CENTRAL PACIFIC FINANCIAL CORP
Form 10-K/A
March 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(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, 2008
or

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 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 x Non-Accelerated Filer o Smaller Reporting Company o

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

As of June 30, 2008, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $285,307,000. As of February 4, 2009, the number of shares of common stock of the registrant outstanding was 28,733,408 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2008 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.

Explanatory Note

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2008, which the Registrant previously filed with the Securities and Exchange Commission on February 27, 2009 (the “Original Filing”). The Registrant is filing this Amendment solely to add the Consolidated Statements of Cash Flows and Exhibit 21 “Subsidiaries of the Registrant” which were inadvertently omitted from the Original Filing. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Amendment. Except for the amendments described above, we have not modified or updated disclosures presented in the Original Filing in this Form 10-K/A. Accordingly, this Form 10-K/A does not reflect events occurring after the filing of the Original Filing or modify or update those disclosures affected by subsequent events.

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 or with the approval of us 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 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,” “shou and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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

- Local, regional, national and international economic conditions and events (including natural disasters such as wildfires, tsunamis and earthquakes) and the impact they may have on us and our customers and our assessment of that impact;
- Changes in the economy affecting real estate values;
- Oversupply of inventory and continued slowing in the California real estate market;
- A significant portion of our loan portfolio consists of construction loans and further slowdown in construction activity may materially and negatively affect our business;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the level of non-performing assets and charge-offs;
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board (“FRB”);

- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- Long-term negative trends in our market capitalization;
- Inflation, interest rate, securities market and monetary fluctuations;

1

- Political instability;
- Acts of war or terrorism;
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users;
- Changes in consumer spending, borrowings and savings habits;
- Technological changes;
- Acquisitions and integration of acquired businesses;
- The ability to increase market share and control expenses;
- Changes in the competitive environment among financial holding companies and other financial service providers;
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;
- 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;
- Changes in our organization, compensation and benefit plans;
- 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;
- Greater than expected costs or difficulties related to the integration of new products and lines of business; 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), 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, and 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 (consolidated). When we refer to “Central Pacific Financial Corp.” 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 39 bank branches and more than 95 ATMs located throughout the state of Hawaii. Our administrative and main offices are located in Honolulu and we have 32 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 offices in California serving customers there. Our bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The bank is not a member of the Federal Reserve System (the "Fed").

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. Our operations, like those of other financial institutions that operate in our markets, are significantly influenced by economic conditions in Hawaii and California, 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. For more information about the regulation of our holding company and bank, see “Supervision and Regulation.”

We are committed to maintaining a premier, relationship-based commercial bank in Hawaii that serves the needs of small to medium-sized businesses and the owners and employees of those businesses. In addition, we provide geographic diversification of our credit risk through our loan production offices in California. The strategy for serving our target markets is the delivery of a finely focused set of value-added products and services that satisfy the primary needs of our customers, emphasizing superior service and relationships.

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 commercial and consumer loan products, including commercial real estate and construction loans, residential mortgage loans, commercial loans and lines of credit, and consumer loans and lines of credit.

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

(1) 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. Additionally, liquidation of the collateral is available as a secondary source of repayment.

We have teams who specialize in commercial real estate lending and have long-established relationships with major real estate developers.

(2) Construction Lending. Construction lending encompasses the financing of both residential and commercial construction projects. Residential projects include the construction of single-family residential developments, apartment buildings and condominiums, while commercial projects include the construction of office buildings, warehouses and retail complexes. Our underwriting standards for residential construction projects generally require minimum pre-sale contracts, maintenance of appropriate reserves and demonstrated experience with previous development projects. We generally consider projected net cash flows, market feasibility, borrower net worth and experience, as well as collateral value as the primary factors in underwriting commercial construction projects.

As with our commercial real estate lending model, we have staff that specialize in construction lending and maintain close relationships with major real estate developers in all of our markets.

(3) 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 $0.3 million, readily marketable collateral and, until recently, a historically stable residential real estate market, credit losses on residential mortgages had been minimal during the past several years. However, current changes in interest rates, the economic recession and other market factors have impacted, and future changes may continue to impact the marketability of collateral 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., we have grown our market position in the residential mortgage arena with dedicated mortgage lending specialists on all major islands in Hawaii.

(4) 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. Risks of credit losses are greater in this loan category relative to secured loans, such as commercial and residential mortgages where a greater percentage of the loan amount is usually covered by collateral. Nonetheless, collateral and personal guarantees obtained on commercial loans can mitigate the increased risk and help to reduce credit losses.

Our commercial lending and leasing model involves teams of experienced personnel with established networks of business contacts who focus on marketing loans, deposits and other bank services to new and existing commercial clients.

In addition, we offer 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, with $3.9 billion in deposits, was the fourth-largest depository institution in the state of Hawaii at December 31, 2008.

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. Many of these competitors are much larger in total assets and capitalization and have greater access to capital markets.

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 "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 85% of our loan portfolio held for investment at December 31, 2008 consisted of real estate-related loans, including construction loans, residential mortgage loans and commercial mortgage loans. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio." Our business activities are currently focused primarily in Hawaii and California. Consequently, our results of operations and financial condition are affected by the general economic trends in Hawaii and California, particularly in the commercial and residential real estate markets. While during periods of economic strength, the real estate market and the real estate industry typically perform well, during periods of economic weakness, they typically slow down.

In 2008, the continued weakening of the real estate industry in California driven by a tightening in the credit markets and other economic conditions significantly adversely impacted the performance of our real estate loan portfolio.

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; CB Technology, Inc.; CPB Real Estate, Inc.; Citibank Properties, Inc.; CB Technology, Inc.; and Central Pacific HomeLoans, Inc.

Central Pacific Bank or its wholly-owned subsidiary, Central Pacific HomeLoans, Inc., also owns 50% of the following Hawaii limited liability corporations: Pacific Access Mortgage, LLC; Lokahi Mortgage, LLC; Gentry HomeLoans, LLC; Towne Island Mortgage, LLC; Pacific Island HomeLoans, LLC; Hawaii Resort Lending, LLC; Laulima Financial, LLC; and Pacific Portfolio, LLC.

Supervision and Regulation

Set forth below is a description of the significant elements of the laws and regulations 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 Bank Holding Company Act of 1956, as amended (“BHC Act”), and is subject to inspection, examination and supervision by the Board of Governors of the Fed (the “FRB”). It is also subject to Hawaii’s Code of Financial Institutions and is subject to inspection, examination and supervision by the State of Hawaii Division of Financial Institutions (“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, 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 the 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, 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.

In December 2008, the members of the Board of Directors of Central Pacific Bank entered into a Memorandum of Understanding (“MOU”) with the FDIC and the DFI to address certain issues that arose in the bank’s most recent regulatory examination in August 2008. The issues required to be addressed by management include, among other matters, to review and establish more comprehensive policies and methodologies relating to the adequacy of the allowance for loan and lease losses, the re-evaluation, development and implementation of certain plans and the requirement to increase the bank’s leverage capital ratio to 9% within 120 days. Since entering into the MOU the bank has made significant progress towards addressing these issues and, at the time of the filing of this annual report on Form 10-K, has increased its leverage capital ratio above 9%. As a result of the FRB’s most recent review of Central Pacific Financial Corp., we anticipate that we may be subject to additional supervisory action by the FRB.

Bank Holding Company Activities

In general, the BHC Act limits the business of bank holding companies 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. As a result of the Gramm-Leach-Bliley Act of 1999, 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 in the section captioned “Capital Adequacy and Prompt Corrective Action” included elsewhere in this item. 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. See the section captioned “Community Reinvestment Act” included elsewhere in this item.

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. Central Pacific 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 Community Reinvestment Act (see the section captioned “Community Reinvestment Act” included elsewhere in this item) and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Affiliate Transactions

There are various restrictions on the ability of the holding company and its non-bank subsidiaries to borrow from and engage in certain other transactions with our subsidiary bank. In general, these restrictions require that any extensions of credit must be secured by designated amounts of specified collateral and are limited, as to any one of the holding company 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.

Federal law also provides that extensions of credit and other transactions between our subsidiary bank and the holding company or one of its non-bank subsidiaries must be on terms and conditions that are consistent with safe and sound banking practices, including credit standards, that are substantially the same or at least as favorable to our subsidiary bank as those prevailing at the time for comparable transactions involving other non-affiliated companies or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered to or would apply to non-affiliated companies.

Source of Strength Doctrine

FRB policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, we are expected to commit resources to support our subsidiary bank, including at times when we may not be in a financial position 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 Adequacy and Prompt Corrective Action

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

The FDIC and the 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.

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 financial holding companies and national banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk. All other financial 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, it's leverage ratio must be at least 5.0%. The FRB has not advised Central Pacific of any specific minimum leverage ratio applicable to it.

The Federal Deposit Insurance Act, as amended ("FDIA"), requires among other things, the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier 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 the regulations adopted by the federal regulatory authorities, a bank will 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 and (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.

As of December 31, 2008, our capital ratios and the capital ratios of our bank exceeded the minimum thresholds for a "well-capitalized" institution. The following table sets forth actual and required capital ratios as of December 31, 2008 and 2007:

	Actual		Minimum required for capital adequacy purposes		Minimum required to be well-capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company						
As of December 31, 2008:						
Tier 1 risk-based capital	$ 466,465	10.4%	$ 178,693	4.0%	$ 268,040	6.0%
Total risk-based capital	523,162	11.7	357,387	8.0	446,734	10.0
Leverage capital	466,465	8.8	211,648	4.0	264,560	5.0
As of December 31, 2007:						
Tier 1 risk-based capital	$ 535,670	11.5%	$ 187,049	4.0%	$ 280,574	6.0%
Total risk-based capital	594,620	12.7	374,098	8.0	467,623	10.0
Leverage capital	535,670	9.8	218,477	4.0	273,096	5.0
Central Pacific Bank						
As of December 31, 2008:						
Tier 1 risk-based capital	$ 449,845	10.1%	$ 178,323	4.0%	$ 267,485	6.0%
Total risk-based capital	506,427	11.4	356,646	8.0	445,808	10.0
Leverage capital	449,845	8.5	210,707	4.0	263,384	5.0
As of December 31, 2007:						
Tier 1 risk-based capital	$ 518,923	11.1%	$ 186,743	4.0%	$ 280,115	6.0%
Total risk-based capital	577,779	12.4	373,487	8.0	466,859	10.0
Leverage capital	518,923	9.5	218,143	4.0	272,679	5.0

The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Regulations and Supervisory Practices, or the BIS. The BIS 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 BIS published a new capital accord to replace its 1988 capital accord, with an update in November 2005 ("BIS II"). BIS 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. BIS II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures.

The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on BIS II. In September 2006, the agencies issued a notice of proposed rulemaking setting forth a definitive proposal for implementing BIS II in the United States that would apply only to internationally active banking organizations—defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more—but that other U.S. banking organizations could elect but would not be required to apply. In December 2006, the agencies issued a notice of proposed rulemaking describing proposed amendments to their existing risk-based capital guidelines to make them more risk-sensitive, generally following aspects of the standardized approach of BIS II. These latter proposed amendments, often referred to as “BIS I-A,” would apply to banking organizations that are not internationally active banking organizations subject to the A-IRB approach for internationally active banking organizations and do not “opt in” to that approach.

The comment periods for both of the agencies’ notices of proposed rulemakings expired on March 26, 2007. The agencies have indicated their intent to have the new requirements first become effective in 2009 and that those provisions and the BIS I-A provisions for others will be implemented on similar timeframes.

The Company is not an internationally active banking organization and does not expect to opt-in to the A-IRB provisions once they become effective.

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 the EESA, the U.S. Department of the Treasury (the “U.S. Treasury”) was granted the authority to purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions. In addition, the U.S. 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 Troubled Assets Relief Program’s (“TARP”) Capital Purchase Program (the “CPP”). The primary purpose of the U.S. Treasury’s initiatives is to stabilize and provide liquidity to the U.S. financial markets.

On January 9, 2009, the U.S. Treasury approved our participation in the CPP. As a result, we issued and sold 135,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock (the “Preferred Shares”) to the U.S. Treasury for an aggregate purchase price of $135.0 million in cash. We also issued to the U.S. Treasury a ten-year warrant (the “TARP Warrant”) to purchase up to 1,585,748 shares of our voting common stock at an exercise price of $12.77 per share. See “Item 5. Market For Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases Of Equity Securities” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for a further discussion of our participation in the TARP’s CPP.

On February 17, 2009, President 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 U.S. Treasury, until the institution has repaid the U.S. Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the U.S. Treasury’s consultation with the recipient’s appropriate regulatory agency.

It is not clear at this time what impact the EESA, TARP Program, ARRA, other liquidity and funding initiatives of the Fed and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have 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. In addition, federal law generally prohibits a depositary institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depositary institution would thereafter be undercapitalized. The December 2008 MOU also requires the bank to obtain approval from the FDIC and DFI for

the payment of cash dividends by the bank to Central Pacific Financial Corp. We are required to obtain FRB approval for the payment of cash dividends to our shareholders. We are also subject to dividend limitations as a result of our participation in the CPP. See “Dividends” in Part II, Item 5 of our Annual Report on Form 10-K 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 Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF.

In conjunction with the EESA, the basic limit on federal deposit insurance coverage was temporarily raised from $100,000 to $250,000 per depositor. The legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. The FDIC also implemented the Temporary Liquidity Guarantee Program (“TLGP”) which insures all deposits held in non-interest bearing transactional accounts regardless of amount for a fee. The TLGP applies 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 has chosen to participate in the FDIC’s TLGP. These governmental actions were designed to rebuild confidence in the financial markets, increase liquidity and strengthen the financial sector.

In December 2008, the FDIC approved increasing risk-based assessment rates uniformly by 7 basis points (“bp”) ($0.07 for every $100 of deposits), on an annual basis, for the first quarter of 2009. In October 2008, the FDIC also proposed changes, which, if implemented, would take effect beginning in the second quarter of 2009 and require riskier institutions to pay a larger share of deposit insurance assessments. Increases in the insurance assessments our bank subsidiary pays will increase our costs. See “Other Operating Expense” included in Part II, Item 7 of our Annual Report on Form 10-K for a further discussion of our FDIC costs.

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 Community Reinvestment Act of 1977, or 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, or 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 U.S. 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 U.S. Treasury Department 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 U.S. Treasury Department. Failure to comply with these sanctions could have serious legal and reputational consequences.

Employees

At December 31, 2008, we employed 1,065 persons, 1,002 on a full-time basis and 63 on a part-time basis. We are not a party to any collective bargaining agreement.

Expiration of Rights Agreement

On February 25, 2009, Central Pacific Financial Corp. and Wells Fargo Bank, N.A., as successor rights agent, entered into Amendment Two (the "Amendment") to the Rights Agreement dated as of August 26, 1998, by and between Central Pacific Financial Corp. and ChaseMellon Shareholder Services L.L.C., as rights agent (as amended, the "Rights Agreement"). The Amendment modified the final expiration date of our preferred stock purchase rights (the "Rights") under the Rights Agreement from August 26, 2009 to March 15, 2009. The Rights Agreement was initially scheduled to expire on August 26, 2008 and at that time; we extended the final expiration date of the Rights for one year to permit us to assess whether to continue or to modify them. As a result of the Amendment, on March 15, 2009 the Rights will cease to be of further effect.

Available Information

Our internet website can be found at www.centralpacificbank.com. Our annual report 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 material is 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, our Compensation Committee and our Corporate Governance and Nominating Committee, as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics. Within the time period required by the SEC and the 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 consider carefully 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 management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. 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.

Factors That May Affect Our Business

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.

Difficult economic and market conditions have adversely affected our industry.

Dramatic declines in the housing market, along with decreasing home prices and increasing delinquencies and foreclosures, have 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 have 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 have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A continuation or worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial industry. In particular, we may face the following risks in connection with these events:

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.

- We may be required to pay significantly higher premiums to the FDIC because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Recent market disruptions and related governmental actions could materially and adversely affect our business, financial condition, results of operations or prospects.

Our business is affected by global economic conditions, political uncertainties and volatility and other developments in the financial markets. Factors such as interest rates and commodity prices, regional and national rates of economic growth, liquidity and volatility of fixed income, credit and other financial markets and investors' confidence can significantly affect the businesses in which we and our customers are engaged. Such factors have affected, and may further unfavorably affect, both economic growth and stability in markets where we and our customers operate, creating adverse effects on many companies, including us, in ways that are not predictable or that we may fail to anticipate. Since mid-2007 credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in September and October of 2008, resulting in the bankruptcy or acquisition of, or government assistance to several major domestic and international financial institutions. These

events have continued in 2009 and have significantly diminished overall confidence in the financial markets and in financial institutions, generally. This reduced confidence could further exacerbate the overall market disruption and increase risks to market participants including the Company.

The recent market developments and the potential for increased and continuing disruptions present a material risk to our business and that of other financial institutions. Further deterioration or a continuation of recent market conditions may lead to a decline in the value of the assets that we hold or in the creditworthiness of our borrowers. In response to recent market disruptions, legislators and financial regulators implemented a number of mechanisms designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker dealers, implementation of programs by the Fed to provide liquidity to the commercial paper markets and other matters. The overall effects of legislative and regulatory efforts on the financial markets are uncertain, and they may not have the intended stabilization effects. While these measures have been implemented to support and stabilize the markets, these actions may have unintended consequences on the financial system or our business, including reducing competition or increasing the general level of uncertainty in the markets. Should these or other legislative or regulatory initiatives fail to stabilize and add liquidity to the financial markets, our business, financial condition, results of operations and prospects could be adversely affected.

Continued economic slowdowns in Hawaii or California could materially hurt our business.

Our business is directly affected by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. The current deterioration in economic conditions in the United States generally, and in Hawaii and California in particular, could result in the following consequences, any of which could materially hurt our business:

- Loan delinquencies may continue to increase;
- Problem assets and foreclosures may continue to increase leading to more loan charge-offs;
- Demand for our products and services may decline;
- Low cost or non-interest bearing deposits may continue to decrease; and
- 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 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 profitability.

As we have experienced with the deteriorating market conditions in California's real estate market, our results of operations in future periods may be significantly impacted by the economies in Hawaii, California and other markets we serve. Approximately 85% of our loan portfolio as of December 31, 2008 was comprised of loans primarily collateralized by real estate, 73% of these loans were concentrated in Hawaii, 23% in California and 4% in Washington. Deterioration of the economic environment in Hawaii, California or other markets we serve, including a continued decline in the real estate market, further declines in single-family home resales or a material external shock, may significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. In the event of a default with respect to any of these loans, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest on the loan. As a result, we expect that our profitability would be negatively impacted by an adverse change in the real estate market.

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 33% of our real estate loan portfolio as of December 31, 2008 was comprised of construction loans. Fifty-nine percent of these construction loans were in Hawaii, 34% in California and the remaining 7% in Washington. Repayment of construction loans is dependent upon the successful completion of the construction project, on time and within budget, and the successful sale of the completed project. If a borrower is unable to complete a construction project or if the marketability of the completed development is impaired, proceeds from the sale of the subject property may be insufficient to repay the loan. The continued decline in the California real estate market or a deterioration of the real estate market in any market we serve is likely to damage the marketability of these projects; as a result, we may incur loan losses which will adversely affect our profitability. We have had to increase our provision for loan and lease losses substantially in 2008 and may have to do so again in the future.

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 pay dividends.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of investments or loans, and other sources could have a substantial negative affect 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 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 or adverse regulatory action against us. 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 continued deterioration in credit markets.

The management of liquidity risk is critical to the management of our business and to 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 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 financial condition, or concerns about our credit exposure to other persons could adversely impact our sources of liquidity, financial position, including regulatory capital ratios, results of operations and our business prospects.

During 2008, the amount of our total deposits has fluctuated. 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, brokered deposits, advances from the FHLB-Seattle and the Fed 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-Seattle or market conditions were to change.

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.

Future dividend payments and common stock repurchases are restricted by the terms of the U.S. Treasury’s equity investment in us.

Under the terms of the TARP’s CPP, for so long as any Preferred Shares issued under the CPP remains outstanding, we are prohibited from increasing quarterly cash dividends on our common stock above $0.10 per share, and from making certain repurchases of equity securities, including our common stock, without the U.S. Treasury’s consent until the third anniversary of the U.S. Treasury’s investment or until the U.S. Treasury has transferred all of the Preferred Shares it purchased under the CPP to third parties. Furthermore, as long as the Preferred Shares issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our common stock, are prohibited until all accrued and unpaid dividends are paid on such Preferred Shares, subject to certain limited exceptions. These restrictions, together with the potentially dilutive impact of the warrant issued to the U.S. Treasury, could have a negative effect on the value of our common stock.

The Preferred Shares issued to the U.S. Treasury impacts net income available to our common shareholders and earnings per common share, and the TARP Warrant may be dilutive to holders of our common stock.

The dividends declared and the accretion on discount on the Preferred Shares issued to the U.S. Treasury will reduce the net income available to common shareholders and our earnings per common share. The Preferred Shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the TARP Warrant is exercised. Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the TARP Warrant, a transferee of any portion of the TARP Warrant or of any shares of common stock acquired upon exercise of the TARP Warrant is not bound by this restriction.

If we are unable to redeem the Preferred Shares within five years, the cost of this capital to us will increase substantially.

If we are unable to redeem the Preferred Shares prior to February 15, 2014, the cost of this capital to us will increase substantially on that date, from 5.0% (approximately $6.8 million annually) to 9.0% per annum (approximately $12.2 million annually), further reducing the net income available to common shareholders and our earnings per common share.

Because of our participation in the TARP's CPP, we are subject to several restrictions including restrictions on compensation paid to our executives.

Pursuant to the terms of the TARP CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds an investment in us. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $0.5 million for each senior executive. In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in future periods and may make it more difficult to attract suitable candidates to serve as executive officers.

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 investment portfolio to reduce our net interest income volatility. See “Asset/Liability Management and Interest Rate Risk” included in Part II, Item 7 of our Annual Report on Form 10-K for a further discussion of our sensitivity to interest rate changes.

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 2008, our provision for loan and lease losses amounted to $171.7 million, compared to $53.0 million in 2007 and $1.4 million in 2006 and our current allowance may not be sufficient to cover future loan losses. We may experience significant loan losses that could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectibility of our loan portfolio, which are regularly reevaluated and are based in part on:

- Current economic conditions and their estimated effects on specific borrowers;
- An evaluation of the existing relationships among loans, potential loan losses and the present level of the allowance 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, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient. With the volatility of the economic decline and unprecedented nature of the events in the credit and real estate markets during the latter part of 2008, we made significant adjustments to our allowance in 2008 and additional adjustments may continue to be necessary if the local or national real estate markets and economies continue to deteriorate. Material additions to the allowance would materially decrease our net income. In addition, federal regulators periodically evaluate the adequacy of our allowance and may require us to increase our provision for loan and lease losses or recognize further loan charge-offs based on judgments different than those of our management. Any further increase in our allowance or loan charge-offs could have a material adverse effect on our results of operations.

During the second quarter of 2008, we wrote off all of the remaining goodwill associated with our Commercial Real Estate reporting segment as it was considered to be impaired. We continue to evaluate goodwill assigned to our Hawaii Market reporting segment for impairment. Estimates of fair value of our Hawaii Market reporting segment are determined based on a complex model using cash flows and company comparisons. If management’s estimates of future cash flows are inaccurate, the fair value determined could be inaccurate and impairment may not be recognized in a timely manner. Furthermore, market conditions affecting our Hawaii Market reporting segment may deteriorate which could result in a material adverse effect on the operating results of the Hawaii Market reporting segment. If this were to occur, the goodwill assigned to our Hawaii Market reporting segment may be considered to be impaired.

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.

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 bank 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 bank 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.

Governmental regulation may impair our operations or restrict our growth.

We are subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors. Statutes and regulations affecting our business may be changed at any time and the interpretation of these statutes and regulations by examining authorities may also change. Within the last several years, Congress and the President have passed and enacted significant changes to these statutes and regulations. There can be no assurance that such changes to the statutes and regulations or to their interpretation will not adversely affect our business. In addition to governmental supervision and regulation, we are subject to changes in other federal and state laws, including changes in tax laws, which could materially affect the banking industry. We are subject to the rules and regulations of the FRB. If we fail to comply with federal and state bank regulations, the regulators may limit our activities or growth, fine us or ultimately put us out of business. 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.

17

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 has become much less liquid over the past year. This coupled with uncertainty surrounding the credit risk associated with the underlying collateral 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 are reflective of 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 consolidated financial statements and capital ratios.

If Our Investment in the Federal Home Loan Bank of Seattle is Classified as Other-Than-Temporarily Impaired or as Permanently Impaired, Our Earnings and Shareholders' Equity Could Decrease

We own common stock of the Federal Home Loan Bank of Seattle ("FHLB-Seattle") to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB-Seattle's advance program. The aggregate cost of our FHLB-Seattle common stock as of December 31, 2008 was $48.8 million based on its par value. There is no market for our FHLB-Seattle common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB-Seattle, could be substantially diminished. Consequently, we believe that there is a risk that our investment in FHLB-Seattle common stock could be deemed other-than-temporarily impaired at some time in the future. If this occurs, it would cause our earnings and shareholders' equity to decrease by the after-tax amount of the impairment charge.

We may be unsuccessful in our federal or Hawaii state tax appeals, or ongoing tax audits may result in additional tax liabilities.

We are currently appealing certain tax assessments by the Internal Revenue Service and the State of Hawaii Department of Taxation. While we believe that we have properly applied the relevant income tax statutes and have obtained supporting opinions from tax consultants, we may be unsuccessful in one or more of our appeals. While we have established contingency reserves as deemed appropriate, adverse decisions or settlements could result in income tax and related interest exposure in excess of amounts reserved.

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 currently depend upon dividends from our bank for a substantial portion of our revenues. Our ability to pay dividends will therefore continue to depend in large part upon our receipt of dividends or other capital distributions from our bank.

The ability of the bank to pay dividends or make other capital distributions to us is subject to the regulatory authority of the FDIC, the DFI, Hawaii law and the Federal Reserve Board as further described in the Supervision and Regulation – Dividends sections of Item 1. Business.

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 and there are a limited number of qualified persons with knowledge of and experience in the banking industry in each of our markets. Furthermore,

recent demand for skilled finance and accounting personnel among publicly traded companies has increased the importance of attracting and retaining these people. Competition for the best people can be intense given the tight labor market in Hawaii and we may not be able to hire people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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 claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Regardless of whether customer claims and legal action related to our performance of our fiduciary responsibilities 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.

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, 2008. Last year, we submitted to the New York Stock Exchange on June 3, 2008 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 May 26, 2009.

ITEM 2. PROPERTIES

We hold title to the land and building in which our headquarters, Kaimuki branch office, Hilo branch office, Kailua-Kona branch office, Pearl City branch office and certain operations offices are located. We also hold title to the buildings in which our Moiliili; McCully; Kalihi and Beretania branch offices and operations center are located, as well as a portion of land on which the Moiliili branch office and the data processing operations offices are located. The remaining lands on which the Moiliili branch and the data processing operations offices are located, as well as all of the land on which the McCully, Kalihi-Gullick and Beretania branch offices are located, are leased. 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 50 other properties including office space for our remaining branches, residential mortgage lending subsidiary and California operations. 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, 2008, see Note 18 to the Consolidated Financial Statements.

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 2008.

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, 2003 and ending December 31, 2008. The graph assumes the investment of $100 on December 31, 2003.

Indexed Total Annual Return
(as of December 31, 2008)

The following table sets forth information on the range of high and low sales prices of our common stock, as reported by the NYSE, for each full quarterly period within 2008 and 2007:

	Year Ended December 31,			
	2008		2007	
	High	Low	High	Low
First quarter	$ 21.92	$ 14.09	$ 40.50	$ 34.60
Second quarter	20.32	10.33	36.50	32.83
Third quarter	22.40	7.10	33.60	27.69
Fourth quarter	19.45	8.91	30.63	18.24

As of December 31, 2008, there were 4,090 shareholders of record, excluding individuals and institutions for which shares were held in the names of nominees and brokerage firms.

Dividends

The following table sets forth information on dividends declared per share of common stock for each quarterly period within 2008 and 2007:

	Year Ended December 31,	
	2008	2007
First quarter	$ 0.25	$ 0.24
Second quarter	0.25	0.24
Third quarter	0.10	0.25
Fourth quarter	0.10	0.25

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, our Board of Directors elected to suspend the payment of cash dividends effective immediately as they believe this a prudent measure that will enable us to preserve capital and better meet the needs of our customers. Since substantially all of the funds available for the payment of dividends are derived from our bank, future dividends will depend upon our bank's earnings, financial condition and capital needs, applicable governmental policies and regulations and such other matters as our Board of Directors may deem to be appropriate. As our bank's operating performance improves and the economic environment stabilizes, we will reassess our capital levels and the payment of future cash dividends.

Our ability to pay cash dividends is further subject to our continued payment of interest that we owe on our junior subordinated debentures. As of December 31, 2008, we had approximately $108 million of our junior subordinated debentures outstanding. We have the right to defer payment of interest on the junior subordinated debentures for a period not exceeding 20 consecutive quarters. If we defer or fail to make interest payments on the junior subordinated debentures or if we fail to comply with certain covenants under the related indentures, we will be prohibited, subject to certain exceptions, from paying cash dividends on our common stock until we pay all deferred interest and resume interest payments on the junior subordinated debentures and until we comply with the covenants under the related indentures.

Our ability to pay dividends is also limited by certain restrictions including (1) rules imposed on Hawaii corporations that allow us to only pay dividends out of funds legally available at such times as our Board of Directors determines are appropriate, (2) our December 2008 MOU which requires the bank to obtain approval from the FDIC and DFI for the payment of cash dividends by the bank to Central Pacific Financial Corp, (3) FRB approval for the payment of cash dividends to our common shareholders and (4) the terms of our participation in the TARP's CPP which prohibit the payment of cash dividends on our common stock so long as any shares of the Preferred Shares remain outstanding, unless all accrued and unpaid dividends of the Preferred Shares have been paid and limit dividend increases. For information regarding the dividend payments made by Central Pacific Financial Corp. and its subsidiaries, see the discussion under the section captioned "Capital Resources" included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 25 in the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

Recent Sale of Unregistered Securities

On January 9, 2009 (the "Closing Date"), Central Pacific Financial Corp. (the "Company") issued and sold, and the U.S. Treasury purchased, (1) 135,000 shares of Preferred Shares, liquidation preference of $1,000 per share, and (2) the TARP Warrant to purchase up to 1,585,748 shares of the Company's voting common stock, no par value ("Common Stock"), at an exercise price of $12.77 per share, for an aggregate purchase price of $135 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 Preferred Shares will 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 the Company's Board of Directors out of funds legally available therefor. The Preferred Shares have no maturity date and rank senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. Subject to the approval of the Board of Governors of the Federal Reserve System, the Preferred Shares are redeemable at the option of the Company at 100% of their liquidation preference, provided, however, that the Preferred Shares may be redeemed prior to the first dividend payment date falling after the third anniversary of the Closing Date (February 15, 2012) only if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in the letter agreement, dated the Closing Date between the

Company and the U.S. Treasury (including the Securities Purchase Agreement—Standard Terms incorporated by reference therein) (the "Purchase Agreement") and set forth below) in excess of $33,750,000 and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings.

22

The U.S. Treasury may not transfer a portion or portions of the Warrant with respect to, and/or exercise the Warrant for more than one-half of, the 1,585,748 shares of Common Stock issuable upon exercise of the Warrant, in the aggregate, until the earlier of (i) the date on which the Company has received aggregate gross proceeds of not less than $135 million from one or more Qualified Equity Offerings (as defined in the Purchase Agreement and set forth below) and (ii) December 31, 2009. In the event the Company completes one or more Qualified Equity Offerings on or prior to December 31, 2009 that result in the Company receiving aggregate gross proceeds of at least $135 million, the number of the shares of Common Stock underlying the portion of the Warrant then held by the U.S. Treasury will be reduced by one-half of the shares of Common Stock originally covered by the Warrant. For purposes of the foregoing, “Qualified Equity Offering” is defined as the sale and issuance for cash by the Company to persons other than the Company or any Company subsidiary after the Closing Date of shares of perpetual preferred stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier I capital of the Company at the time of issuance under the applicable risk-based capital guidelines of the Board of Governors of the Federal Reserve System (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to October 13, 2008).

The Purchase Agreement pursuant to which the Preferred Shares and the Warrant were sold contains limitations on the payment of dividends on the Common Stock (including with respect to the payment of cash dividends in excess of the Company’s current quarterly cash dividend of $0.10 per share) and on the Company’s ability to repurchase its Common Stock, and subjects the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the “EESA”). As a condition to the closing of the transaction, each of Messrs. Ronald K. Migita, Blenn A. Fujimoto, Curtis W. Chinn, Dean K. Hirata and Denis K. Isono, the Company’s Senior Executive Officers (as defined in the Purchase Agreement) (the “Senior Executive Officers”), (i) executed a waiver (the “Waiver”) voluntarily waiving any claim against the U.S. Treasury or the Company for any changes to such Senior Executive Officer’s compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program as published in the Federal Register on October 20, 2008 and acknowledging that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements (including so-called “golden parachute” agreements) (collectively, “Benefit Plans”) as they relate to the period the U.S. Treasury holds any equity or debt securities of the Company acquired through the TARP Capital Purchase Program; and (ii) entered into a letter agreement (the “Letter Agreement”) with the Company amending the Benefit Plans with respect to such Senior Executive Officer as may be necessary, during the period that the U.S. Treasury owns any debt or equity securities of the Company acquired pursuant to the Purchase Agreement or the Warrant, as necessary to comply with Section 111(b) of the EESA.

Issuer Purchases of Equity Securities

There were no repurchases of the Company’s common stock during the fourth quarter of 2008.

Information relating to compensation plans under which equity securities of the Registrant are authorized for issuance is set forth in Part III, Item 12 of this Annual Report on Form 10-K.

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, 2008. This information is not necessarily indicative of results of future operations and should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data.”

Selected Financial Data	2008	2007	2006	2005	2004
	Year Ended December 31, (Dollars in thousands, except per share data)				
Statement of Income Data:					
Total interest income	$ 303,952	$ 349,877	$ 320,381	$ 263,250	$ 150,389
Total interest expense	101,997	137,979	109,532	66,577	30,217
Net interest income	201,955	211,898	210,849	196,673	120,172
Provision for loan and lease losses	171,668	53,001	1,350	3,917	2,083
Net interest income after provision for loan and lease losses	30,287	158,897	209,499	192,756	118,089
Other operating income	54,808	45,804	43,156	41,002	22,018
Goodwill impairment	94,279	48,000	-	-	-
Other operating expense (excluding goodwill impairment)	178,543	128,556	132,163	124,772	86,131
Income (loss) before income taxes	(187,727)	28,145	120,492	108,986	53,976
Income taxes (benefit)	(49,313)	22,339	41,312	36,527	16,582
Net income (loss)	(138,414)	5,806	79,180	72,459	37,394
Balance Sheet Data (Year-End):					
Interest-bearing deposits in other banks	$ 475	$ 241	$ 5,933	$ 9,813	$ 52,978
Investment securities (1)	751,297	881,254	898,358	925,285	850,821
Loans and leases	4,030,266	4,141,705	3,846,004	3,552,749	3,099,830
Allowance for loan and lease losses	119,878	92,049	52,280	52,936	50,703
Goodwill	152,689	244,702	298,996	303,358	284,712
Other intangible assets	39,783	39,972	43,538	47,615	53,037
Total assets	5,432,361	5,680,386	5,487,192	5,239,139	4,651,902
Core deposits (2)	2,805,347	2,833,317	2,860,926	2,814,435	2,716,973
Total deposits	3,911,566	4,002,719	3,844,483	3,642,244	3,327,026
Long-term debt	649,257	916,019	740,189	749,258	587,380
Total shareholders' equity	526,291	674,403	738,139	676,234	567,862
Per Share Data:					
Basic earnings (loss) per share	$ (4.83)	$ 0.19	$ 2.60	$ 2.42	$ 1.90
Diluted earnings (loss) per share	(4.83)	0.19	2.57	2.38	1.87
Cash dividends declared	0.70	0.98	0.88	0.73	0.64
Book value	18.32	23.45	24.04	22.22	20.17
Diluted weighted average shares outstanding (in thousands)	28,669	30,406	30,827	30,487	20,017
Financial Ratios:					
	(2.45)%	0.10%	1.50%	1.48%	1.25%

Return (loss) on average assets					
Return (loss) on average shareholders' equity	(23.07)	0.77	11.16	11.16	12.37
Net income (loss) to average tangible shareholders' equity	(37.00)	1.35	21.01	22.88	18.45
Average equity to average assets	10.61	13.58	13.45	13.29	10.08
Efficiency ratio (3)	53.93	47.80	49.67	49.59	57.77
Net interest margin (4)	4.02	4.33	4.55	4.63	4.51
Net charge-offs to average loans	3.42	0.33	0.05	0.05	0.06
Nonperforming assets to year-end loans & other real estate (5)	3.26	1.48	0.23	0.35	0.35
Allowance for loan and lease losses to year-end loans	2.97	2.22	1.36	1.49	1.64
Allowance for loan and lease losses to nonaccrual loans	90.43	149.57	583.61	421.77	492.79
Dividend payout ratio	N/A	515.79	33.85	30.17	33.68

(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 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).
(4) Computed on a taxable equivalent basis using an assumed income tax rate of 35%.
(5) Nonperforming assets include nonaccrual loans, nonaccrual loans held for sale and other real estate.

24

Five Year Performance Comparison

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

- Provision for loan and lease losses of $171.7 million and $53.0 million in 2008 and 2007;
- Goodwill impairment charges of $94.3 million and $48.0 million in 2008 and 2007;
- 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 $2.1 million in 2008;
- Tax contingency settlement 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 $2.1 million, $2.9 million and $3.5 million recognized in 2008, 2007 and 2006, respectively, in accordance with Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R");
- Executive retirement expenses of $2.4 million and $2.1 million incurred in 2008 and 2006;
- Income tax charges of $1.2 million for income tax liability adjustments in 2006;
- Nonrecurring integration, severance and merger-related expenses of $5.5 million and $9.3 million incurred in 2005 and 2004;
- Incremental earnings of Hawaii HomeLoans, Inc. ("HHL") since August 17, 2005 and of CB Bancshares, Inc. ("CBBI") since September 15, 2004, the effective dates of the respective acquisitions;
- Issuance of 2.0 million shares of common stock in a public offering in March 2005 and 11.9 million shares of common stock in September 2004 in connection with the CBBI acquisition; and
- Net amortization of core deposit premium and other purchase accounting valuation adjustments, and interest expense on trust preferred securities issued to finance the CB Bancshares acquisition.

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. In addition, we have offices in California serving customers there.

Our products and services focus on two areas:

- Loans: We focus our lending activities on commercial, residential and 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, Exceptional Savings and Super Savings accounts. We also maintain a broad branch and ATM network in the state of Hawaii. Raising funds through our deposit accounts enables us to support our lending activities. 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 "Business–Factors that May Affect Our Business" in Part I, Item 1 of this Annual Report on Form 10-K.

Executive Overview

Fiscal 2008 proved to be one of the most challenging periods in our fifty-four year history. Weakness and severe tightening in the overall credit markets, economic downturns in local, national and global economies, continued deterioration in the California real estate market and weakness in certain of our California commercial construction and Hawaii residential construction borrowers contributed to a net loss of $138.4 million recognized for the year. The net loss recognized in 2008 was attributable to $171.7 million in provision for loan and lease losses and a $94.3 million goodwill impairment charge, as continued weakness in our California residential construction loan portfolio negatively impacted 2008 results.

Our results for 2008 were reflective of the challenging and unprecedented economic environment that financial institutions across the country continue to experience. Despite the current turmoil and uncertainty in the financial markets, we remain committed to investing in our core Hawaii franchise and improving our asset quality.

Business Environment

The global and U.S. economies are currently experiencing a continued slowdown in business activity as a result of disruptions in the financial system, including a freeze and lack of confidence in the worldwide credit markets. In the

U.S., credit conditions have worsened considerably over the course of the year and the U.S. officially entered into a recession (as announced by the National Bureau of Economic Research). Falling home prices, as well as increased foreclosures and unemployment rates during the past year have resulted in significant write-downs of asset values. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. As a result of the current uncertainties regarding the stability of the financial markets, many financial institutions have reduced and/or ceased to provide funding to borrowers, including other financial institutions. Accordingly, the availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been adversely affected and have contributed to the recent volatility and disruption in the capital and credit markets which have reached unprecedented levels.

In response to the financial crisis affecting the banking system and financial markets, the EESA was signed into law on October 3, 2008. Under the EESA, the U.S. Treasury was granted the authority to purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the U.S. Treasury announced that it will purchase equity stakes in a wide variety of banks and thrifts under the TARP's CPP. Under the CPP, the U.S. Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions will also be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the CPP.

During 2008, the Fed announced a number of initiatives to provide stability and additional liquidity to the financial markets. These initiatives include 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. In December 2008, the Fed lowered the federal funds benchmark rate to a range of zero to 0.25% and the discount rate to 0.50%.

The majority of our operations are concentrated in the states of Hawaii and California. Accordingly, our business performance is directly affected by conditions in the banking industry, macro economic conditions and the real estate market in those states. 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 slowed throughout 2008 with signs of diminished growth appearing in the latter part of 2008. Tourism remains Hawaii's most significant economic driver, and according to the Hawaii Department of Business Economic Development & Tourism ("DBEDT"), 6.8 million visitors visited the state in 2008. This was a decrease of 10.8% from the number of visitor arrivals in 2007 and according to the DBEDT, total visitor arrivals are expected to further decline by 1.9% in 2009. The DBEDT also reported that total visitor spending declined to $11.3 billion in 2008 from a record $12.5 billion in 2007. The Department of Labor and Industrial Relations reported that Hawaii's seasonally adjusted unemployment rate was 5.5% in December 2008, compared to 3.1% in December 2007. Despite the increase, Hawaii's unemployment rate remained below the national seasonally adjusted unemployment rate of 7.2%. DBEDT projects real personal income to decline by approximately 0.4% in 2009, with increases in real personal income of 1.0% and 1.5% in 2010 and 2011, respectively. DBEDT also projects real gross state product growth to remain unchanged in 2009. With real estate lending as a primary focus, including construction, residential mortgage and commercial mortgage loans, we are dependent on the strength of the real estate market. The Hawaii real estate market cooled in 2008 and, according to the Honolulu Board of Realtors, Oahu unit sales volume dropped 24.4% for single-family homes and 28.5% for condominiums in 2008 from 2007. Median sales prices in 2008 for single-family homes on Oahu was $624,000, representing a 3.0% decrease from the prior year, while median sales prices for condominiums remained unchanged at $325,000. Expectations from local economists are for the Hawaii real estate market to continue its slowdown in 2009 with projected declines in both unit sales volume and median prices of 10%.

The effects of falling home prices, limited credit availability, shrinking equity values and growing unemployment stymied the California economy in 2008 as it decelerated in step with the national economy. Consumer and business spending, the core of the California economy, decreased in 2008. The outlook for the California economy calls for negative growth in 2009, followed by weak growth in 2010 improving slightly in 2011. The California Association of Realtors ("CAR") reported that December 2008 unit home sales increased by 84.9%, while the median price plunged 41.5% from year ago levels primarily driven by a significant rise in distressed sales, including foreclosures. CAR forecasts Calfornia median sales price will decline 6.0% to $358,000 in 2009, while the number of sales are projected to increase by 12.5% during the same period as distressed sales will continue to impact the market. According to the California Department of Finance ("CDOF"), average personal income is projected to have increased by 4.2% in 2008

from one year ago and projections for 2009 call for an increase of 2.1% from 2008. The CDOF also reported that California civilian workforce grew by 1.8% to 18.6 million in December 2008 from 18.3 million a year ago, while California's seasonally adjusted unemployment rate in December 2008 increased to 9.3% from 5.9% in the prior year and continues to be well above the national unemployment rate.

Our results of operations in future periods will be significantly impacted by the economies in Hawaii, California or other markets we serve. Loan demand, deposit growth, provision for loan and lease losses, asset quality, noninterest income and noninterest expense may be affected by changes in economic conditions. If the California and Hawaii residential real estate markets do not improve or continue to deteriorate, the California and Hawaii commercial real estate market worsens, or the economic environments in Hawaii, California or other markets we serve suffer an adverse change or a material external shock, our results of operations may be negatively impacted.