CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 08, 2009

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

FORM 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009

or

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

Commission file number 0-10777

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

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

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

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

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

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

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

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

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

The number of shares outstanding of registrant’s common stock, no par value, on May 1, 2009 was 28,741,504 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

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

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Item 1. Financial Statements

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

(Dollars in thousands)	March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 78,170	$ 107,270
Interest-bearing deposits in other banks	10,199	475
Federal funds sold	7,000	-
Investment securities:		
Available for sale	933,215	742,600
Held to maturity (fair value of $7,622 at March 31, 2009 and $8,759 at December 31, 2008)	7,523	8,697
Total investment securities	940,738	751,297
Loans held for sale	63,056	40,108
Loans and leases	3,818,900	4,030,266
Less allowance for loan and lease losses	122,286	119,878
Net loans and leases	3,696,614	3,910,388
Premises and equipment, net	77,828	81,059
Accrued interest receivable	20,887	20,079
Investment in unconsolidated subsidiaries	14,338	15,465
Other real estate	16,558	11,220
Goodwill	152,689	152,689
Other intangible assets	43,122	39,783
Bank-owned life insurance	136,437	135,371
Federal Home Loan Bank stock	48,797	48,797
Income tax receivable	47,728	42,400
Other assets	77,398	75,960
Total assets	$ 5,431,559	$ 5,432,361
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	$ 612,045	$ 627,094
Interest-bearing demand	511,919	472,269
Savings and money market	1,290,521	1,057,881
Time	1,588,088	1,754,322
Total deposits	4,002,573	3,911,566
Short-term borrowings	83,474	279,450
Long-term debt	623,903	649,257
Other liabilities	54,227	55,748
Total liabilities	4,764,177	4,896,021
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding		

135,000 shares at March 31, 2009 and none at December 31, 2008		127,836		-
Common stock, no par value, authorized 100,000,000 shares, issued and outstanding 28,740,217 shares at March 31, 2009 and 28,732,259 shares at December 31, 2008		403,203		403,176
Surplus		62,276		55,963
Retained earnings		64,524		63,762
Accumulated other comprehensive income (loss)		(500)		3,390
Total shareholders' equity		657,339		526,291
Non-controlling interest		10,043		10,049
Total equity		667,382		536,340
Total liabilities and equity	$	5,431,559	$	5,432,361

See accompanying notes to consolidated financial statements.

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

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Interest income:		
Interest and fees on loans and leases	$ 56,505	$ 70,294
Interest and dividends on investment securities:		
Taxable interest	8,729	9,271
Tax-exempt interest	1,171	1,389
Dividends	3	24
Interest on deposits in other banks	-	4
Interest on Federal funds sold and securities purchased under agreements to resell	-	21
Dividends on Federal Home Loan Bank stock	-	122
Total interest income	66,408	81,125
Interest expense:		
Interest on deposits:		
Demand	321	137
Savings and money market	2,863	3,785
Time	9,894	14,729
Interest on short-term borrowings	238	1,923
Interest on long-term debt	6,619	9,694
Total interest expense	19,935	30,268
Net interest income	46,473	50,857
Provision for loan and lease losses	26,750	34,272
Net interest income after provision for loan and lease losses	19,723	16,585
Other operating income:		
Service charges on deposit accounts	3,537	3,543
Other service charges and fees	3,320	3,415
Income from fiduciary activities	970	1,005
Equity in earnings of unconsolidated subsidiaries	274	283
Fees on foreign exchange	116	194
Investment securities losses	(150)	-
Loan placement fees	248	153
Net gain on sales of residential loans	4,009	1,798
Income from bank-owned life insurance	1,070	1,870
Other	2,290	2,018
Total other operating income	15,684	14,279
Other operating expense:		
Salaries and employee benefits	16,260	17,364
Net occupancy	3,279	2,853
Equipment	1,512	1,395
Amortization and impairment of other intangible assets	1,421	1,169
Communication expense	1,139	1,085
Legal and professional services	2,716	2,413

Computer software expense		912		863
Advertising expense		755		682
Foreclosed asset expense		135		2,590
Write down of assets		435		-
Other		9,134		1,046
Total other operating expense		37,698		31,460
Loss before income taxes		(2,291)		(596)
Income tax benefit		(4,920)		(2,254)
Net income		2,629		1,658
Preferred stock dividends and accretion		1,867		-
Net income available to common shareholders	$	762	$	1,658
Per common share data:				
Basic earnings per share	$	0.03	$	0.06
Diluted earnings per share		0.03		0.06
Cash dividends declared		-		0.25
Shares used in computation:				
Basic shares		28,681		28,686
Diluted shares		28,692		28,801

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net income	$ 2,629	$ 1,658
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and lease losses	26,750	34,272
Depreciation and amortization	2,090	1,864
Gain on sale of premises and equiptment	(3,612)	-
Write down of assets	435	-
Foreclosed asset expense	135	2,590
Amortization and impairment of other intangible assets	1,421	1,169
Net amortization of investment securities	674	462
Share-based compensation	(437)	612
Net loss on investment securities	150	-
Deferred income tax expense	3,412	6,776
Net gain on sales of residential loans	(4,009)	(1,798)
Ineffective portion of derivatives	184	-
Proceeds from sales of loans held for sale	542,074	353,790
Originations of loans held for sale	(561,013)	(352,083)
Tax benefits from share-based compensation	-	(40)
Equity in earnings of unconsolidated subsidiaries	(274)	(283)
Increase in cash surrender value of bank-owned life insurance	(1,066)	(1,870)
Increase in income tax receivable	(5,328)	(9,419)
Net change in other assets and liabilities	(7,105)	(11,445)
Net cash provided by (used in) operating activities	(2,890)	26,255
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	59,080	201,684
Proceeds from sales of investment securities available for sale	2,135	-
Purchases of investment securities available for sale	(245,902)	(213,065)
Proceeds from maturities of and calls on investment securities held to maturity	1,162	19,187
Net loan originations	66,693	(151,089)
Proceeds from sales of loans originated for investment	98,444	-
Proceeds from sale of other real estate	201	-
Proceeds from bank-owned life insurance	-	843
Proceeds from sale of premises and equipment	7,207	-
Purchases of premises and equipment	(2,454)	(2,527)
Distributions from unconsolidated subsidiaries	553	620
Net cash used in investing activities	(12,881)	(144,347)
Cash flows from financing activities:		
Net increase (decrease) in deposits	91,007	(222,698)
Proceeds from long-term debt	-	30,000
Repayments of long-term debt	(25,268)	(30,365)
Net increase (decrease) in short-term borrowings	(195,976)	352,375

Cash dividends paid on common stock		-		(7,190)
Cash dividends paid on preferred stock		(675)		-
Tax benefits from share-based compensation		-		40
Repurchases of common stock		-		(1,825)
Net proceeds from issuance of common stock and stock option exercises		50		194
Net proceeds from issuance of preferred stock and warrants		134,257		-
Net cash provided by financing activities		3,395		120,531
Net increase (decrease) in cash and cash equivalents		(12,376)		2,439
Cash and cash equivalents at beginning of period		107,745		82,129
Cash and cash equivalents at end of period	$	95,369	$	84,568
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	20,681	$	31,190
Income taxes		1,531		1,315
Cash received during the period for:				
Income taxes		192		-
Supplemental disclosure of noncash investing and financing activities:				
Net change in common stock held by directors' deferred compensation plan	$	23	$	20
Net reclassification of loans to other real estate		5,539		2,000
Net transfer of loans to loans held for sale		-		60,080
Securitization of residential mortgage loans into available for sale mortgage backed securities		15,823		-
Dividends accrued on preferred stock		863		-
Accretion of preferred stock discount		329		-

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. (referred to herein as "the Company," "we," "us," or "our") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company's consolidated financial statements and notes thereto filed on Form 10-K/A for the fiscal year ended December 31, 2008. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders' equity for any periods presented.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, we adopted the following new accounting pronouncements:

- FSP FAS 157-2 – FASB Staff Position FAS No. 157-2, "Effective Date of FASB Statement No. 157,"
- FSP FAS 142-3 - FASB Staff Position FAS No. 142-3, "Determination of the Useful Life of Intangible Assets,"
- SFAS 141(R) – Statement of Financial Accounting Standards No. 141(R), "Business Combinations,"
- SFAS 160 – Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,"
- SFAS 161 – Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement 133," and
- FSP EITF 03-6-1 – FASB Staff Position EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities."

The adoption of these pronouncements did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued three Staff Positions ("FSPs") that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1 expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to interim periods. We plan to adopt these FSPs effective beginning April 1, 2009 and are assessing the potential impact that the adoption of these FSPs may have on our consolidated financial statements and related disclosures.

3. INVESTMENT SECURITIES

A summary of investment securities is as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(Dollars in thousands)		
March 31, 2009				
Held to Maturity				
States and political subdivisions	$ 1,420	$ 9	$ -	$ 1,429
U.S. Government sponsored entities mortgage-backed securities	6,103	90	-	6,193
Total	$ 7,523	$ 99	$ -	$ 7,622
Available for Sale				
U.S. Government sponsored entities debt securities	$ 148,539	$ 1,715	$ (68)	$ 150,186
States and political subdivisions	122,572	1,438	(1,070)	122,940
U.S. Government sponsored entities mortgage-backed securities	561,201	10,293	(2,630)	568,864
Privately-issued mortgage-backed securities	107,120	-	(16,640)	90,480
Other	957	-	(212)	745
Total	$ 940,389	$ 13,446	$ (20,620)	$ 933,215
December 31, 2008				
Held to Maturity				
States and political subdivisions	$ 1,984	$ 8	$ -	$ 1,992
U.S. Government sponsored entities mortgage-backed securities	6,713	68	(14)	6,767
Total	$ 8,697	$ 76	$ (14)	$ 8,759
Available for Sale				
U.S. Government sponsored entities debt securities	$ 98,819	$ 1,335	$ (225)	$ 99,929
States and political subdivisions	126,427	1,003	(3,040)	124,390
U.S. Government sponsored entities mortgage-backed securities	403,031	8,615	(338)	411,308
Privately-issued mortgage-backed securities	111,308	-	(5,217)	106,091
Other	1,106	-	(224)	882
Total	$ 740,691	$ 10,953	$ (9,044)	$ 742,600

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The amortized cost and estimated fair value of investment securities at March 31, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2009	
	Amortized cost	Estimated fair value
	(Dollars in thousands)	
Held to Maturity		
Due in one year or less	$ 920	$ 923
Due after one year through five years	500	506
Mortgage-backed securities	6,103	6,193
Total	$ 7,523	$ 7,622
Available for Sale		
Due in one year or less	$ 3,768	$ 3,786
Due after one year through five years	118,930	120,117
Due after five years through ten years	107,200	108,546
Due after ten years	41,213	40,677
Mortgage-backed securities	668,321	659,344
Other	957	745
Total	$ 940,389	$ 933,215

Proceeds from sales of investment securities available for sale were $2.1 million for the three months ended March 31, 2009, resulting in gross realized losses of $0.2 million. There were no sales of available for sale securities during the three months ended March 31, 2008.

Investment securities of $727.7 million at March 31, 2009 were pledged to secure public funds on deposit, securities sold under agreements to repurchase and other long-term and short-term borrowings.

Provided below is a summary of investment securities which were in an unrealized loss position at March 31, 2009 and December 31, 2008. There were a total of 51 and 67 securities in an unrealized loss position at March 31, 2009 and December 31, 2008, respectively.

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
At March 31, 2009:						
U.S. Government sponsored entities debt securities	$ 34,860	$ (68)	$ -	$ -	$ 34,860	$ (68)
States and political subdivisions	31,192	(910)	3,058	(160)	34,250	(1,070)

U.S. Government sponsored entities												
mortgage-backed securities		181,314		(2,528)		7,069		(102)		188,383		(2,630)
Privately issued mortgage backed-securities		7,636		(430)		82,844		(16,210)		90,480		(16,640)
Other		745		(212)		-		-		745		(212)
Total temporarily impaired securities	$	255,747	$	(4,148)	$	92,971	$	(16,472)	$	348,718	$	(20,620)
At December 31, 2008:												
U.S. Government sponsored entities												
debt securities	$	9,969	$	(31)	$	13,598	$	(194)	$	23,567	$	(225)
States and political subdivisions		44,933		(3,021)		536		(19)		45,469		(3,040)
U.S. Government sponsored entities												
mortgage-backed securities		7,525		(30)		18,956		(322)		26,481		(352)
Privately issued mortgage backed-securities		53,388		(3,343)		52,703		(1,874)		106,091		(5,217)
Other		882		(224)		-		-		882		(224)
Total temporarily impaired securities	$	116,697	$	(6,649)	$	85,793	$	(2,409)	$	202,490	$	(9,058)

The declines in market value were primarily attributable to changes in interest rates and disruptions in the credit and financial markets. Because we have the ability and intent to hold all of these investments until a recovery of fair value, which may be maturity, and expect to receive all future principal and interest payments, we do not consider these investments to be other-than-temporarily impaired.

4. LOANS AND LEASES

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

	March 31, 2009	December 31, 2008
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 341,273	$ 384,473
Real estate:		
Construction	1,113,204	1,127,162
Mortgage - residential	950,562	1,073,039
Mortgage - commercial	1,199,092	1,215,857
Consumer	167,727	180,131
Leases	54,363	58,411
	3,826,221	4,039,073
Unearned income	(7,321)	(8,807)
Total loans and leases	$ 3,818,900	$ 4,030,266

Impaired loans requiring an allowance for loan and lease losses at March 31, 2009 and December 31, 2008 (see Note 5 for related allowance for loan and lease losses for impaired loans) amounted to $94.3 million and $90.6 million, respectively, and included all nonaccrual and restructured loans greater than $0.5 million. Impaired loans not requiring an allowance for loan and lease losses at March 31, 2009 and December 31, 2008 amounted to $69.6 million and $82.5 million, respectively.

On February 20, 2009, we sold certain residential mortgage loans originated for investment with an aggregate carrying value of $98.4 million. No gain or loss was recorded on the sale as the carrying value of these loans equaled the proceeds received.

5. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the changes in the allowance for loan and lease losses (the "Allowance") for the periods indicated:

	Three Months Ended March 31,	
	2009	2008
	(Dollars in thousands)	
Balance, beginning of period	$ 119,878	$ 92,049
Provision for loan and lease losses	26,750	34,272
	146,628	126,321

Charge-offs		(24,815)		(54,810)
Recoveries		473		597
Net charge-offs		(24,342)		(54,213)
Balance, end of period	$	122,286	$	72,108

The increase in the Allowance in the first quarter of 2009 was primarily due to increases in the number of loans that were downgraded, increases in our loan loss factors for specified loan pools and increases in specific reserves on certain impaired loans. The increase in our Allowance was deemed appropriate in response to the increase in nonaccrual loans (excluding loans held for sale) and reflects the reduced value of the collateral supporting our impaired loans, as well as increased credit risk in other parts of our loan portfolio. In accordance with generally accepted accounting principles in the United States, loans held for sale and other real estate assets are not included in our assessment of the Allowance.

6. SECURITIZATIONS

During the three months ended March 31, 2009, we securitized certain residential mortgage loans with an outstanding principal balance of $15.8 million with a U.S. Government sponsored entity. After the securitizations, we continued to hold mortgage-backed securities and service the residential mortgage loans. We recorded $0.1 million of servicing assets related to this securitizations during the three months ended March 31, 2009. The servicing assets were recorded at their respective fair values at the time of securitization. The fair value of the servicing assets were determined using a discounted cash flow model based on market value assumptions at the time of securitization and is amortized in proportion to and over the period of net servicing income in accordance with SFAS 156.

All unsold mortgage-backed securities were categorized as available for sale securities and were therefore recorded at their fair value of $26.5 million at March 31, 2009. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets in accordance with SFAS 157. Unrealized gains on unsold mortgage-backed securities were recorded in other comprehensive income and were $0.6 million at March 31, 2009.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

At the end of the first quarter of 2009, we experienced a decline in our market capitalization which we determined to be an indicator that an impairment test was required under SFAS 142. As a result of the impairment test performed, we determined that our goodwill was not impaired. All remaining goodwill at March 31, 2009 is attributable to our Hawaii Market reporting unit.

Other intangible assets include a core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements. The following table presents changes in other intangible assets for the three months ended March 31, 2009:

	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
			(Dollars in thousands)		
Balance, beginning of period	$ 26,076	$ 12,107	$ 1,330	$ 270	$ 39,783
Additions	-	4,760	-	-	4,760
Amortization	(669)	(702)	(35)	(15)	(1,421)
Balance, end of period	$ 25,407	$ 16,165	$ 1,295	$ 255	$ 43,122

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $4.8 million for the three months ended March 31, 2009, compared to $0.8 million for the three months ended March 31, 2008. The fair value of our mortgage servicing rights was $17.1 million and $12.1 million at March 31, 2009 and December 31, 2008, respectively.

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

	March 31, 2009			December 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
			(Dollars in thousands)			
Core deposit premium	$ 44,642	$ (19,235)	$ 25,407	$ 44,642	$ (18,566)	$ 26,076

Mortgage servicing rights	28,387	(12,222)	16,165	23,627	(11,520)	12,107
Customer relationships	1,400	(105)	1,295	1,400	(70)	1,330
Non-compete agreements	300	(45)	255	300	(30)	270
	$ 74,729	$ (31,607)	$ 43,122	$ 69,969	$ (30,186)	$ 39,783

Based on the core deposit premium, mortgage servicing rights, customer relationships and non-compete agreements held as of March 31, 2009, estimated amortization expense for the remainder of fiscal 2009, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense				
	Core Deposit Premium	Mortgage Servicing Rights	Customer Relationships	Non-Compete Agreements	Total
	(Dollars in thousands)				
2009 (remainder)	$ 2,006	$ 2,164	$ 105	$ 45	$ 4,320
2010	2,674	2,795	140	60	5,669
2011	2,674	2,306	140	60	5,180
2012	2,674	1,924	140	60	4,798
2013	2,674	1,606	140	30	4,450
2014	2,674	1,334	140	-	4,148
Thereafter	10,031	4,036	490	-	14,557
	$ 25,407	$ 16,165	$ 1,295	$ 255	$ 43,122

8. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. As required by SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” we measure all derivatives at fair value on our consolidated balance sheet. At each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments under SFAS 133, we record the effective portion of the changes in the fair value of the derivative in accumulated other comprehensive income (loss), net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings.

Interest Rate Swap

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

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate lock and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At March 31, 2009, we entered into interest rate lock and forward sale commitments on $244.9 million and $111.2 million of mortgage loans, respectively.

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

Derivatives designated as hedging instruments under SFAS 133	Balance Sheet Location	Asset Derivatives: Fair Value at March 31, 2009	Asset Derivatives: Fair Value at December 31, 2008	Liability Derivatives: Fair Value at March 31, 2009	Liability Derivatives: Fair Value at December 31, 2008
		(Dollars in thousands)			
Interest rate contracts	Other assets	$ 28,770	$ 26,903	$ -	$ -
Derivatives not designated as hedging instruments under SFAS 133					
Interest rate contracts	Other assets / other liabilities	$ 1,703	$ 3,815	$ 897	$ 1,314
Total derivatives		$ 30,473	$ 30,718	$ 897	$ 1,314

The following tables present the impact of derivative instruments and their location within the consolidated statements of income:

	Three Months Ended March 31, 2009		
Derivatives in SFAS 133 Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
	(Dollars in thousands)		
Interest rate contracts	$ 16,093	$ 2,000	$ (184)

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

	Three Months Ended March 31, 2009	
Derivatives not in SFAS 133 Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
	(Dollars in thousands)	
Interest rate contracts	Other operating income	$ (1,694)

9. EQUITY

In January 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Plan ("CPP") of the Emergency Stabilization Act of 2008, we issued and sold to the United States Department of the Treasury ("U.S. Treasury") (i) 135,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, no par value, having a liquidation preference of $1,000 per share and (ii) a ten-year warrant to purchase up to 1,585,748 shares of the Company's voting common stock, no par value, at an exercise price of $12.77 per share, for an aggregate purchase price of $135.0

million in cash. This capital is considered Tier 1 capital and ranks senior to common stock.

The preferred stock pays a dividend of 5% per year for the first five years and resets to 9% per year thereafter. The preferred stock is non-voting, other than class voting rights on matters that could adversely affect the shares. The preferred stock can be redeemed at the issuer's option after three years for the liquidation amount plus any accrued and unpaid dividends. Prior to the end of three years, the preferred stock may be redeemed at the issuer's option with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred stock or common stock. Redemption of the preferred stock can occur only if the stock is replaced with a similar class of capital. Dividends paid on the preferred stock are cumulative. The warrant has a ten year term and is exercisable immediately, in whole or in part, over the term of ten years. Any common shares issued under the exercise of the warrant are voting shares. If the Company raises common or perpetual preferred equity equal to or at least 100% of the preferred stock issued under TARP by December 31, 2009, the number of convertible shares relating to the warrant shall be reduced by 50%. The terms of TARP also include certain limitation on executive compensation.

In conjunction with the issuance of the preferred stock and stock warrant, the stock warrant was allocated a portion of the $135.0 million issuance proceeds as required by current accounting standards. The proceeds were allocated to the preferred stock and surplus based on their relative fair values. Accordingly, the value of the stock warrant was determined to be $6.75 million, which was allocated from the proceeds and recorded in surplus on our consolidated balance sheet. This non-cash amount is considered a discount on the preferred stock and is accreted against retained earnings over a five year period using the interest method and is reflected in our consolidated statement of income as preferred stock dividends and accretion. For the three months ended March 31, 2009, we recorded $0.3 million in accretion of the preferred stock discount. The warrant is included in our diluted average common shares outstanding (subject to anti-dilution).

10. SHARE-BASED COMPENSATION

Stock Option Activity

The following is a summary of stock option activity for the Company's stock option plans for the three months ended March 31, 2009:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009	902,398	$ 26.48
Changes during the period:		
Granted	139,061	3.95
Expired	(3,648)	36.15
Forfeited	(750)	18.88
Outstanding at March 31, 2009	1,037,061	23.43

We estimate the fair value of stock options granted using the Black-Scholes option pricing formula and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of the Company's stock options granted to employees for the three months ended March 31, 2009 and 2008 was estimated using the following weighted-average assumptions:

	Three Months Ended March 31,	
	2009	2008
Expected volatility	54.6%	32.0%
Risk free interest rate	2.5%	2.8%
Expected dividends	0.8%	5.3%
Expected life (in years)	5.5	6.5
Weighted average fair value	$ 1.85	$ 3.50

Restricted Stock Awards

The table below presents the activity of restricted stock awards for the three months ended March 31, 2009:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2009	33,620	$ 34.23
Changes during the period:		
Vested	(3,000)	35.10
Nonvested at March 31, 2009	30,620	34.15

We awarded restricted stock awards to our non-officer directors and certain senior management personnel. The awards typically vest over a three or five year period. Compensation expense is measured as the market price of the stock awards on the grant date, and is recognized over the specified vesting periods.

Performance Shares and Stock Appreciation Rights

In 2005 and 2008, we established Long Term Incentive Plans (the “2005 LTIP” and “2008 LTIP”) that covers certain executive and senior management personnel. Awards granted under the 2005 LTIP are comprised of three components: performance shares, stock appreciation rights (“SARs”) and cash awards, while awards granted under the 2008 LTIP consists of performance shares and SARs. All performance shares and SARs awarded under both the 2005 LTIP and 2008 LTIP are granted from the Company’s 2004 Stock Compensation Plan.

There was no activity related to performance shares for both the 2005 LTIP and 2008 LTIP during the three months ended March 31, 2009. No performance shares or SARs were granted under the 2005 LTIP and 2008 LTIP during the three months ended March 31, 2009. The table below presents activity of SARs under both the 2005 LTIP and 2008 LTIP for the three months ended March 31, 2009:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2009	237,935	$ 20.74
Changes during the period:		
Vested	(22,147)	35.17
Outstanding at March 31, 2009	215,788	19.26

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	March 31, 2009	December 31, 2008
	(Dollars in thousands)	
Unrealized holding gains (losses) on available-for-sale investment securities	$ (7,174)	$ 1,909
Unrealized holding gains on derivatives	26,857	24,806
Pension adjustments	(20,517)	(21,058)
Tax effect	334	(2,267)
Accumulated other comprehensive income (loss), net of tax	$ (500)	$ 3,390

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

	Three Months Ended March 31, 2009	2008
	(Dollars in thousands)	
Net income	$ 2,629	$ 1,658
Unrealized gain (loss) on investment securities, net of taxes	(5,443)	3,945
	1,230	2,735

Unrealized gain on derivatives, net of taxes				
Pension adjustments, net of taxes		323		111
Comprehensive income (loss)	$	(1,261)	$	8,449

12. PENSION PLANS

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

	Three Months Ended March 31, 2009	2008
	(Dollars in thousands)	
Interest cost	$ 450	$ 451
Expected return on assets	(350)	(574)
Amortization of unrecognized loss	525	186
Net periodic cost	$ 625	$ 63

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

	Three Months Ended March 31, 2009	2008
	(Dollars in thousands)	
Service cost	$ 26	$ 75
Interest cost	116	138
Amortization of unrecognized transition obligation	9	5
Amortization of prior service cost	5	5
Amortization of unrecognized (gain) loss	1	(8)
Net periodic cost	$ 157	$ 215

13. EARNINGS PER SHARE

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

(In thousands, except per share data)	Three Months Ended March 31, 2009	2008
Net income	$ 2,629	$ 1,658
Preferred stock dividends and accretion	1,867	-
Net income available to common shareholders	$ 762	$ 1,658
Weighted average shares outstanding - basic	28,681	28,686
Dilutive effect of employee stock options and awards	11	115
Weighted average shares outstanding - diluted	28,692	28,801

Basic earnings per share	$	0.03	$	0.06
Diluted earnings per share	$	0.03	$	0.06

A total of 1,080,893 and 812,978 potentially dilutive securities have been excluded from the dilutive share calculation for the three months ended March 31, 2009 and 2008, respectively, as their effect was antidilutive.

14. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Effective January 1, 2008, we partially adopted the provisions of SFAS 157. The statement defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements.

Under SFAS 157, we group our financial assets and liabilities at fair value into three levels based on the markets in which the financial assets and liabilities are traded and the reliability of the assumptions used to determine fair value as follows:

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

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

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

Under SFAS 157, we base our fair values on the price that we would expect to receive if an asset were sold or pay to transfer a liability in an orderly transaction between market participants at the measurement date. As required under SFAS 157, we maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

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

The following table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and December 31, 2008:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
March 31, 2009				
Available for sale securities	$ 745	$ 827,884	$ 14,106	$ 842,735
Available for sale privately-issued mortgage-backed securities	-	-	90,480	90,480
Net derivatives	-	29,576	-	29,576
Total	$ 745	$ 857,460	$ 104,586	$ 962,791
December 31, 2008				
Available for sale securities	$ 882	$ 621,383	$ 14,244	$ 636,509
Available for sale privately-issued mortgage-backed securities	-	-	106,091	106,091
Net derivatives	-	29,403	-	29,403
Total	$ 882	$ 650,786	$ 120,335	$ 772,003

For the three months ended March 31, 2009 and 2008, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Available for sale securities	Available for sale privately-issued mortgage-backed securities (1)
	(Dollars in thousands)	
Balance at January 1, 2009	$ 14,244	$ 106,091
Principal payments received	(138)	(4,188)
Unrealized net losses included in other comprehensive income	-	(11,423)
Balance at March 31, 2009	$ 14,106	$ 90,480
Balance at January 1, 2008	$ 14,821	$ -
Principal payments received	(146)	-
Balance at March 31, 2008	$ 14,675	$ -

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

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at March 31, 2009 and December 31, 2008, the following table provides the level of valuation assumptions used to determine the respective fair values:

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
March 31, 2009				
Loans held for sale (1)	$ -	$ 4,616	$ -	$ 4,616
Impaired loans (1)	-	153,382	-	153,382
December 31, 2008				
Loans held for sale (1)	$ -	$ 10,450	$ -	$ 10,450
Impaired loans (1)	-	153,909	-	153,909
Mortgage servicing rights (2)	-	-	12,107	12,107

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

(2) Represents fair market value of mortgage servicing rights, net of an impairment charge of $3.4 million.

15. SEGMENT INFORMATION

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

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

The accounting policies of the segments are consistent with the Company's accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K/A for the year ended December 31, 2008 filed with the Securities and Exchange Commission. The majority of the Company's net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

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

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

	Commercial Real Estate	Hawaii Market	Treasury	All Others	Total
			(Dollars in thousands)		
Three months ended March 31, 2009:					
Net interest income	$ 24,932	$ 17,455	$ 4,086	$ -	$ 46,473
Intersegment net interest income (expense)	(13,797)	12,850	(1,553)	2,500	-
Provision for loan and lease losses	(24,000)	(2,750)	-	-	(26,750)
Other operating income	181	10,408	1,277	3,818	15,684
Other operating expense	(5,222)	(20,222)	(803)	(11,451)	(37,698)
Administrative and overhead expense allocation	(1,197)	(8,589)	(92)	9,878	-
Income taxes	6,747	134	(681)	(1,280)	4,920
Net income (loss)	$ (12,356)	$ 9,286	$ 2,234	$ 3,465	$ 2,629
Three months ended March 31, 2008:					
Net interest income	$ 37,045	$ 17,111	$ (3,299)	$ -	$ 50,857
Intersegment net interest income (expense)	(24,463)	18,398	2,126	3,939	-
Provision for loan and lease losses	(33,300)	(972)	-	-	(34,272)
Other operating income	58	10,958	2,979	284	14,279
Other operating expense	(5,274)	(17,499)	(609)	(8,078)	(31,460)
Administrative and overhead expense allocation	2,683	(9,528)	(91)	6,936	-
Income taxes	8,138	(5,174)	9	(719)	2,254
Net income (loss)	$ (15,113)	$ 13,294	$ 1,115	$ 2,362	$ 1,658
At March 31, 2009:					
Investment securities	$ -	$ -	$ 940,738	$ -	$ 940,738
Loans and leases (including loans held for sale)	2,018,152	1,863,804	-	-	3,881,956
Other	2,828	217,229	290,849	97,959	608,865
Total assets	$ 2,020,980	$ 2,081,033	$ 1,231,587	$ 97,959	$ 5,431,559
At December 31, 2008:					
Investment securities	$ -	$ -	$ 751,297	$ -	$ 751,297
Loans and leases (including loans held for sale)	2,083,543	1,986,831	-	-	4,070,374

Other	(7,136)	217,146	300,810	99,870	610,690
Total assets	$ 2,076,407	$ 2,203,977	$ 1,052,107	$ 99,870	$ 5,432,361

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

Overview

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

Central Pacific Bank is a full-service community bank with 39 branches and more than 100 ATMs located throughout the State of Hawaii. The Bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans. The Bank also has offices in California serving customers there.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses