experience elevated levels of credit losses and higher Provisions even if the overall real estate market stabilizes or improves due to the continuing uncertainty surrounding many of the specific real estate assets securing our loans and the weakened financial condition of many of our commercial real estate borrowers and guarantors.

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 December 31, 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 SEC, 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.

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

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

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

Our asset/liability management strategy may not be able to control our risk from changes in market interest rates and it may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. From time to time, we may reposition our assets and liabilities to reduce our net interest income volatility.

We operate in a highly competitive industry and market area.

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

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

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

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;

- the ability to expand our market position;

- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to its competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

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

The soundness of our financial condition and our ability to continue as a going concern may also affect our competitiveness. Customers may decide not to do business with the bank due to its financial condition. In addition, we have and continue to face additional regulatory restrictions that our competitors may not be subject to, including reducing our commercial real estate loan portfolio, improving the overall risk profile of the Company and restrictions on the amount of interest we can pay on deposit accounts, which could adversely impact our ability to compete and attract and retain customers.

The soundness of other financial institutions could adversely affect us.

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

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

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

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

The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. It also can materially decrease the value of financial assets we hold, such as debt securities. Its policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies and our regulatory environment generally are beyond our control, and we are unable to predict what changes may occur or the manner in which any future changes may affect our business, financial condition and results of operation.

Increases in deposit insurance premiums and special FDIC assessments will decrease our future earnings.

In May of 2009, the FDIC announced that it had voted to levy a special assessment on insured institutions in order to facilitate the rebuilding of the DIF. The assessment, which was payable on September 30, 2009, is in addition to a planned increase in premiums and a change in the way regular premiums are assessed, which the FDIC previously approved. The cost of the special assessment was equal to five basis points of the bank s total assets minus Tier 1 capital as of June 30, 2009 and resulted in a charge of approximately $2.5 million. On November 17, 2009, the FDIC issued new assessment regulations that require FDIC-insured institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter 2009 and for all of 2010, 2011 and 2012; however certain financial institutions, including the bank, were exempted from the new prepayment regulations and will continue to pay their risk-based assessments on a quarterly basis. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011, however in October 2010, the FDIC adopted a new DIF restoration plan pursuant to which the FDIC will forego the uniform three-basis point increase in initial assessment rates scheduled to take place on January 1, 2011 and maintain the current schedule of assessment rates for all depository institutions.

The recent assessment increases and special assessment discussed above, along with any future assessment increases and/or special assessments applicable to the bank, may continue to increase our expenses and adversely impact our earnings.

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

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to compete for clients. We do not yet know what interest rates other institutions may offer. Our interest expense will increase and our net interest margin will decrease if we have to offer higher rates of interest then we currently offer on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

The value of certain securities in our investment securities portfolio may be negatively affected by disruptions in the market for these securities.

The market for certain investment securities held within our investment portfolio was impacted by the economic downturn over the past three years. Coupled with uncertainty surrounding the credit risk associated with the underlying collateral, this has caused discrepancies in valuation estimates obtained from third parties. We value some of our investments using cash flow and valuation models which include certain subjective estimates that we believe reflect the estimates a purchaser of such securities would use if such a transaction were to occur. The volatile market may affect the value of these securities, such as through reduced valuations due to the perception of heightened credit and liquidity risks, in addition to interest rate risk typically associated with these securities. There can be no assurance that declines in market value associated with these disruptions will not result in impairment of these assets that may result in accounting charges that could have a material adverse effect on our consolidated financial statements and capital ratios.

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

Ratings assigned by ratings agencies to us, our affiliates or our securities may impact the decision of certain customers, in particular, institutions, to do business with us. A rating downgrade or a negative rating could adversely affect our deposits and our business relationships. On March 18, 2010, Fitch Ratings downgraded the long-term Issuer Default Rating of the Company and the bank to CC from CCC. On November 9, 2010, Fitch Ratings put the ratings of the Company and the bank on Rating Watch Evolving following the Company s announcement of its $325 million capital raising initiative.

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

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

In addition to obtaining approval from the FDIC and DFI, Hawaii law only permits the bank to pay dividends out of retained earnings. Given that the bank had an accumulated deficit of $483.9 million at December 31, 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. Please see CPF has limited cash resources above for risks on our holding company liquidity while CPF does not have access to dividends from the bank. We do not anticipate paying cash dividends on our common stock in the foreseeable future.

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

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

We continually encounter technological change.

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

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

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

We are subject to various legal claims and litigation.

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

Risk Factors Related to Our Common Stock

The market price of our common shares has declined significantly and is volatile.

The trading price of our common shares has declined significantly since February 2007 when our stock price traded above $800.00 per share (after giving effect to the 1-for-20 reverse stock split). The trading price of our common shares may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common shares. Among the factors that could affect our stock price are:

- failure to comply with all of the requirements of the Consent Order, the FRB Agreement and the contemplated MOU, and the possibility of resulting action by the regulators;
- the completion or the failure to complete the Private Placement;
- the per share purchase price in the Private Placement;
- further deterioration of asset quality;
- the incurrence of continuing losses;
- actual or anticipated quarterly fluctuations in our operating results and financial condition;

- changes in revenue or earnings/losses estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts revenue or earnings/losses estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- additions or departures of key personnel;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our common shares, including sales of our common shares in short sale transactions;

- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- domestic and international economic factors unrelated to our performance.

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

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

Our common shares are equity and therefore are subordinate to our subsidiaries indebtedness and preferred stock.

Our common shares are equity interests and do not constitute indebtedness. As such, common shares will rank junior to all current and future indebtedness and other non-equity claims on us with respect to assets available to satisfy claims against us, including in the event of our liquidation. We may, and the bank and our other subsidiaries may also, incur additional indebtedness from time to time and may increase our aggregate level of outstanding indebtedness. As of December 31, 2010, we had $105.0 million in face amount of trust preferred securities outstanding and accrued and unpaid dividends thereon of $5.1 million. Additionally, holders of common shares are subject to the prior dividend and liquidation rights of any holders of our preferred stock that may be outstanding from time to time. Our Board of Directors is authorized to cause us to issue additional classes or series of preferred stock without any action on the part of our stockholders. If we issue preferred shares in the future that have a preference over our common shares with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of the common shares, then the rights of holders of our common shares or the market price of our common shares could be adversely affected.

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

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

Our common shares are not insured and you could lose the value of your entire investment.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Certifications

We have filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this annual report on Form 10-K for the fiscal year ended December 31, 2010. Last year, we submitted to the NYSE on June 23, 2010 our annual CEO certification regarding the Company s compliance with the NYSE s corporate governance listing standards required by NYSE Rule 303A.12. This year, we intend to submit to the NYSE our annual CEO certification within 30 days of the Company s annual meeting of shareholders, which is scheduled for April 27, 2011.

ITEM 2. PROPERTIES

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

We occupy or hold leases for approximately 40 other properties including office space for our remaining branches and residential mortgage lending subsidiary. These leases expire on various dates through 2038 and generally contain renewal options for periods ranging from five to 15 years. For additional information relating to lease rental expense and commitments as of December 31, 2010, see Note 19 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to our shareholders for a vote during the fourth quarter of 2010.

PART II

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

Our common stock is traded on the NYSE under the ticker symbol CPF. Set forth below is a line graph comparing the cumulative total stockholder return on the Company s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the Russell 2000 Index and the S&P SmallCap 600 Commercial Bank Index for the five year period commencing December 31, 2005 and ending December 31, 2010. The graph assumes the investment of $100 on December 31, 2005.

Indexed Total Annual Return

(as of December 31, 2010)

The following table sets forth information on the range of high and low sales prices of our common stock (adjusted for the 1-for-20 reverse stock split), as reported by the NYSE, for each full quarterly period within 2010 and 2009:

	Year Ended December 31,			
	2010		2009	
	High	Low	High	Low
First quarter	$ 45.40	$ 20.80	$ 204.40	$ 70.00
Second quarter	77.60	30.00	199.40	73.60
Third quarter	36.40	26.00	78.20	35.00
Fourth quarter	31.80	23.20	54.00	15.80

As of January 26, 2011, there were 4,041 shareholders of record, excluding individuals and institutions for which shares were held in the names of nominees and brokerage firms.

Dividends

The holders of our common stock share proportionately, on a per share basis, in all dividends and other distributions declared by our Board of Directors. On January 28, 2009, CPF s Board of Directors suspended the payment of cash dividends to preserve capital during these challenging economic times. Accordingly, no cash dividends were declared on our common shares in 2010 and 2009. Dividends by CPF require the approval of the FRB, DFI and Treasury. Dividends by the bank require the approval of the FDIC and DFI.

As a result of the FRB Agreement effective July 2, 2010 and due to the terms of our trust preferred securities and the TARP Preferred Stock, our ability to pay dividends with respect to common stock is subject to obtaining approval from the FRBSF, DFI and Treasury and is restricted until our obligations under our trust preferred securities and TARP Preferred Stock are brought current. Assuming the completion of the Private Placement, we will seek regulatory approval to pay all deferred payments under our trust preferred securities. In addition, the TARP Preferred Stock and all accrued and unpaid dividends thereon will be exchanged into common stock assuming the completion of the TARP Exchange. Under our exchange agreement with the Treasury, any dividend payment will continue to require the approval of the Treasury until the earlier of January 9, 2012 and such time as the Treasury ceases to own any of our or our affiliates securities. Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. Central Pacific Bank, in addition to obtaining approval from the FDIC and DFI, is not permitted under Hawaii law to pay dividends except out of retained earnings. Given that the bank had an accumulated deficit of $483.9 million at December 31, 2010, the bank is prohibited from paying any dividends until this deficit is eliminated. Accordingly, we do not anticipate that the bank or the Company will be paying cash dividends in the foreseeable future.

See Part I, Item 1. Business Supervision and Regulation Regulatory Actions for a discussion on regulatory restrictions. For additional information regarding our election to defer payments on our TARP Preferred Stock and trust preferred securities, see Notes 2 and 15 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data.

Sale of Unregistered Securities

On January 9, 2009 (the Closing Date), CPF sold to the Treasury (1) 135,000 shares of TARP Preferred Stock, liquidation preference of $1,000 per share, and (2) the TARP Warrant to purchase up to 79,288 shares (after giving effect to the reverse stock split) of the Company s voting common stock, no par value, at an exercise price of $255.40 per share, for an aggregate purchase price of $135.0 million in cash. The securities were sold in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Cumulative dividends on the TARP Preferred Stock accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter, if, as and when declared by our Board of Directors out of funds legally available. The TARP Preferred Stock has no maturity date and ranks senior to our common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Central Pacific Financial Corp. As part of our recapitalization, we expect to complete the TARP Exchange and convert the TARP Preferred Stock held by the Treasury and all accrued and unpaid dividends thereon for shares of our common stock assuming the satisfaction of all closing conditions as described above under Business General .

Issuer Purchases of Equity Securities

There were no repurchases of the Company s common stock during the fourth quarter of 2010.

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected financial information for each of the years in the five-year period ended December 31, 2010. This information is not necessarily indicative of results of future operations and should be read in conjunction with Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related Notes contained in Part II, Item 8. Financial Statements and Supplementary Data.

Selected Financial Data	2010	2009	2008	2007	2006
			Year Ended December 31, (Dollars in thousands, except per share data)		
Statement of Operation Data:					
Total interest income	$ 160,754	$ 242,237	$ 303,952	$ 349,877	$ 320,381
Total interest expense	42,101	67,715	101,997	137,979	109,532
Net interest income	118,653	174,522	201,955	211,898	210,849
Provision for loan and lease losses	159,548	348,801	171,668	53,001	1,350
Net interest income (loss) after provision for loan and lease losses	(40,895)	(174,279)	30,287	158,897	209,499
Other operating income	57,036	57,413	54,808	45,804	43,156
Goodwill impairment	102,689	50,000	94,279	48,000	-
Other operating expense (excluding goodwill impairment)	164,405	166,876	178,543	128,556	132,163
Income (loss) before income taxes	(250,953)	(333,742)	(187,727)	28,145	120,492
Income taxes (benefit)	-	(19,995)	(49,313)	22,339	41,312
Net income (loss)	(250,953)	(313,747)	(138,414)	5,806	79,180
Balance Sheet Data (Year-End):					
Interest-bearing deposits in other banks	$ 729,014	$ 400,470	$ 475	$ 241	$ 5,933
Investment securities (1)	705,345	924,359	751,297	881,254	898,358
Loans and leases	2,169,444	3,041,980	4,030,266	4,141,705	3,846,004
Allowance for loan and lease losses	192,854	205,279	119,878	92,049	52,280
Goodwill	-	102,689	152,689	244,702	298,996
Other intangible assets	44,639	45,390	39,783	39,972	43,538
Total assets	3,938,051	4,869,522	5,432,361	5,680,386	5,487,192
Core deposits (2)	2,796,144	2,951,119	2,805,347	2,833,317	2,860,926
Total deposits	3,132,947	3,568,916	3,911,566	4,002,719	3,844,483
Long-term debt	459,803	657,874	649,257	916,019	740,189
Total shareholders equity	66,052	335,963	526,291	674,403	738,139
Per Share Data:					
Basic earnings (loss) per share	$ (171.13)	$ (220.56)	$ (96.56)	$ 3.85	$ 51.90
Diluted earnings (loss) per share	(171.13)	(220.56)	(96.56)	3.82	51.37
Cash dividends declared	-	-	14.00	19.60	17.60
Book value	(42.18)	136.50	366.34	469.04	480.73
Diluted weighted average shares outstanding (in thousands)	1,516	1,459	1,433	1,520	1,541
Financial Ratios:					
Return (loss) on average assets	(5.74) %	(5.87) %	(2.45) %	0.10 %	1.50 %
Return (loss) on average shareholders equity	(140.73)	(54.99)	(23.07)	0.77	11.16
Net income (loss) to average tangible shareholders equity	(193.24)	(77.60)	(37.00)	1.35	21.01
Average shareholders equity to average assets	4.08	10.67	10.61	13.58	13.45
Efficiency ratio (3)	82.83	63.52	53.93	47.80	49.67
Net interest margin (4)	2.91	3.62	4.02	4.33	4.55
Net loan charge-offs to average loans	6.33	7.03	3.42	0.33	0.05
Nonaccrual loans to total loans and leases and loans held for sale (5)	10.96	15.13	3.26	1.48	0.23

Allowance for loan and lease losses to total loans and leases	8.89	6.75	2.97	2.22	1.36
Allowance for loan and lease losses to nonaccrual loans (5)	78.62	43.41	90.43	149.57	583.61
Dividend payout ratio	N/A	N/A	N/A	515.79	33.85

(1) Held-to-maturity securities at amortized cost, available-for-sale securities at fair value.

(2) Noninterest-bearing demand, interest-bearing demand and savings deposits, and time deposits under $100,000.

(3) Efficiency ratio is derived by dividing other operating expense excluding amortization, impairment and write-down of intangible assets, goodwill, loans held for sale and foreclosed property, loss on early extinguishment of debt, loss on investment transaction and loss on sale of commercial real estate loans by net operating revenue (net interest income on a taxable equivalent basis plus other operating income before securities transactions). See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Table 5. Reconciliation to Efficiency Ratio.

(4) Computed on a taxable equivalent basis using an assumed income tax rate of 35%.

(5) Nonaccrual loans include loans held for sale.

Five Year Performance Comparison

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

- Gain on sale of property of $7.7 million and $3.6 million in 2010 and 2009, respectively;
- Provision for loan and lease losses of $159.5 million, $348.8 million, $171.7 million and $53.0 million in 2010, 2009, 2008 and 2007, respectively;
- Goodwill impairment charges of $102.7 million, $50.0 million, $94.3 million and $48.0 million in 2010, 2009, 2008 and 2007, respectively;
- Write down of assets of $1.5 million, $5.0 million and $23.8 million in 2010, 2009 and 2008, respectively;
- Valuation allowance against net deferred tax assets (DTAs) of $178.8 million and $104.6 million in 2010 and 2009, respectively;
- Loss on early extinguishment of debt of $5.7 million in 2010;
- Mortgage servicing rights impairment charge of $3.4 million in 2008;
- Loss on counterparty financing agreement of $2.8 million in 2008;
- Gain on ineffective portion of derivative of $3.4 million and $2.1 million in 2009 and 2008, respectively;
- Tax contingency settlement benefits of $2.3 million in 2009, and a charge of $2.4 million in 2007;
- Income tax benefit of $2.0 million related to true up adjustments recognized in 2007;
- Stock option expense of $0.4 million, $0.4 million, $2.1 million, $2.9 million and $3.5 million recognized in 2010, 2009, 2008, 2007 and 2006, respectively;
- Executive retirement expenses of $2.4 million and $2.1 million incurred in 2008 and 2006, respectively;
- Income tax charges of $1.2 million for income tax liability adjustments in 2006; and

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

Introduction

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

Our products and services consist primarily of the following:

- *Loans*: Our loans consist of residential, commercial, commercial mortgage, and construction loans to small and medium-sized companies, business professionals and real estate developers. Our lending activities contribute to a key component of our revenues interest income.

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

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

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

Executive Overview

Fiscal 2010 was another challenging year in our Company s history. Our high concentration of commercial real estate and construction loans both in Hawaii and on the mainland contributed to substantial credit losses and has significantly weakened our financial condition. Our previous focus on these higher yielding assets allowed us to realize greater returns in years when the economy was performing well. However, because there are inherent risks associated with this type of lending, our credit risk profile was significantly higher than other financial institutions with more balanced asset mixes. As a result, the downturn in the national and local economies that started in the second half of 2007 and continued into 2010, and specifically the deterioration in the commercial real estate sector, had a significantly more adverse impact on our operating results than many other banks across the nation.

During 2010, we reported a net loss of $251 million, primarily due to continued high levels of non-performing assets requiring sizable loan loss provisions and a non-cash goodwill impairment charge of $102.7 million related to the remaining goodwill associated with our Hawaii Market reporting unit. Our land acquisition, development, construction, and commercial real estate portfolios have shown particular weakness. While the deterioration in our asset quality started with our mainland loan portfolio during the second half of 2007, our Hawaii portfolio has also suffered significant losses and credit weakness over the past two years.

Adding to our challenges were the FRB Agreement entered into with the FRBSF and DFI and the Consent Order with the FDIC and DFI, all of which resulted in additional regulatory supervision of our operations and financial condition. In addition, we expect to be subject to the MOU by the end of February 2011.

In March 2010, we implemented a recovery plan designed to improve the Company s financial health and capital ratios. See Capital Resources below and Note 2 of the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data for further information regarding the recovery plan.

During the past three months, we completed a number of key milestones as we pursued our previously announced plans to raise $325 million of new capital through the Private Placement. We entered into definitive agreements in November 2010 (which were later amended) with affiliates of each of The Carlyle Group (Carlyle) and Anchorage Capital Group, L.L.C (Anchorage and, together with Carlyle, the Lead Investors) pursuant to which each lead investor agreed to invest approximately $98.6 million in our common stock at a purchase price of $10.00 per share (after giving effect to the reverse stock split). In December 2010, we entered into separate subscription agreements with additional investors, including certain of our directors and officers and their affiliates, pursuant to which the additional investors have agreed to invest an aggregate of approximately $127.8 million in our common stock, which together with the investments of the Lead Investors, would aggregate to the $325 million of new capital that we are seeking, at a purchase price of $10.00 per share (after giving effect to the reverse stock split). We expect to enter into additional subscription agreements and amendments to the investment agreements and certain existing subscription agreements to finalize allocations of the $325 million capital raise in anticipation of satisfying all closing conditions. As a result of these amendments and new subscription agreements, we expect that each lead investor will be investing approximately $94.6 million and the other investors will invest the remaining amount of approximately $135.8 million.

In December 2010, the U.S. Treasury (the Treasury) agreed to exchange our Fixed Rate Cumulative Perpetual Preferred Stock (the TARP Preferred Stock) purchased by the Treasury under the Troubled Assets Relief Program (TARP) and accrued and unpaid dividends thereon for approximately $55.8 million in our common stock (the TARP Exchange), subject to the execution of a definitive exchange agreement. The number of shares in the TARP Exchange will be based on the same per share purchase price as payable by the Lead Investors and the additional investors in the Private Placement. The Company and Treasury also agreed to amend the ten-year warrant to purchase shares of common stock (the TARP Warrant) issued to the Treasury in connection with the Treasury s investment in the TARP Preferred Stock to, among other things, reduce the exercise price to the same per share purchase price in the Private Placement. The closings of the Private Placement and TARP Exchange are conditional upon one another, along with the receipt of requisite regulatory approvals and other customary closing conditions. We expect to complete the Private Placement and the TARP Exchange in February 2011, assuming the satisfaction of all remaining conditions to closing. Assuming completion of the Private Placement, our regulatory capital ratios are expected to exceed the minimum levels required by the Consent Order.

Basis of Presentation

Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data. 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 subject to the Consent Order which imposes a number of requirements as described above. Although we expect to be in compliance with the capital ratio requirements of the Consent Order assuming the completion of the Private Placement, the Private Placement remains subject to certain closing conditions, including receipt of requisite regulatory approvals and other customary conditions. Furthermore, even if we do successfully complete the Private Placement, there is no assurance that the proceeds received from the Private Placement will be sufficient to satisfy our future capital and liquidity needs as described above. In addition, we will not be in compliance with a number of other requirements in the Consent Order even assuming the Private Placement is completed. Accordingly, the uncertainty as to our ability to meet existing or 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.

Business Environment

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 EESA and ARRA 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 December 2008 and kept these targets and rates at those levels until increasing the discount rate to 0.75% in February 2010. In November 2010, the FRB announced an initiative, known as QE2, to purchase an additional $600 million of assets.

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.

General economic conditions in Hawaii showed encouraging signs of improvement in 2010. Tourism remains Hawaii s most significant economic driver and according to the Hawaii Tourism Authority (HTA), 7.0 million visitors visited the state in 2010. This was an increase of 7.7% from the number of visitor arrivals in 2009. The HTA also reported that total spending by air visitors increased to $11.5 billion in 2010, an increase of $1.5 billion, or 14.8%, from 2009. According to the Hawaii Department of Business Economic Development & Tourism (DBEDT), total visitor arrivals and visitor spending are expected to gain 4.1% and 8.4% in 2011, respectively. The Department of Labor and Industrial Relations reported that Hawaii s seasonally adjusted unemployment rate improved to 6.4% in December 2010, compared to 6.8% in December 2009. In addition, Hawaii s unemployment rate remained below the national seasonally adjusted unemployment rate of 9.4%. DBEDT projects real personal income and real gross state product to grow by a modest 1.0% and 1.8%, respectively, in 2011.

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 13.4% for single-family homes and 10.3% for condominiums in 2010 from 2009. The median sales price in 2010 for single-family homes on Oahu was $593,000 representing an increase of 3.1% from the prior year. The median sales price for condominiums on Oahu remained unchanged from 2009 at $305,000. Expectations from local real estate experts and economists are for the Hawaii real estate market to show improvement in 2011, 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 aspects of our commercial real estate and construction loan portfolios.

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

California recovered modestly in 2010 from the worst recession since the Great Depression. In 2010, personal income grew but these gains and many others like them paled in comparison to the losses incurred during the recession. The outlook for the California economy calls for moderate growth in 2011 followed by better, but subpar, growth in 2012, and another step toward normal growth rates in 2013. The California Association of Realtors (CAR) reported that for 2010 as a whole, unit home sales decreased by 9.5% from 2009, however, the statewide median price increased by 1.6% to $303,000, from the $275,000 recorded in 2009. CAR anticipates 2011 to be a transition year, moving further toward stabilization, and forecasts California s annual sales and median sales price to increase 2% to 502,000 and $312,500, respectively. According to the California Department of Finance, average personal income is projected to have increased by 2.7% in 2010 from 2009 and projections for 2011 call for an increase of 3.8% from 2010. Labor markets within the state remained weak in 2010 as California s seasonally adjusted unemployment rate in December 2010 increased slightly to 12.5% from 12.3% in the prior year, and continues to be well above the national unemployment rate of 9.4%. California state government s budget crisis is more severe than Hawaii s. Having already issued IOUs once before to preserve cash, California s government faces a $25.4 billion shortfall and is looking at further cuts in wages, furloughs and government programs. Although we are not making new loans in California, our existing loan portfolio continues to have significant exposure to its markets.

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. See Overview of Results of Operations Concentrations of Credit Risk for a further discussion on how the deteriorating real estate market, combined with the elevated concentration risk within our portfolio, has and will continue to have, a significant negative impact on our asset quality and credit losses.

Critical Accounting Policies and Use of Estimates

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

Allowance for Loan and Lease Losses

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

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

In 2010, we recorded a Provision of $159.5 million and increased our Allowance, as a percentage of total loans and leases, to 8.89% at December 31, 2010 from 6.75% at December 31, 2009, as the general economic conditions and real estate markets in which we operate continued to deteriorate. Although general economic trends and market conditions have since stabilized to some degree, further deterioration in the Hawaii or California real estate markets would 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. Even if economic conditions improve or stay the same, it is possible that we may continue to experience material credit losses and in turn, increases to our Allowance and Provision, due to the elevated risk inherent in our existing loan portfolio resulting from our high concentration of commercial real estate and construction loans as further discussed above.

Additionally, when establishing our Allowance, management made certain assumptions and judgments with respect to the quality of our loan portfolio. As the economy began to deteriorate in the second half of 2007 and real estate values declined, we found that many of the assumptions and judgments that we made at the time needed to be materially changed in subsequent periods, which resulted in rapid negative credit migration and substantial losses. Because of this and the overall volatility and uncertainty in the marketplace, we are not able to predict the potential increases that we may need to incur in our Allowance if real estate values do not improve or continue to decline in the markets that we serve, or if the financial condition of our borrowers declines or fails as a result of their continued exposure to the real estate markets and other financial stresses.

Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine the Allowance and Provision. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our Allowance. Such agencies may require that we recognize additions to the Allowance based on their judgments about information available to them at the time of their examination. Accordingly, actual results could differ from those estimates.

To estimate the possible range of the Allowance required at December 31, 2010, and the related change in the Provision, we made assumptions regarding estimated loss rates under reasonably possible scenarios. Changes in the estimate of the Allowance and related Provision could materially affect our operating results. The determination of the Allowance requires us to make estimates of losses that are highly uncertain and involves a high degree of judgment.

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. We report the fair values of Hawaii and mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

We sell residential mortgage loans under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. Our repurchase risk generally relates to early payment defaults and borrower fraud. We establish residential mortgage repurchase reserves to reflect this risk based on our estimate of losses after considering a combination of factors, including our estimate of future repurchase activity and our projection of expected credit losses resulting from repurchased loans. At December 31, 2010 and 2009, this reserve totaled $5.0 million and $0.2 million, respectively, and is included in other liabilities on our consolidated balance sheets.

Goodwill and Other Intangible Assets

During the first quarter of 2010, we determined than an impairment test was required because of the uncertainty regarding our ability to continue as a going concern at that time combined with the fact that our market capitalization remained depressed. As a result of our first quarter 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 December 31, 2010, we had no goodwill remaining on our consolidated balance sheet.

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 other intangible assets whenever events or changes in circumstances indicate that the carrying value of goodwill and other intangible assets 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 result 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 involved, 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 the goodwill impairment test depends 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 occurred in future periods, including, but not limited to, changes in other reporting units or operating segments, future operating results could have been materially impacted.

Deferred Tax Assets and Tax Contingencies

Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In 2009, we established a valuation allowance against our net DTAs. See Overview of 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 17 to the Consolidated Financial Statements under Part II, Item 8. Financial Statements and Supplementary Data. In 2002, the defined benefit retirement plan was curtailed and all plan benefits were fixed as of that date. Plan assets, which consist primarily of marketable equity and debt securities, are typically valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate, we utilize a yield that reflects the top 50% of the universe of bonds, ranked in the order of the highest yield. Asset returns are based upon the anticipated average rate of earnings expected on the invested funds of the plans.

At December 31, 2010, we used a weighted-average discount rate of 5.1% 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 2010 and the amount of pension expense to be recorded in 2011. At December 31, 2009, a weighted-average discount rate of 5.9% and an expected long-term rate of return on plan assets of 8.0% were used in determining the pension liability recorded as of year-end 2009 and the amount of pension expense 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.

An increase in the discount rate or asset return rate would have reduced pension expense in 2010, while a decrease in the discount rate or asset return rate would have had the opposite effect. A 0.25% change in the discount rate assumption would impact 2011 pension expense by less than $0.1 million and year-end 2010 pension liability by $0.9 million, while a 0.25% change in the asset return rate would impact 2011 pension expense by less than $0.1 million.

Overview of Results of Operations

2010 vs. 2009 Comparison

In 2010, we recognized a net loss of $251.0 million, or $171.13 per diluted common share, compared to a net loss of $313.7 million, or $220.56 per diluted common share, in 2009. Credit costs, which includes the provision for loan and lease losses, write-downs of loans classified as held for sale, write-downs of foreclosed property and the change in the reserve for unfunded loan commitments, decreased by $195.0 million, or 53.6%, from $364.1 million in 2009 to $169.1 million in 2010. Our operating results were negatively impacted by a decrease in net interest income of $55.9 million in 2010 over net interest income recognized in the prior year. In addition, we recognized a $102.7 million non-cash goodwill impairment charge in 2010, compared to $50.0 million in 2009. Our net loss on average assets and average shareholders equity for 2010 was 5.74% and 140.73%, respectively, compared to 5.87% and 54.99%, respectively, in 2009.

2009 vs. 2008 Comparison

In 2009, we recognized a net loss of $313.7 million, compared to a net loss of $138.4 million in 2008. Credit costs increased by $162.6 million, or 80.8%, in 2009 over credit costs recognized in 2008. Our 2009 operating results were also negatively impacted by a $50.0 million non-cash goodwill impairment charge and the establishment of a $104.6 million valuation allowance against our net DTAs. Our net loss on average assets and average shareholders equity for 2009 was 5.87% and 54.99%, respectively, compared to 2.45% and 23.07%, respectively, in 2008.

Net Interest Income

The following table sets forth information concerning average interest earning assets and interest-bearing liabilities and the yields and rates thereon. Table 2 presents an analysis of changes in components of net interest income between years. Net interest income, when expressed as a percentage of average interest earning assets, is referred to as net interest margin. Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%.

Table 1. Average Balances, Interest Income and Expense, Yields and Rates (Taxable Equivalent)

	2010			2009			2008		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
				(Dollars in thousands)					
Assets									
Interest earning assets:									
Interest-bearing deposits in other banks	$ 726,346	0.26%	$ 1,862	$ 126,200	0.18%	$ 233	$ 1,500	0.78%	$ 12
Federal funds sold & securities purchased under agreements to resell	-	-	-	7,144	0.13	9	4,532	1.83	83
Taxable investment securities (1)	586,719	3.36	19,710	851,298	4.28	36,402	692,610	5.03	34,837
Tax-exempt investment securities (1)	21,803	7.54	1,643	102,462	6.04	6,185	143,988	5.74	8,266
Loans and leases, net of unearned income (2)	2,716,090	5.09	138,114	3,745,964	5.38	201,573	4,209,045	6.25	263,183
Federal Home Loan Bank stock	48,797	-	-	48,797	-	-	48,797	0.95	464
Total interest earning assets	4,099,755	3.94	161,329	4,881,865	5.01	244,402	5,100,472	6.02	306,845
Nonearning assets	268,504			466,093			552,937		
Total assets	$ 4,368,259			$ 5,347,958			$ 5,653,409		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 619,070	0.14%	$ 885	$ 544,910	0.25%	$ 1,351	$ 463,776	0.19%	$ 860
Savings and money market deposits	1,092,378	0.50	5,514	1,319,228	0.90	11,928	1,094,690	1.14	12,528
Time deposits under $100,000	515,264	1.57	8,077	631,482	2.45	15,446	639,794	2.91	18,618
Time deposits $100,000 and over	450,371	1.40	6,313	800,303	1.73	13,821	1,023,852	2.96	30,299
Short-term borrowings	219,823	0.54	1,177	187,720	0.29	548	292,466	2.24	6,563

Long-term debt	634,217	3.17	20,135	616,763	3.99	24,621	865,717	3.83	33,129
Total interest-bearing liabilities	3,531,123	1.19	42,101	4,100,406	1.65	67,715	4,380,295	2.33	101,997
Noninterest-bearing deposits	581,857			594,888			592,697		
Other liabilities	66,943			72,083			70,496		
Total liabilities	4,179,923			4,767,377			5,043,488		
Shareholders equity	178,321			570,544			599,861		
Non-controlling interests	10,015			10,037			10,060		
Total equity	188,336			580,581			609,921		
Total liabilities and equity	$ 4,368,259			$ 5,347,958			$5,653,409		
Net interest income			$119,228			$176,687			$204,848
Net interest margin		2.91%			3.62%			4.02%	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Table 2. Analysis of Changes in Net Interest Income (Taxable Equivalent)

	2010 Compared to 2009 Increase (Decrease) Due to Change In:			2009 Compared to 2008 Increase (Decrease) Due to Change In:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(Dollars in thousands)					
Interest earning assets						
Interest-bearing deposits in other banks	$ 1,080	$ 549	$ 1,629	$ 973	$ (752)	$ 221
Federal funds sold	(9)	-	(9)	48	(122)	(74)
Taxable investment securities	(11,324)	(5,368)	(16,692)	7,982	(6,417)	1,565
Tax-exempt investment securities	(4,872)	330	(4,542)	(2,384)	303	(2,081)
Loans and leases, net of unearned income	(55,418)	(8,041)	(63,459)	(28,943)	(32,667)	(61,610)
Federal Home Loan Bank stock	-	-	-	-	(464)	(464)
Total interest earning assets	(70,543)	(12,530)	(83,073)	(22,324)	(40,119)	(62,443)
Interest-bearing liabilities						
Interest-bearing demand deposits	185	(651)	(466)	154	337	491
Savings and money market deposits	(2,042)	(4,372)	(6,414)	2,560	(3,160)	(600)
Time deposits under $100,000	(2,847)	(4,522)	(7,369)	(242)	(2,930)	(3,172)
Time deposits $100,000 and over	(6,054)	(1,454)	(7,508)	(6,617)	(9,861)	(16,478)
Short-term borrowings	93	536	629	(2,346)	(3,669)	(6,015)
Long-term debt	696	(5,182)	(4,486)	(9,535)	1,027	(8,508)
Total interest-bearing liabilities	(9,969)	(15,645)	(25,614)	(16,026)	(18,256)	(34,282)
Net interest income	$ (60,574)	$ 3,115	$ (57,459)	$ (6,298)	$ (21,863)	$ (28,161)

Net interest income is our primary source of earnings and is derived primarily from the difference between the interest we earn on loans and investments versus the interest we pay on deposits and borrowings. Net interest income (expressed on a taxable-equivalent basis) totaled $119.2 million in 2010, decreasing by $57.5 million, or 32.5%, from $176.7 million in 2009, which decreased by $28.2 million, or 13.7%, from net interest income of $204.8 million recognized in 2008. The decrease in net interest income for 2010 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 107 basis points (bp) decline in average yields earned on our interest earning assets, which outpaced the 46 bp decrease 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.

In December 2010, we paid down long-term borrowings at the FHLB totaling $106.0 million with a weighted average interest rate of 4.78%. Prepaying these long-term borrowings resulted in the recognition of a one-time loss on the early extinguishment of debt totaling $5.7 million.

<u>Interest Income</u>

Our primary sources of interest income include interest on loans and leases, which represented 85.6%, 82.5% and 85.8% of interest income in 2010, 2009 and 2008, respectively, as well as interest earned on investment securities, which represented 13.2%, 17.4% and 14.0% of interest income, respectively. Interest income expressed on a taxable-equivalent basis of $161.3 million in 2010 decreased by $83.1 million, or 34.0%, from the $244.4 million earned in 2009, which decreased by $62.4 million, or 20.4%, from the $306.8 million earned in 2008.

As depicted in Table 2, the decrease in interest income in 2010 from the prior year was due primarily to significant decreases in average loan and lease and investment securities balances and the average loan yields earned thereon. The $1.0 billion decrease in average loan and lease balances contributed to $55.4 million of the current year reduction in interest income, while the 29 bp decrease in average loan yields in 2010 contributed to $10.9 million of the current year reduction. The drop in average loan and lease balances were impacted by the sale of approximately $193.4 million in loans that were originated for investment as we sought to reduce our credit risk exposure, as well as $200.0 million in loan charge-offs that occurred in 2010. The $264.6 million decrease in average taxable investment securities contributed to $11.3 million of the current year reduction in interest income, while the 92 bp decrease in average taxable investment securities yields in 2010 contributed to $7.8 million of the current year reduction. The $80.7 million decrease in average tax-exempt investment securities contributed to $4.9 million of the current year reduction in interest income. We anticipate that interest income will increase in 2011 if we close the Private Placement and are able to begin to deploy our excess cash and cash equivalents into higher yielding assets.

As depicted in Table 2, the drop in interest income in 2009 from 2008 was largely due to decreases in average loan yields and average loan and lease balances, as well as our planned efforts to improve balance sheet liquidity by maintaining higher balances in lower yielding cash equivalent accounts. In addition, higher nonaccrual loan balances further contributed to the decrease in 2009 from 2008. The 87 bp decrease in average loan yields in 2009 contributed to $32.7 million of the reduction in interest income, while the $463.1 million decrease in average loan and lease balances contributed to $28.9 million of the reduction. As the FRB kept the federal funds benchmark rate to a range of zero to 0.25% for all of 2009, loan repricings were negatively impacted. The drop in average loan and lease balances were impacted by the sale of approximately $278.2 million in loans that were originated for investment as we sought to reduce our credit risk exposure, as well as $265.7 million in loan charge-offs that occurred in 2009.

Interest Expense

In 2010, interest expense of $42.1 million decreased by $25.6 million, or 37.8%, compared to $67.7 million in 2009, which decreased by $34.3 million, or 33.6%, compared to $102.0 million in 2008.

Declines in average rates paid on interest-bearing liabilities were reflective of the FRB s notably low interest rate policy that existed throughout 2010 and 2009 and contributed to the overall reduction in interest expense during the periods. In 2010, the average rate paid on interest-bearing liabilities decreased by 46 bp to 1.19% for 2010, compared to 1.65% in 2009. Decreases in average rates paid on savings and money market deposits of 40 bp, time deposits under $100,000 of 88 bp, time deposits $100,000 and over of 33 bp, and long-term borrowings of 82 bp were the primary drivers of the overall decrease in interest expense. Decreases in the average balances of savings and money market of $226.9 million, time deposits under $100,000 of $116.2 million, and time deposits $100,000 and over of $349.9 million also contributed to the reduction of interest expense in 2010.

In 2009, the average rate paid on interest-bearing liabilities decreased by 68 bp to 1.65%, compared to 2.33% in 2008. Decreases in average rates paid on time deposits $100,000 and over of 123 bp, short-term borrowings of 195 bp, savings and money market deposits of 24 bp and time deposits under $100,000 of 46 bp were the primary drivers of the overall decrease in interest expense. Decreases in the average balances of long-term debt of $249.0 million, time deposits $100,000 and over of $223.5 million and short-term borrowings of $104.7 million also contributed to the reduction of interest expense in 2009.

Net Interest Margin

Our net interest margin was 2.91%, 3.62% and 4.02% in 2010, 2009 and 2008, respectively. As described above, the decline in our net interest margin in both 2010 and 2009 can be attributed to lower yields on our interest earning assets as we continued our efforts to reduce our higher yielding commercial real estate 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 remainder of the year, our net interest margin was adversely impacted by the change in the character of these assets.

Other Operating Income

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

Table 3. Components of Other Operating Income

	Year Ended December 31, 2010	2009 (Dollars in thousands)	2008
Other service charges and fees	$ 15,418	$ 14,187	$ 14,062
Service charges on deposit accounts	11,831	15,458	14,738
Net gain on sales of residential loans	8,468	13,582	7,717
Gain on sale of property	7,698	3,612	-
Income from bank-owned life insurance	4,809	5,249	4,876
Income from fiduciary activities	3,204	3,759	3,921
Investment securities gains (losses)	831	(74)	265
Fees on foreign exchange	659	584	665
Equity in earnings of unconsolidated subsidiaries	468	759	561
Loan placement fees	391	982	814
Other than temporary impairment on securities (net of $5,158 recognized in OCI for 2009)	-	(2,565)	-
Other	3,259	1,880	7,189
Total other operating income	$ 57,036	$ 57,413	$ 54,808
Total other operating income as a percentage of average assets	1.31%	1.07%	0.97%

Total other operating income of $57.0 million in 2010 decreased by $0.4 million, or 0.7%, over the $57.4 million earned in 2009, which increased by $2.6 million, or 4.8%, over the $54.8 million earned in 2008.

In 2010, we recorded lower gains on sales of residential loans of $5.1 million as refinance activity declined from the prior year record activity, lower service charges on deposit accounts of $3.6 million, and lower non-cash gains related to the ineffective portion of a cash flow hedge of $3.4 million. Offsetting these decreases were higher unrealized gains on outstanding interest rate locks of $4.4 million, a higher gain on sale of property of $4.1 million, and higher other service charges and fees of $1.2 million, compared to 2009. In addition, in 2009 we recorded an other than temporary impairment (OTTI) charge on three non-agency collateralized mortgage obligations of $2.6 million.

In 2009, our wholly-owned residential mortgage subsidiary, CPHL, experienced a significant rise in refinancing and loan origination activity resulting in a considerable increase in net gain on sales of residential loans of $5.9 million, or 76.0%, over 2008. As mortgage rates remained near historical lows throughout 2009, coupled with the U.S. government s First Time Homebuyer Tax Credit, CPHL was able to increase its loan production volume by 24.3% in 2009 over 2008. The growth experienced by CPHL over the past several years has enabled the Company to grow its market position in the residential mortgage market in Hawaii. Other operating income in 2009 also included a $3.6 million gain related to the sale of a parcel of land in 2009, lower unrealized gains on outstanding interest rate locks of $6.0 million when compared to 2008, and the aforementioned OTTI charge on three non-agency collateralized mortgage obligations totaling $2.6 million.

Other Operating Expense

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

Table 4. Components of Other Operating Expense

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		