UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of report (date of earliest event reported): July 19, 2005

SEAGATE TECHNOLOGY

(Exact Name of Registrant as Specified in its Charter)

Cayman Islands	**001-31560**	**98-0355609**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

P.O. Box 309GT, Ugland House, South Church Street,	
George Town, Grand Cayman, Cayman Islands	**NA**
(Address of Principal Executive Office)	**(Zip Code)**

Registrant s telephone number, including area code: (345) 949-8066

NA

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On July 19, 2005, we issued a press release to report our financial results for the fiscal quarter and year ended July 1, 2005. A copy of this press release is attached to this Current Report on Form 8-K as Exhibit 99.1.

The information contained in this report and the attached press release is furnished but not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

Exhibit No.	Description
99.1	Press Release, dated July 19, 2005, of Seagate Technology

SIGNATURE

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

SEAGATE TECHNOLOGY

Date: July 19, 2005

By: /s/ WILLIAM L. HUDSON

Name: William L. Hudson
Title: Executive Vice President, General Counsel and Secretary

="bottom" width="6%" style="TEXT-ALIGN: right">85 90,413
Unallocated
6,000
Total ending balance
$4,987 $4,510 $29,910 $48,500 $2,421 $85 $96,413
Loans and leases:

Individually evaluated for impairment
$3,957 $48,264 $42,865 $15,911 $- $95 $111,092
Collectively evaluated for impairment
242,321 47,976 992,408 657,595 143,387 10,409 2,094,096 246,278 96,240 1,035,273 673,506 143,387 10,504
Unearned income
(60) (46) 124 (1,258) (4) - (1,244)
Total ending balance
$246,218 $96,194 $1,035,397 $672,248 $143,383 $10,504 $2,203,944

13

The following table presents by class, impaired loans as of June 30, 2013 and December 31, 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
		(Dollars in thousands)	
June 30, 2013			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 1,406	$ 1,205	$ -
Real estate:			
Construction	25,704	15,021	-
Mortgage - residential	42,059	36,163	-
Mortgage - commercial	20,325	17,035	-
Total impaired loans with no related allowance recorded	89,494	69,424	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,499	3,019	457
Real estate:			
Construction	13,678	11,600	3,445
Total impaired loans with an allowance recorded	18,177	14,619	3,902
Total	$ 107,671	$ 84,043	$ 3,902
December 31, 2012			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 1,225	$ 526	$ -
Real estate:			
Construction	52,352	36,664	-
Mortgage - residential	47,364	41,894	-
Mortgage - commercial	13,616	13,211	-
Total impaired loans with no related allowance recorded	114,557	92,295	-
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	4,807	3,431	882
Real estate:			
Construction	13,678	11,600	1,582
Mortgage - residential	1,935	971	272
Mortgage - commercial	3,939	2,700	270
Leases	95	95	5
Total impaired loans with an allowance recorded	24,454	18,797	3,011
Total	$ 139,011	$ 111,092	$ 3,011

The following table presents by class, the average recorded investment and interest income recognized on impaired loans as of June 30, 2013 and 2012:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				(Dollars in thousands)				

Commercial, financial & agricultural	$4,403	$ 6	$4,275	$ 26	$4,225	$ 12	$3,024	$ 29
Real estate:								
Construction	26,892	291	62,174	-	36,464	467	63,387	645
Mortgage - residential	37,742	197	48,817	121	40,058	328	49,438	178
Mortgage - commercial	19,148	92	22,766	146	18,338	182	20,272	168
Leases	34	-	199	-	61	-	85	-
Total	$88,219	$ 586	$138,231	$ 293	$99,146	$ 989	$136,206	$ 1,020

14

Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following table presents by class, the aging of the recorded investment in past due loans and leases as of June 30, 2013 and December 31, 2012:

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
June 30, 2013							
Commercial, financial & agricultural	$ 209	$ 75	$ -	$ 3,797	$ 4,081	$ 312,317	$ 316,398
Real estate:							
Construction	-	-	-	17,086	17,086	62,441	79,527
Mortgage - residential	160	350	17	21,518	22,045	1,112,778	1,134,823
Mortgage - commercial	201	-	-	11,054	11,255	625,674	636,929
Consumer	439	89	-	-	528	197,412	197,940
Leases	-	-	-	-	-	7,460	7,460
Total	$ 1,009	$ 514	$ 17	$ 53,455	$ 54,995	$ 2,318,082	$ 2,373,077
December 31, 2012							
Commercial, financial & agricultural	$ 123	$ 139	$ -	$ 3,510	$ 3,772	$ 242,446	$ 246,218
Real estate:							
Construction	124	-	-	38,742	38,866	57,328	96,194
Mortgage - residential	8,330	590	387	27,499	36,806	998,591	1,035,397
Mortgage - commercial	219	-	-	9,487	9,706	662,542	672,248
Consumer	249	169	116	-	534	142,849	143,383
Leases	-	-	-	94	94	10,410	10,504
Total	$ 9,045	$ 898	$ 503	$ 79,332	$ 89,778	$ 2,114,166	$ 2,203,944

Modifications

Troubled debt restructurings ("TDRs") included in nonperforming assets at June 30, 2013 consisted of 51 Hawaii residential mortgage loans with a combined principal balance of $15.1 million, six Hawaii construction loans with a combined principal balance of $1.4 million, and a Hawaii commercial loan with a principal balance of $0.6 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $27.3 million of TDRs still accruing interest at June 30, 2013, none of which were more than 90 days delinquent. At December 31, 2012, there were $31.8 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

The majority of loans modified in a TDR are typically on nonaccrual status. Thus, these loans have already been identified as impaired and have already been evaluated under the Company’s allowance for loan and lease losses (the “Allowance”) methodology. As a result, the loans modified in a TDR did not have a material effect to our provision for loan and lease losses expense (the “Provision”) and the Allowance during the three and six months ended June 30, 2013.

The following table presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2013 and 2012:

	Number of Contracts	Recorded Investment (as of period end)	Increase in the Allowance
		(Dollars in thousands)	
Three months ended June 30, 2013			
Real estate:			
Construction	1	$ 189	$ -
Mortgage - residential	3	1,626	-
Total	4	$ 1,815	$ -
Three months ended June 30, 2012			
Real estate:			
Construction	4	$ 1,603	$ -
Mortgage - residential	1	351	-
Mortgage - commercial	2	3,438	-
Total	7	$ 5,392	$ -
Six months ended June 30, 2013			
Commercial, financial & agricultural	1	$ 587	$ -
Real estate:			
Construction	1	189	-
Mortgage - residential	3	1,626	-
Total	5	$ 2,402	$ -
Six months ended June 30, 2012			
Real estate:			
Construction	4	$ 1,603	$ -
Mortgage - residential	7	3,560	-
Mortgage - commercial	4	10,214	-
Total	15	$ 15,377	$ -

The following table presents by class, loans modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Number of Contracts	Recorded Investment (as of period end)
				(Dollars in thousands)				
Commercial, financial & agricultural	-	$ -	-	$ -	1	$ 587	-	$ -
Real estate:								
Construction	1	189	4	1,603	1	189	4	1,603

Mortgage - residential	1		599	1		351	1		599	3		796
Mortgage - commercial	-			1		3,307	-		-	2		6,465
Total	2	$	788	6	$	5,261	3	$	1,375	9	$	8,864

16

Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes loans and leases with an outstanding balance greater than $0.5 million or $1.0 million, depending on loan type, and non-homogeneous loans and leases, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans and leases classified as special mention, while still adequately protected by the borrower’s capital adequacy and payment capability, exhibit distinct weakening trends and/or elevated levels of exposure to external conditions. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment. These exposures require management’s close attention so as to avoid becoming undue or unwarranted credit exposures.

Substandard. Loans and leases classified as substandard are inadequately protected by the borrower’s current financial condition and payment capability or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

Loss. Loans and leases classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

Loans and leases not meeting the criteria above that are analyzed individually as part of the process described above are considered to be pass rated loans and leases. Loans and leases listed as not rated are either less than $0.5 million or are included in groups of homogeneous loan pools. The following table presents by class and credit indicator, the recorded investment in the Company's loans and leases as of June 30, 2013 and December 31, 2012:

	Pass	Special Mention	Substandard	Doubtful	Loss	Not Rated	Less: Unearned Income	Total
			(Dollars in thousands)					
June 30, 2013								
Commercial, financial & agricultural	$ 269,422	$ 2,262	$ 5,830	$ -	$ -	$ 39,001	$ 117	$ 316,398
Real estate:								
Construction	52,004	5,170	20,381	-	-	2,161	189	79,527
Mortgage - residential	116,890	821	24,028	-	-	992,219	(865)	1,134,823
Mortgage - commercial	570,339	30,445	35,882	-	-	1,414	1,151	636,929
Consumer	17,214	-	15	-	-	181,149	438	197,940
Leases	7,226	163	71	-	-	-	-	7,460
Total	$ 1,033,095	$ 38,861	$ 86,207	$ -	$ -	$ 1,215,944	$ 1,030	$ 2,373,077
December 31, 2012								
Commercial, financial & agricultural	$ 192,298	$ 6,609	$ 7,607	$ -	$ -	$ 39,764	$ 60	$ 246,218
Real estate:								
Construction	39,623	9,635	43,986	-	-	2,996	46	96,194
Mortgage - residential	83,535	1,109	30,896	-	-	919,733	(124)	1,035,397
Mortgage - commercial	563,813	65,114	30,754	-	-	13,825	1,258	672,248
Consumer	10,161	-	129	-	-	133,097	4	143,383
Leases	9,860	274	370	-	-	-	-	10,504
Total	$ 899,290	$ 82,741	$ 113,742	$ -	$ -	$ 1,109,415	$ 1,244	$ 2,203,944

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At June 30, 2013 and December 31, 2012, we did not have any loans that we considered to be subprime.

6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents by class, the activity in the Allowance for the periods indicated:

	Commercial, Financial & Aagricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Unallocated	Total
	(Dollars in thousands)							
Three Months Ended June 30, 2013								
Beginning balance	$ 8,641	$ 3,946	$ 29,991	$ 35,289	$ 2,864	$ 75	$ 6,000	$ 86,806
Provision (credit) for loan and lease losses	2,439	1,044	(4,241)	(531)	1,069	(7)	-	(227)
	11,080	4,990	25,750	34,758	3,933	68	6,000	86,579
Charge-offs	1,597	277	380	-	242	-	-	2,496
Recoveries	170	1,747	243	703	157	2	-	3,022
Net charge-offs (recoveries)	1,427	(1,470)	137	(703)	85	(2)	-	(526)
Ending balance	$ 9,653	$ 6,460	$ 25,613	$ 35,461	$ 3,848	$ 70	$ 6,000	$ 87,105
Three Months Ended June 30, 2012								
Beginning balance	$ 5,301	$ 21,380	$ 33,445	$ 45,911	$ 2,105	$ 180	$ 6,000	$ 114,322
Provision (credit) for loan and lease losses	1,523	(6,079)	(3,713)	1,649	22	(32)	-	(6,630)
	6,824	15,301	29,732	47,560	2,127	148	6,000	107,692
Charge-offs	1,394	3,715	173	320	323	-	-	5,925
Recoveries	832	745	262	2	204	2	-	2,047
Net charge-offs (recoveries)	562	2,970	(89)	318	119	(2)	-	3,878
Ending balance	$ 6,262	$ 12,331	$ 29,821	$ 47,242	$ 2,008	$ 150	$ 6,000	$ 103,814
Six Months Ended June 30, 2013								
Beginning balance	$ 4,987	$ 4,510	$ 29,910	$ 48,500	$ 2,421	$ 85	$ 6,000	$ 96,413
Provision (credit) for loan and lease losses	5,845	73	(3,977)	(10,322)	1,611	(18)	-	(6,788)
	10,832	4,583	25,933	38,178	4,032	67	6,000	89,625
Charge-offs	1,841	355	794	3,674	557	-	-	7,221

Recoveries	662	2,232	474	957	373	3	-	4,701
Net charge-offs (recoveries)	1,179	(1,877)	320	2,717	184	(3)	-	2,520
Ending balance	$ 9,653	$ 6,460	$ 25,613	$ 35,461	$ 3,848	$ 70	$ 6,000	$ 87,105
Six Months Ended June 30, 2012								
Beginning balance	$ 6,110	$ 28,630	$ 32,736	$ 47,729	$ 2,335	$ 553	$ 4,000	$ 122,093
Provision (credit) for loan and lease losses	2,126	(12,128)	(2,921)	(171)	(148)	(378)	2,000	(11,620)
	8,236	16,502	29,815	47,558	2,187	175	6,000	110,473
Charge-offs	3,076	5,341	373	320	749	28	-	9,887
Recoveries	1,102	1,170	379	4	570	3	-	3,228
Net charge-offs (recoveries)	1,974	4,171	(6)	316	179	25	-	6,659
Ending balance	$ 6,262	$ 12,331	$ 29,821	$ 47,242	$ 2,008	$ 150	$ 6,000	$ 103,814

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

Our Provision was a credit of $0.2 million and $6.8 million in the second quarter and first half of 2013, respectively, compared to a credit of $6.6 million and $11.6 million in the second quarter and first half of 2012. The decrease in our Allowance is directly attributable to continued improvement in our credit risk profile as evidenced by declines in nonperforming assets and lower levels of net charge-offs.

19

In determining the amount of our Allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as regulatory requirements and input. If our assumptions prove to be incorrect, our current Allowance may not be sufficient to cover future loan losses and we may experience increases to our Provision.

7. SECURITIZATIONS

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

All unsold mortgage-backed securities were categorized as available for sale securities and were therefore recorded at their fair value of $4.4 million and $6.3 million at June 30, 2013 and December 31, 2012, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.2 million and $0.4 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income ("AOCI") at June 30, 2013 and December 31, 2012, respectively.

8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the six months ended June 30, 2013:

	Core Deposit Premium	Mortgage Servicing Rights (Dollars in thousands)	Total
Balance, beginning of period	$ 15,378	$ 22,121	$ 37,499
Additions	-	1,589	1,589
Amortization	(1,337)	(3,020)	(4,357)
Balance, end of period	$ 14,041	$ 20,690	$ 34,731

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.7 million and $1.6 million for the three and six months ended June 30, 2013, respectively, compared to $1.3 million and $2.5 million for the three and six months ended June 30, 2012, respectively. Amortization of mortgage servicing rights was $1.4 million and $3.0 million for the three and six months ended June 30, 2013, respectively, compared to $1.4 million and $2.5 million for the three and six months ended June 30, 2012, respectively.

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

	Six Months Ended June 30, 2013	2012
	(Dollars in thousands)	
Fair market value, beginning of period	$ 22,356	$ 23,149
Fair market value, end of period	21,427	23,359

Weighted average discount rate	8.0	%	8.0	%
Weighted average prepayment speed assumption	14.5		14.2	

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

	June 30, 2013			December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (30,601)	$ 14,041	$ 44,642	$ (29,264)	$ 15,378
Mortgage servicing rights	53,328	(32,638)	20,690	51,739	(29,618)	22,121
Customer relationships	-	-	-	1,400	(1,400)	-
Non-compete agreements	-	-	-	300	(300)	-
	$ 97,970	$ (63,239)	$ 34,731	$ 98,081	$ (60,582)	$ 37,499

Based on the core deposit premium and mortgage servicing rights held as of June 30, 2013, estimated amortization expense for the remainder of fiscal 2013, the next five succeeding fiscal years are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
2013 (remainder)	$ 1,337	$ 2,337	$ 3,674
2014	2,674	4,101	6,775
2015	2,674	3,467	6,141
2016	2,674	2,920	5,594
2017	2,674	2,494	5,168
2018	2,008	2,141	4,149
Thereafter	-	3,230	3,230
	$ 14,041	$ 20,690	$ 34,731

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

9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, 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 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 June 30, 2013, we were a party to interest rate lock and forward sale commitments on $34.5 million and $22.5 million of mortgage loans, respectively.

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

		Asset Derivatives		Liability Derivatives	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value at June 30, 2013	Fair Value at December 31, 2012	Fair Value at June 30, 2013	Fair Value at December 31, 2012
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 789	$ 303	$ 819	$ 551

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

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion) (Dollars in thousands)
Three Months Ended June 30, 2013	
Interest rate contracts	$ -
Three Months Ended June 30, 2012	
Interest rate contracts	359
Six Months Ended June 30, 2013	
Interest rate contracts	(394)
Six Months Ended June 30, 2012	
Interest rate contracts	931

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.

Derivatives Not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives (Dollars in thousands)		
Three Months Ended June 30, 2013				
Interest rate contracts	Other operating income	$	(901	)
Three Months Ended June 30, 2012				
Interest rate contracts	Other operating income		576	
Six Months Ended June 30, 2013				
Interest rate contracts	Other operating income		(531	)
Six Months Ended June 30, 2012				
Interest rate contracts	Other operating income		729	

22

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At June 30, 2013 and December 31, 2012, we had no short-term borrowings.

At June 30, 2013, our bank maintained a $48.7 million line of credit with the Federal Reserve discount window, of which there were no advances outstanding. As of June 30, 2013, certain commercial and commercial real estate loans totaling $83.7 million have been pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

The bank is a member of and maintained a $912.5 million line of credit with the Federal Home Loan Bank of Seattle (the "FHLB") as of June 30, 2013. Long-term borrowings under this arrangement totaled $23,000 at June 30, 2013, compared to $32,000 at December 31, 2012. There were no short-term borrowings under this arrangement at June 30, 2013 and December 31, 2012. At June 30, 2013 the bank's pledged assets to the FHLB included investment securities with a fair value of $76.5 million and certain real estate loans totaling $1.2 billion.

On August 20, 2009, we began deferring regularly scheduled interest payments on our outstanding junior subordinated debentures relating to our trust preferred securities. The terms of the junior subordinated debentures and the trust documents allow us to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. During the deferral period, the respective trusts suspended the declaration and payment of dividends on the trust preferred securities. Also during the deferral period, we may not, among other things and with limited exceptions, pay cash dividends on or repurchase our common stock or make any payment on outstanding debt obligations that rank equally with or junior to the junior subordinated debentures. During the deferral period, we continued to accrue, and reflect in our consolidated financial statements, the deferred interest payments on our junior subordinated debentures. In March 2013, the Company paid all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resumed quarterly payments for each outstanding trust. As a result, deferred accrued interest totaling $13.0 million was paid in full.

In June 2013, the Company was notified that $10.0 million of the $15.0 million in trust preferred securities of CPB Capital Trust I (the "Trust") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. CPF placed a bid of $9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. We expect to call these securities during the fourth quarter of 2013. The Company determined that its investment in the Trust did not represent a variable interest and therefore the Company is not the primary beneficiary of the Trust. As a result, consolidation of the Trust by the Company was not required. The investment is currently recorded at $9 million and is included in investments in unconsolidated subsidiaries on the Company's consolidated balance sheet.

11. EQUITY

In June 2013, the U.S. Treasury held a private auction to sell its warrant positions in several financial institutions which included the Company's warrant to purchase up to 79,288 shares of our common stock at a purchase price of $10 per share. On June 6, 2013, we were notified that we were the winning bidder of the warrant at our bid of $752 thousand. The warrant was being carried as a derivative liability on our balance sheet at $828 thousand as at March 31, 2013. Accordingly, we recorded a credit to other noninterest expense of $76 thousand during the quarter related to the gain on the purchase of the warrant. After the completion of this transaction, the U.S. Treasury no longer holds any outstanding shares of our common stock, or any warrants to purchase our common stock they received in connection with our participation in the Troubled Assets Relief Program.

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

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

To further protect our tax benefits, on January 26, 2011, our Board approved an amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the “Protective Charter Amendment”). At our annual meeting of shareholders on April 27, 2011, we proposed the amendment which shareholders approved. There is no guarantee, however, that the Tax Benefits Preservation Plan or the Protective Charter Amendment will prevent the Company from experiencing an ownership change.

As set forth above, our ability to pay dividends with respect to common stock was restricted until our obligations under our trust preferred securities were brought current which occurred in March 2013. Additionally, our ability to pay dividends depends on our ability to obtain dividends from our bank. As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law (“Statutory Retained Earnings”), which differs from GAAP retained earnings. As of June 30, 2013, the bank had Statutory Retained Earnings of $170.4 million. In light of the Company's improved capital position and financial condition, our Board and management, in consultation with our regulators, elected to reinstate dividend payments, subject to ongoing Board reviews, and declared a quarterly cash dividend of $0.08 per share on the Company’s outstanding common shares. The dividend will be payable on September 16, 2013 to shareholders of record at the close of business on August 30, 2013.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the six months ended June 30, 2013:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	1,098,806	$ 14.61
Changes during the period:		
Granted	103,558	15.49
Vested	(650)	13.84
Forfeited	(26,570)	14.63
Nonvested at June 30, 2013	1,175,144	14.68

24

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in AOCI for the three and six months ended June 30, 2013 and 2012, by component:

	Before Tax	Tax Effect	Net of Tax
		(Dollars in thousands)	
Three Months Ended June 30, 2013			
Net unrealized gain/loss on investment securities:			
Net unrealized loss arising during the period	$ (39,577)	$ (16,477)	$ (23,100)
Change in net unrealized gain/loss on investment securities	(39,577)	(16,477)	(23,100)
Defined benefit plans:			
Amortization of accumulated benefit plan losses	618	248	370
Amortization of unrecognized transition obligations	4	2	2
Amortization of prior service cost	5	2	3
Change in defined benefit plans	627	252	375
Change in accumulated other comprehensive income	$ (38,950)	$ (16,225)	$ (22,725)
Three Months Ended June 30, 2012			
Net unrealized gain/loss on investment securities:			
Net unrealized gain arising during the period	$ 1,696	$ -	$ 1,696
Change in net unrealized gain/loss on investment securities	1,696	-	1,696
Net unrealized gain/loss on derivatives:			
Reclassification adjustment for gain/loss realized in net income	(359)	-	(359)
Change in net unrealized gain/loss on derivatives	(359)	-	(359)
Defined benefit plans:			
Amortization of accumulated benefit plan losses	580	-	580
Amortization of unrecognized transition obligations	4	-	4
Amortization of prior service cost	4	-	4
Change in defined benefit plans	588	-	588
Change in accumulated other comprehensive income	$ 1,925	$ -	$ 1,925

	Before Tax	Tax Effect	Net of Tax
		(Dollars in thousands)	
Six Months Ended June 30, 2013			
Net unrealized gain/loss on investment securities:			
Net unrealized loss arising during the period	$ (44,400)	$ (16,477)	$ (27,923)
Change in net unrealized gain/loss on investment securities	(44,400)	(16,477)	(27,923)
Net unrealized gain/loss on derivatives:			
Reclassification adjustment for gain/loss realized in net income	394	(10,599)	10,993
Change in net unrealized gain/loss on derivatives	394	(10,599)	10,993
Defined benefit plans:			
Amortization of accumulated benefit plan losses	1,234	248	986
Amortization of unrecognized transition obligations	8	2	6
Amortization of prior service cost	10	2	8
Change in defined benefit plans	1,252	252	1,000
Change in accumulated other comprehensive income	$ (42,754)	$ (26,824)	$ (15,930)
Six Months Ended June 30, 2012			
Net unrealized gain/loss on investment securities:			
Net unrealized loss arising during the period	$ (1,784)	$ -	$ (1,784)
Change in net unrealized gain/loss on investment securities	(1,784)	-	(1,784)
Net unrealized gain/loss on derivatives:			
Reclassification adjustment for gain/loss realized in net income	(931)	-	(931)
Change in net unrealized gain/loss on derivatives	(931)	-	(931)
Defined benefit plans:			
Amortization of accumulated benefit plan losses	1,160	-	1,160
Amortization of unrecognized transition obligations	8	-	8
Amortization of prior service cost	9	-	9
Change in defined benefit plans	1,177	-	1,177
Change in accumulated other comprehensive income	$ (1,538)	$ -	$ (1,538)

The following table presents the changes in each component of AOCI, net of tax, for the three and six months ended June 30, 2013:

	Net Unrealized Gain (Loss) on Investment Securities	Net Unrealized Gain (Loss) on Derivatives	Defined Benefit Plans	Total
	(Dollars in thousands)			
Balance at March 31, 2013	$ 17,917	$ -	$ (11,952)	$ 5,965
Other comprehensive loss before reclassifications	(23,100)	-	-	(23,100)
Amounts reclassified from AOCI	-	-	375	375
Net current-period other comprehensive income (loss)	(23,100)	-	375	(22,725)
Balance at June 30, 2013	$ (5,183)	$ -	$ (11,577)	$ (16,760)
Balance at December 31, 2012	$ 22,740	$ (10,993)	$ (12,577)	$ (830)
Other comprehensive loss before reclassifications	(27,923)	-	-	(27,923)
Amounts reclassified from AOCI	-	10,993	1,000	11,993
Net current-period other comprehensive income (loss)	(27,923)	10,993	1,000	(15,930)
Balance at June 30, 2013	$ (5,183)	$ -	$ (11,577)	$ (16,760)

The following table presents the amounts reclassified out of each component of AOCI for the three and six months ended June 30, 2013:

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in the Statement Where Net Income is Presented
	(Dollars in thousands)	
Three months ended June 30, 2013		
Amortization of defined benefit plan items		
Net actuarial losses	$ 618	(1)
Transition obligations	4	(1)
Prior service cost	5	(1)
	627	Total before income tax
	(252)	Income tax expense
	$ 375	Net of income tax
Total reclassifications for the period	$ 375	Net of income tax
Six months ended June 30, 2013		
Unrealized gain/loss on derivatives		
	$ 394	Interest income
	10,599	Income tax benefit
	$ 10,993	Net of income tax
Amortization of defined benefit plan items		
Net actuarial losses	$ 1,234	(1)
Transition obligations	8	(1)
Prior service cost	10	(1)
	1,252	Total before income tax
	(252)	Income tax expense
	$ 1,000	Net of income tax
	$ 11,993	

Total reclassifications for the period	Net of income tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Interest cost	$ 348	$ 398	$ 696	$ 796
Expected return on assets	(470)	(447)	(940)	(894)
Amortization of unrecognized loss	599	581	1,198	1,162
Net periodic cost	$ 477	$ 532	$ 954	$ 1,064

28

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Service cost	$ -	$ -	$ -	$ -
Interest cost	103	107	206	214
Amortization of unrecognized transition obligation	4	4	8	8
Amortization of prior service cost	5	5	10	10
Amortization of unrecognized (gain) loss	18	(1)	36	(2)
Net periodic cost	$ 130	$ 115	$ 260	$ 230

15. INCOME AND FRANCHISE TAXES

In assessing the realizability of deferred tax assets (“DTA”), management considers whether it is more likely than not that some portion or all of the DTA will not be realized. The ultimate realization of DTA is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios, and the expectation of continued profitability, the Company determined that it was more likely than not that a significant portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of $119.8 million in the first quarter of 2013.

In the second quarter of 2013, the Company recorded income tax expense of $1.9 million, which was attributable to the income tax liability generated from the sale of a foreclosed property at a gain of $7.2 million.

As of June 30, 2013, the remaining valuation allowance on our net DTA totaled $9.6 million. Net of this valuation allowance, the Company’s net DTA totaled $144.1 million as of June 30, 2013, compared to a fully reserved net DTA of $147.5 million as of December 31, 2012. Our net DTA is included in other assets on our consolidated balance sheets.

16. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income	$ 14,267	$ 10,812	$ 151,576	$ 24,290
Weighted average shares outstanding - basic	41,957	41,717	41,886	41,674
Dilutive effect of employee stock options and awards	338	155	318	201
Dilutive effect of deferred salary restricted stock units	-	67	3	63
Dilutive effect of Treasury warrants	25	20	28	21
Weighted average shares outstanding - diluted	42,320	41,959	42,235	41,959
Basic earnings per share	$ 0.34	$ 0.26	$ 3.62	$ 0.58
Diluted earnings per share	$ 0.34	$ 0.26	$ 3.59	$ 0.58

A total of 26,256 potentially dilutive securities have been excluded from the dilutive share calculation for the three and six months ended June 30, 2013, as their effect was antidilutive, compared to 345,125 for the three and six months ended June 30, 2012.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

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

Short-Term Financial Instruments

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

Investment Securities

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

Loans

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

Loans Held for Sale

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

Other Interest Earning Assets

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

Deposit Liabilities

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

Short-Term Borrowings and Long-Term Debt

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

Off-Balance Sheet Financial Instruments

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

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

Limitations

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

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

	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Dollars in thousands)		
June 30, 2013					
Financial assets					
Cash and due from banks	$ 57,477	$ 57,477	$ 57,477	$ -	$ -
Interest-bearing deposits in other banks	79,697	79,697	79,697	-	-
Investment securities	1,765,842	1,756,311	809	1,745,610	9,892
Loans held for sale	14,674	14,674	-	-	14,674
Net loans and leases	2,285,972	2,140,062	-	80,141	2,059,921
Accrued interest receivable	14,138	14,138	14,138	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	860,694	860,694	860,694	-	-
Interest-bearing demand and savings deposits	1,901,398	1,901,398	1,901,398	-	-
Time deposits	1,093,574	1,095,214	-	-	1,095,214
Long-term debt	108,272	44,493	-	44,493	-
Accrued interest payable (included in other liabilities)	1,210	1,210	1,210	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	609,081	3,045	-	3,045	-
Standby letters of credit and financial guarantees written	24,707	185	-	185	-
Interest rate options	34,536	(761)	-	(761)	-
Forward interest rate contracts	22,468	731	-	731	-
December 31, 2012					
Financial assets					
Cash and due from banks	$ 56,473	$ 56,473	$ 56,473	$ -	$ -
Interest-bearing deposits in other banks	120,902	120,902	120,902	-	-
Investment securities	1,698,593	1,699,273	906	1,685,541	12,826
Loans held for sale	38,283	38,283	-	-	38,283
Net loans and leases	2,107,531	2,083,514	-	108,081	1,975,433
Accrued interest receivable	13,896	13,896	13,896	-	-
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	843,292	843,292	843,292	-	-
Interest-bearing demand and savings deposits	1,858,849	1,858,849	1,858,849	-	-

Time deposits	978,631	981,059	-	-	981,059
Long-term debt	108,281	43,156	-	43,156	-
Accrued interest payable (included in other liabilities)	13,131	13,131	13,131	-	-
Off-balance sheet financial instruments					
Commitments to extend credit	554,477	2,772	-	2,772	-
Standby letters of credit and financial guarantees written	13,813	104	-	104	-
Interest rate options	67,072	106	-	106	-
Forward interest rate contracts	49,222	(353)	-	(353)	-

Fair Value Measurements

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

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

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

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

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

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

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the three and six months ended June 30, 2013.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012:

		Fair Value at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
June 30, 2013				
Available for sale securities:				
Debt securities:				
U.S. Government sponsored entities	$ 158,565	$ -	$ 158,565	$ -
States and political subdivisions	180,320	-	170,428	9,892
Corporations	122,613	-	122,613	-
Mortgage-backed securities:				
U.S. Government sponsored entities	983,821	-	983,821	-
Non-agency collateralized mortgage obligations	64,733	-	64,733	-
Other	809	809	-	-
Derivatives:				
Interest rate contracts	(30)	-	(30)	-
Total	$ 1,510,831	$ 809	$ 1,500,130	$ 9,892
December 31, 2012				
Available for sale securities:				
Debt securities:				
U.S. Government sponsored entities	$ 280,939	$ -	$ 280,939	$ -
States and political subdivisions	185,911	-	173,085	12,826
Corporations	127,946	-	127,946	-
Mortgage-backed securities:				
U.S. Government sponsored entities	941,043	-	941,043	-
Other	906	906	-	-
Derivatives:				
Interest rate contracts	(248)	-	(248)	-
Amended TARP warrant	(819)	-	(819)	-
Total	$ 1,535,678	$ 906	$ 1,521,946	$ 12,826

For the six months ended June 30, 2013 and 2012, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Available for sale debt securities - States and political subdivisions

		(Dollars in thousands)
Balance at December 31, 2012	$	12,826
Principal payments received		(2,677)
Unrealized net loss included in other comprehensive income		(331)
Purchases, sales, issuances and settlements, net		74
Balance at June 30, 2013	$	9,892
Balance at December 31, 2011	$	12,994
Principal payments received		(189)
Unrealized net gain included in other comprehensive income		74
Balance at June 30, 2012	$	12,879

Within the state and political subdivisions debt securities category, the Company holds four mortgage revenue bonds issued by the City & County of Honolulu with an aggregate fair value of $9.9 million. The Company estimates the fair value of its mortgage revenue bonds by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments.

The significant unobservable input used in the fair value measurement of the Company's mortgage revenue bonds is the weighted average discount rate. As of June 30, 2013, the weighted average discount rate utilized was 4.83%, which was derived by incorporating a credit spread over the FHLB Fixed-Rate Advance curve. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at June 30, 2013 and December 31, 2012, the following table provides the level of valuation assumptions used to determine the respective fair values:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
June 30, 2013				
Impaired loans (1)	$ 80,141	$ -	$ 80,141	$ -
Other real estate (2)	7,437	-	7,437	-
December 31, 2012				
Impaired loans (1)	$ 108,081	$ -	$ 108,081	$ -
Other real estate (2)	10,686	-	10,686	-

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

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

18. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. These segments are consistent with our internal functional reporting lines and are managed separately because each unit has different target markets, technological requirements, marketing strategies and specialized skills.

The Banking Operations segment includes construction and real estate development lending, commercial lending, residential mortgage lending and servicing, indirect auto lending, trust services, retail brokerage services and our retail branch offices, which provide a full range of deposit and loan products, as well as various other banking services. The Treasury segment is responsible for managing the Company's investment securities portfolio and wholesale funding activities. The All Others segment consists of all activities not captured by the Banking Operations or Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties.

The accounting policies of the segments are consistent with the Company's accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC. 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 leases 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.

	Banking Operations	Treasury	All Others	Total
		(Dollars in thousands)		
Three months ended June 30, 2013:				
Net interest income	$ 25,746	$ 7,427	$ -	$ 33,173
Intersegment net interest income (expense)	3,676	(7,077)	3,401	-
Credit for loan and lease losses	227	-	-	227
Other operating income	17,089	665	58	17,812
Other operating expense	(20,872)	(450)	(13,678)	(35,000)
Administrative and overhead expense allocation	(13,229)	(213)	13,442	-
Income taxes	(994)	176	(1,127)	(1,945)
Net income (loss)	$ 11,643	$ 528	$ 2,096	$ 14,267
Three months ended June 30, 2012:				
Net interest income	$ 22,994	$ 7,265	$ -	$ 30,259
Intersegment net interest income (expense)	10,059	(5,111)	(4,948)	-
Credit for loan and lease losses	6,630	-	-	6,630
Other operating income	12,365	1,452	(203)	13,614
Other operating expense	(21,677)	(500)	(17,514)	(39,691)
Administrative and overhead expense allocation	(16,771)	(266)	17,037	-
Net income (loss)	$ 13,600	$ 2,840	$ (5,628)	$ 10,812
Six months ended June 30, 2013:				
Net interest income	$ 49,792	$ 14,050	$ -	$ 63,842
Intersegment net interest income (expense)	7,217	(13,388)	6,171	-
Credit for loan and lease losses	6,788	-	-	6,788
Other operating income	29,184	1,537	121	30,842
Other operating expense	(39,875)	(939)	(26,939)	(67,753)
Administrative and overhead expense allocation	(26,403)	(427)	26,830	-
Income taxes	119,718	303	(2,164)	117,857
Net income (loss)	$ 146,421	$ 1,136	$ 4,019	$ 151,576
Six months ended June 30, 2012:				
Net interest income	$ 46,231	$ 14,530	$ -	$ 60,761
Intersegment net interest income (expense)	22,475	(10,968)	(11,507)	-
Provision for loan and lease losses	11,620	-	-	11,620
Other operating income	24,701	2,538	(393)	26,846
Other operating expense	(43,521)	(898)	(30,518)	(74,937)
Administrative and overhead expense allocation	(29,525)	(462)	29,987	-
Net income (loss)	$ 31,981	$ 4,740	$ (12,431)	$ 24,290

At June 30, 2013:								
Investment securities	$	-	$	1,765,842	$	-	$	1,765,842
Loans and leases (including loans held for sale)		2,387,751		-		-		2,387,751
Other		113,691		340,944		98,528		553,163
Total assets	$	2,501,442	$	2,106,786	$	98,528	$	4,706,756
At December 31, 2012:								
Investment securities	$	-	$	1,698,593	$	-	$	1,698,593
Loans and leases (including loans held for sale)		2,242,227		-		-		2,242,227
Other		(7,267)		363,815		73,000		429,548
Total assets	$	2,234,960	$	2,062,408	$	73,000	$	4,370,368

36

19. LEGAL PROCEEDINGS

We are involved in legal actions arising in the ordinary course of business. Management, after consultation with our legal counsel, believes the ultimate disposition of those matters will not have a material adverse effect on our consolidated financial statements.

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

Overview

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

Central Pacific Bank is a full-service community bank with 35 branches and 117 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.

As previously disclosed, we adopted and implemented a recovery plan in March 2010 to improve our financial health by completing a significant recapitalization, reducing our credit risk exposure and returning to profitability by focusing on our core businesses and traditional markets in Hawaii.

We have continued to accomplish a number of key milestones in our recovery plan, including:

- We maintained a strong capital position with tier 1 risk-based capital, total risk-based capital, and leverage capital ratios as of June 30, 2013 of 21.55%, 22.83%, and 14.24%, respectively, compared to 22.5%, 23.8%, and 14.3%, respectively, as of December 31, 2012. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.

- We reported ten consecutive profitable quarters with net income totaling $14.3 million and $137.3 million in the second and first quarter of 2013, respectively, and $47.4 million and $36.6 million for the years ended December 31, 2012 and 2011, respectively.

- On July 25, 2013, declared a quarterly cash dividend of $0.08 per share on the Company's outstanding common shares payable on September 16, 2013 to shareholders of record at the close of business on August 30, 2013.

- Recorded an income tax benefit of $119.8 million in the first quarter of 2013 resulting from the reversal of a significant portion of a valuation allowance that was established against the Company's net deferred tax assets in the third quarter of 2009.

- We reduced our nonperforming assets by $29.1 million to $60.9 million at June 30, 2013 from $90.0 million at December 31, 2012.

- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 3.67% at June 30, 2013, compared to 4.37% at December 31, 2012. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 143.05% at June 30, 2013, compared to 107.10% at December 31, 2012.

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

In addition to the progress we have made with respect to improving our credit risk profile, strengthening our capital position, and returning to profitability, we also remain focused on lowering our efficiency ratio and growing market share within our core Hawaii market.

Basis of Presentation

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under "Part I, Item 1. Financial Statements (Unaudited)." The following discussion should also be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 28, 2013.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

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

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

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

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

In the second quarter of 2013, we recorded a credit to the Provision of $0.2 million. We had an Allowance as a percentage of total loans and leases of 3.67% at June 30, 2013, compared to 4.37% at December 31, 2012. Although other factors of our overall risk profile have improved in recent quarters and general economic trends and market conditions have shown signs of stabilization to some degree, as further described in the "Material Trends" section below, concerns over the global and U.S. economies still remain. Accordingly, it is possible that the real estate markets for which we have exposure to could begin to deteriorate. If this occurs, it would result in an increase in loan delinquencies, an increase in loan charge-offs or a need for additional increases in our Allowance. Even if economic conditions improve or stay the same, it is possible that we may experience material credit losses and in turn, increases to our Allowance and Provision, due to the elevated risk still inherent in our existing loan portfolio resulting from our high concentration of commercial real estate and construction loans.

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

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) Hawaii and U.S. Mainland construction and commercial real estate loans that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis while the Hawaii and U.S. Mainland construction and commercial real estate loans are recorded at the lower of cost or fair value on an individual basis.

When a construction or commercial real estate loan is transferred to the held for sale category, the loan is recorded at the lower of cost or fair value. Any reduction in the loan's value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the Allowance. In subsequent periods, if the fair value of a loan classified as held for sale is less than its cost basis, a valuation adjustment is recognized in our consolidated statement of income in other operating expense and the carrying value of the loan is adjusted accordingly. The valuation adjustment may be recovered in the event that the fair value increases, which is also recognized in our consolidated statement of income in other operating expense.

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a "whole-loan" basis to government-sponsored entities ("GSEs" or "Agencies") Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. We establish mortgage repurchase reserves related to various representations and warranties that reflect management's estimate for which we could have repurchase obligations. The reserves are established by a charge to other operating expense in our consolidated statements of operation. At June 30, 2013 and December 31, 2012, this reserve totaled $3.9. million and $3.6 million, respectively, and is included in other liabilities on our consolidated balance sheets.

The repurchase reserve is applicable to loans we originated and sold with representations and warranties, which is representative of the entire sold portfolio. Originations for agency and non-agency for vintages 2005 through June 30, 2013 were approximately $4.3 billion and $3.6 billion, respectively. Representations and warranties relating to borrower fraud generally are enforceable for the life of the loan, whereas early payment default clauses generally expire after 90 days, depending on the sales contract. We estimate that loans outstanding and sold that have early payment default clauses as of June 30, 2013 approximate $177.3 million.

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

We repurchased approximately $1.8 million of loans during the three months ended June 30, 2013. We did not repurchase any loans during the first quarter of 2013. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appealed, Repurchased and Pending Resolution [1]
Six Months Ended
June 30, 2013

	Government Sponsored Entities				Non-GSE Investors			
Vintage	Repurchase Demands	Appealed	Repurchased	Pending Resolution	Repurchase Demands	Appealed	Repurchased	Pending Resolution
2005 and prior	-	-	-	-	-	-	-	-
2006	1	-	-	1	-	-	-	-
2007	6	1	3	2	-	-	-	-
2008	10	2	-	8	-	-	-	-
2009	2	-	1	1	-	-	-	-
2010	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
2012	2	1	-	1	2	1	1	-
2013	-	-	-	-	-	-	-	-
Total	21	4	4	13	2	1	1	-

[1] Based on repurchase requests received between January 1, 2013 and June 30, 2013.

The reserve for residential mortgage loan repurchase losses of $3.9 million at June 30, 2013 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents an increase of $0.4 million from December 31, 2012. The table below shows changes in the repurchase losses liability for the periods shown.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance, beginning of period	$ 3,020	$ 6,839	$ 3,552	$ 6,802
Change in estimate	964	(786)	332	(158)
Utilizations	(59)	(247)	41	(838)
Balance, end of period	$ 3,925	$ 5,806	$ 3,925	$ 5,806

Our capacity to estimate repurchase losses is advancing as we record additional experience. Repurchase losses depend upon economic factors and other external conditions that may change over the life of the underlying loans. Additionally, lack of access to the servicing records of loans sold on a service released basis adds difficulty to the estimation process, thus requiring considerable management judgment. To the extent that future investor repurchase demand and appeals success differ from past experience, we could have increased demands and increased loss severities on repurchases, causing future additions to the repurchase reserve.

Other Intangible Assets

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

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of operations. Ancillary income is recorded in other income. Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one class.

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

Prepayment speeds may be affected by economic factors such as home price appreciation, market interest rates, the availability of other credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations.

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

Deferred Tax Assets and Tax Contingencies

Deferred tax assets (“DTAs”) and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In the third quarter of 2009, we established a full valuation allowance against our net DTAs. See “— Results of Operations — Income Taxes” below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance.

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

Financial Summary

During the second quarter of 2013, we reported net income of $14.3 million, or $0.34 per diluted share, compared to $10.8 million, or $0.26 per diluted share, reported in the second quarter of 2012. Net income for the first half of 2013 was $151.6 million, or $3.59 per diluted share, compared to $24.3 million, or $0.58 per diluted share, for the first half of 2012. Net income in the first half of 2013 included a non-cash income tax benefit of $119.8 million related to the reversal of a significant portion of a valuation allowance that was established against the Company’s net DTA during the third quarter of 2009. Excluding this income tax benefit, net income for the first half of 2013 was $31.8 million, or $0.75 per diluted share.

The following table shows our net income calculated on a GAAP basis, and then excluding our income tax benefit, which is a non-GAAP disclosure. Management believes that this financial disclosure, which excludes the impact of our tax benefit, provides useful supplemental information for investors regarding our ongoing operating results.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2013	Diluted EPS	2013	Diluted EPS
GAAP net income	$ 14,267	$ 0.34	$ 151,576	$ 3.59
Non-GAAP adjustment:				
Release of valuation allowance on net deferred tax assets	-	-	(119,802)	(2.84)
Non-GAAP net income	$ 14,267	$ 0.34	$ 31,774	$ 0.75

Our net income in the three and six months ended June 30, 2013 was also driven by a significant reduction in our total credit costs as we experienced continued improvement in our credit risk profile. Total credit costs, which includes the Provision, write-downs of loans classified as held for sale, write-downs of foreclosed property, gains on sales of foreclosed properties and the change in the reserve for unfunded commitments, were reduced from a credit of $5.6 million and $10.6 million in the three months and six months ended June 30, 2012, respectively, to a credit of $8.4 million and $17.1 million in the three and six months ended June 30, 2013.

The following table presents annualized returns on average assets, average shareholders' equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders' equity less average intangible assets, which includes goodwill, core deposit premium, customer relationships and non-compete agreements. Average intangible assets were $14.4 million and $14.8 million for the three and six months ended June 30, 2013, respectively, and $18.0 million and $18.4 million for the comparable prior year periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Return on average assets	1.24 %	1.04 %	6.72 %	1.18 %
Return on average shareholders' equity	8.70	9.12	51.46	10.37
Return on average tangible equity	8.90	9.48	52.79	10.80
Basic earnings per common share	$ 0.34	$ 0.26	$ 3.62	$ 0.58
Diluted earnings per common share	0.34	0.26	3.59	0.58

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system in 2008.

Despite recent signs of stabilization, concerns about the global and U.S. economies still remain, including concerns over the European sovereign debt crisis. Growing U.S. government indebtedness, elevated unemployment rates, a large budget deficit and ongoing concerns over the federal debt ceiling continue to add to the uncertainty surrounding a sustained economic recovery. In addition, downgrades of ratings in U.S. and foreign debt instruments could raise borrowing costs and adversely impact the mortgage and housing markets.

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

Thus far through 2013, Hawaii’s general economic conditions continue to improve. Tourism remains Hawaii’s center of strength and its most significant economic driver. According to the Hawaii Tourism Authority (“HTA”), 4.2 million visitors visited the state in the first six months of 2013. This was an increase of 5.6% from the number of visitor arrivals in the first six months of 2012. The HTA also reported that total spending by visitors increased to $7.4 billion in the first six months of 2013, an increase of $477.6 million, or 6.9%, from the first six months of 2012. According to the Hawaii Department of Business Economic Development & Tourism (“DBEDT”), total visitor arrivals and visitor spending are expected to gain 4.3% and 5.6% in 2013, respectively.

The Department of Labor and Industrial Relations reported that Hawaii’s seasonally adjusted annual unemployment rate improved to 4.6% in June 2013, compared to 6.0% in June 2012. In addition, Hawaii’s unemployment rate in June 2013 remained below the national seasonally adjusted unemployment rate of 7.6%. Hawaii’s unemployment rate is projected to be 4.8% in 2013 and 4.5% in 2014. DBEDT projects real personal income and real gross state product to grow by 2.6% and 2.4%, respectively, in 2013. DBEDT expects that Hawaii’s economy will continue its positive growth for the remainder of 2013 and into 2014 based on recent developments in the national and global economy, the performance of Hawaii’s tourism industry, the labor market conditions in the state and growth of personal income and tax revenues.

Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii’s real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased 11.8% for single-family homes and 20.4% for condominiums for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The median sales price for single-family homes on Oahu for the month ended June 30, 2013 was $677,250, representing an increase of 9.2% from the comparable prior year period. The median sales price for condominiums on Oahu for the month ended June 30, 2013 was $330,000, representing an increase of 11.1% compared to the same prior year period. While some economists and real estate professionals believe that the Hawaii real estate market will continue to show improvements for the remainder of 2013, there can be no assurance that this will occur.

As we have seen in the past, our operating results are significantly impacted by the economy in Hawaii, and to a lesser extent, California and the composition of our loan portfolio. Loan demand, deposit growth, Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in 2008 through 2010, our results of operations would be negatively impacted.

Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as "net interest margin." Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis ("net interest income") for the three and six months ended June 30, 2013 and 2012 is set forth below.

	Three Months Ended June 30,					
	2013			2012		
	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 108,612	0.25 %	$ 68	$ 77,385	0.25 %	$ 47
Taxable investment securities (1)	1,516,992	1.95	7,379	1,555,361	1.95	7,593
Tax-exempt investment securities (1)	179,724	3.56	1,600	55,688	0.93	686
Loans and leases, including loans held for sale (2)	2,324,107	4.57	26,505	2,121,045	4.62	24,393
Federal Home Loan Bank stock	47,460	-	-	48,797	-	-
Total interest earning assets	4,176,895	3.41	35,552	3,858,276	3.40	32,719
Nonearning assets	417,720			304,757		
Total assets	$ 4,594,615			$ 4,163,033		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 703,165	0.05 %	$ 87	$ 614,480	0.06 %	$ 89
Savings and money market deposits	1,179,152	0.07	219	1,158,955	0.09	252
Time deposits under $100,000	288,932	0.47	338	331,866	0.62	509
Time deposits $100,000 and over	734,456	0.21	382	642,349	0.28	453
Long-term debt	108,273	2.94	793	108,291	3.41	917
Total interest-bearing liabilities	3,013,978	0.24	1,819	2,855,941	0.31	2,220
Noninterest-bearing deposits	846,979			752,512		
Other liabilities	67,777			70,567		
Total liabilities	3,928,734			3,679,020		
Shareholders' equity	655,932			474,041		
Non-controlling interests	9,949			9,972		
Total equity	665,881			484,013		
Total liabilities and equity	$ 4,594,615			$ 4,163,033		
Net interest income			$ 33,733			$ 30,499
Net interest margin		3.23 %			3.17 %	

	Six Months Ended June 30,					
	2013			2012		
	Average Balance	Average Yield/Rate	Amount of Interest	Average Balance	Average Yield/Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 126,593	0.25 %	$ 157	$ 103,860	0.25 %	$ 128
Taxable investment securities (1)	1,497,547	1.93	14,415	1,533,916	1.98	15,210
Tax-exempt investment securities (1)	177,798	3.58	3,180	34,714	5.70	989
Loans and leases, including loans held for sale (2)	2,291,709	4.47	50,948	2,108,477	4.70	49,401
Federal Home Loan Bank stock	47,659	-	-	48,797	-	-
Total interest earning assets	4,141,306	3.33	68,700	3,829,764	3.44	65,728
Nonearning assets	369,491			302,961		
Total assets	$ 4,510,797			$ 4,132,725		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 688,495	0.05 %	$ 168	$ 592,242	0.06 %	$ 175
Savings and money market deposits	1,175,573	0.07	436	1,152,396	0.10	551
Time deposits under $100,000	294,928	0.49	713	338,137	0.65	1,086
Time deposits $100,000 and over	722,405	0.21	766	646,929	0.30	949
Short-term borrowings	-	-	-	6	0.76	-
Long-term debt	108,276	3.10	1,662	111,315	3.36	1,860
Total interest-bearing liabilities	2,989,677	0.25	3,745	2,841,025	0.33	4,621
Noninterest-bearing deposits	834,167			740,093		
Other liabilities	87,952			73,335		
Total liabilities	3,911,796			3,654,453		
Shareholders' equity	589,049			468,297		
Non-controlling interests	9,952			9,975		
Total equity	599,001			478,272		
Total liabilities and equity	$ 4,510,797			$ 4,132,725		
Net interest income			$ 64,955			$ 61,107
Net interest margin		3.15 %			3.20 %	

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

Net interest income expressed on a taxable-equivalent basis of $33.7 million for the second quarter of 2013, increased by $3.2 million, or 10.6%, from the second quarter of 2012, while taxable-equivalent net interest income for the first half of 2013 increased by $3.8 million, or 6.3%, to $65.0 million from the comparable prior year period. As further discussed below, the current quarter increase was primarily attributable to the recovery of interest on loans previously placed on nonaccrual status and a significant increase in average loans and leases and average tax-exempt investment securities, partially offset by the decline in average yields earned on our loans and leases and a decrease in average taxable investment securities. The increase in net interest income for the current quarter also reflects a 7 basis point (“bp”) decline in average rates paid on our interest-bearing liabilities, and a 1 bp increase in average yields earned on our interest-earning assets.

Consistent with the quarter, the year-to-date increase in taxable-equivalent net interest income was primarily attributable to the recovery of interest on loans previously placed on nonaccrual and a significant increase in average loans and leases and average tax-exempt investment securities, partially offset by the decline in average yields earned on our other interest-earning assets. The increase in net interest income for the first half of 2013 also reflects an 8 bp decline in average rates paid on our interest-bearing liabilities, which partially offset the 11 bp decline in average yields earned on our interest-earning assets.

Interest Income

Taxable-equivalent interest income of $35.6 million for the second quarter of 2013 increased by $2.8 million, or 8.7%, from the second quarter of 2012. The increase was primarily attributable to the recovery of interest on loans previously placed on nonaccrual status totaling $1.7 million, compared to $0.4 million in the comparable prior year period, and a significant increase in average loans and leases and tax-exempt investment securities, partially offset by a decrease in average yields earned on our loans and leases and a decrease in average taxable investment securities balances as described above. Average loans and leases and tax-exempt investment securities increased by $203.1 million and $124.0 million, respectively, compared to the second quarter of 2012, accounting for approximately $2.3 million and $1.5 million of the current quarter's increase, respectively. Average yields earned on loans and leases and tax-exempt investment securities decreased by 5 bp and 137 bp, respectively, in the current quarter, lowering interest income by approximately $0.3 million and $0.2 million, respectively. Average taxable investment securities balances decreased by $38.4 million, lowering interest income by $0.2 million.

For the six months ended June 30, 2013, taxable-equivalent interest income increased by $3.0 million, or 4.5%, from the six months ended June 30, 2012. The increase was primarily attributable to the recovery of interest on loans previously placed on nonaccrual status totaling $2.0 million, compared to $1.0 million in the comparable prior year period, and a $183.2 million increase in average loans and leases and a $143.1 million increase in average tax-exempt investment securities resulting in an increase in interest income of $4.3 million and $4.1 million, respectively. Average yields earned on loans and leases, taxable and tax-exempt investment securities decreased by 23 bp, 5 bp, and 212 bp, respectively, in the first half of 2013, lowering interest income by approximately $2.4 million, $0.4 million, and $0.4 million, respectively. Average taxable investment securities balances decreased by $36.4 million in the six months ended June 30, 2013, lowering interest income by $0.4 million.

Interest Expense

Interest expense of $1.8 million for the second quarter of 2013 decreased by $0.4 million, or 18.1%, from the comparable prior year quarter. The decrease was attributable to the overall decline in average rates paid on interest-bearing liabilities. The 47 bp, 15 bp, 7 bp, and 2 bp decline in average rates paid on long-term debt, time deposits under $100,000, time deposits $100,000 and over, and savings and money market deposits, respectively, each contributed to $0.1 million of the current quarter decrease in interest expense.

For the six months ended June 30, 2013, interest expense decreased by $0.9 million, or 19.0%, from the six months ended June 30, 2012. The decrease was attributable to the 9 bp, 16 bp, 3 bp, and 26 bp decline in average rates paid on time deposits $100,000 and over, time deposits under $100,000, savings and money market deposits, and long-term debt, respectively, which contributed to $0.3 million, $0.3 million, $0.2 million, and $0.1 million, respectively, of the decrease in interest expense from the comparable prior year period.

Net Interest Margin

Our net interest margin was 3.23% for the second quarter of 2013, compared to 3.17% for the second quarter of 2012. Our net interest margin for the first half of 2013 was 3.15%, compared to 3.20% in the comparable prior year period. As described above, the increase in the net interest margin for the second quarter compared to the comparable prior year period was due primarily to the recovery of interest on loans previously placed on nonaccrual status and also reflected our deployment of excess liquidity into higher yielding loans and leases and investment securities and an overall reduction in our funding costs.

The decrease in the net interest margin for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 reflected the depressed interest rate environment and was primarily attributable to lower yields earned on our loans and leases and investment securities portfolios.

The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the second quarter of 2013.

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

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

	June 30, 2013		December 31, 2012	
	(Dollars in thousands)			
Nonperforming Assets				
Nonaccrual loans (including loans held for sale):				
Commercial, financial and agricultural	$ 3,797		$ 3,510	
Real estate:				
Construction	17,086		38,742	
Mortgage-residential	21,518		27,499	
Mortgage-commercial	11,054		9,487	
Leases	-		94	
Total nonaccrual loans	53,455		79,332	
Other real estate:				
Real estate:				
Construction	4,200		8,105	
Mortgage-residential	3,028		2,372	
Mortgage-commercial	209		209	
Total other real estate	7,437		10,686	
Total nonperforming assets	60,892		90,018	
Accruing loans delinquent for 90 days or more:				
Real estate:				
Mortgage-residential	17		387	
Consumer	-		116	
Total accruing loans delinquent for 90 days or more	17		503	
Restructured loans still accruing interest:				
Commercial, financial and agricultural	427		447	
Real estate:				
Construction	9,317		9,522	
Mortgage-residential	14,645		15,366	
Mortgage-commercial	2,874		6,425	
Total restructured loans still accruing interest	27,263		31,760	
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 88,172		$ 122,281	
Total nonperforming assets as a percentage of loans and leases, loans held for sale and other real estate	2.54	%	4.00	%
Total nonperforming assets and accruing loans delinquent for 90 days or more as a percentage of loans and leases, loans held for				

sale and other real estate	2.54	%	4.02	%
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as a percentage of loans and leases, loans held for sale and other real estate	3.68	%	5.43	%

Nonperforming assets, which includes nonaccrual loans and leases, nonperforming loans classified as held for sale, and foreclosed real estate, totaled $60.9 million at June 30, 2013, compared to $90.0 million at December 31, 2012. The decrease from December 31, 2012 was attributable to $25.5 million in repayments, $14.3 million in loans restored to accrual status, $3.1 million in sales of foreclosed properties, $1.6 million in charge-offs, and $0.6 million in write-downs, partially offset by $15.8 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland construction assets totaling $24.2 million, Hawaii residential mortgage assets totaling $5.3 million, Hawaii construction assets totaling $1.3 million, Hawaii commercial mortgage assets totaling $0.1 million, and Hawaii leasing assets totaling $0.1 million. Partially offsetting these net decreases were net increases in U.S. Mainland commercial mortgage assets totaling $1.7 million and Hawaii commercial assets totaling $0.3 million.

Restructured loans included in nonperforming assets at June 30, 2013 consisted of 51 Hawaii residential mortgage loans with a combined principal balance of $15.1 million, six Hawaii construction loans with a combined principal balance of $1.4 million, and a Hawaii commercial loan with a principal balance of $0.6 million. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers' financial condition. The principal balances on these restructured loans matured and/or were in default at the time of restructuring and we have no commitments to lend additional funds to any of these borrowers. There were $27.3 million of restructured loans still accruing interest at June 30, 2013, none of which were more than 90 days delinquent.

Provision and Allowance for Loan and Lease Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 86,806	$ 114,322	$ 96,413	$ 122,093
Provision (credit) for loan and lease losses	(227)	(6,630)	(6,788)	(11,620)
Charge-offs:				
Commercial, financial and agricultural	1,597	1,394	1,841	3,076
Real estate:				
Construction	277	3,715	355	5,341
Mortgage-residential	380	173	794	373
Mortgage-commercial	-	320	3,674	320
Consumer	242	323	557	749
Leases	-	-	-	28
Total charge-offs	2,496	5,925	7,221	9,887
Recoveries:				
Commercial, financial and agricultural	170	832	662	1,102
Real estate:				
Construction	1,747	745	2,232	1,170
Mortgage-residential	243	262	474	379
Mortgage-commercial	703	2	957	4
Consumer	157	204	373	570
Leases	2	2	3	3
Total recoveries	3,022	2,047	4,701	3,228
Net charge-offs (recoveries)	(526)	3,878	2,520	6,659

Balance at end of period	$ 87,105	$ 103,814	$ 87,105	$ 103,814
Annualized ratio of net charge-offs to average loans	-0.09 %	0.73 %	0.22 %	0.63 %

Our Allowance at June 30, 2013 totaled $87.1 million, a decrease of $9.3 million, or 9.7%, from year-end 2012. The decrease in our Allowance was a direct result of a credit to the Provision of $6.8 million and $2.5 million in net loan charge-offs.

Our Provision was a credit of $0.2 million and $6.8 million during the second quarter and first half of 2013, respectively, compared to a credit of $6.6 million and $11.6 million in the second quarter and first half of 2012, respectively. Our net recoveries were $0.5 million during the second quarter of 2013, compared to net charge-offs of $3.9 million in the comparable prior year period. Our net charge-offs were $2.5 million during the first half of 2013, compared to $6.7 million in the comparable prior year period.

Our Allowance as a percentage of our total loan portfolio decreased from 4.37% at December 31, 2012 to 3.67% at June 30, 2013. Our Allowance as a percentage of our nonperforming assets increased from 107.10% at December 31, 2012 to 143.05% at June 30, 2013.

The decrease in the Allowance is consistent with our improved credit risk profile as evidenced by a decrease in our nonperforming assets, lower net loan charge-off activity, and is consistent with our belief that we have begun to see signs of stabilization in our loan portfolio, the overall economy and the commercial real estate markets both in Hawaii and on the U.S. Mainland.

Depending on the overall performance of the local and national economies, the strength of the Hawaii and California commercial real estate markets and the accuracy of our assumptions and judgments concerning our loan portfolio, further adverse credit migration may continue due to the upcoming maturity of additional loans, the possibility of further declines in collateral values and the potential impact of continued financial stress on our borrowers, sponsors and guarantors as they attempt to endure the challenges of the current economic environment. While we have seen signs of stabilization, we cannot determine when, or if, the challenging economic conditions that we experienced over the past four years will further improve and whether or not recent signs of an economic recovery will continue.

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

Other Operating Income

Total other operating income of $17.8 million for the second quarter of 2013 increased by $4.2 million, or 30.8%, from the comparable prior year period. The increase was primarily due to higher net gains on sales of foreclosed assets of $7.7 million and higher other service charges and fees of $0.5 million, partially offset by lower unrealized gains on interest rate locks of $1.5 million, lower rental income from foreclosed properties of $0.8 million, lower service charges on deposit accounts of $0.7 million, lower income from bank-owned life insurance of $0.6 million, and lower gains on sales of residential loans of $0.5 million.

For the six months ended June 30, 2013, total other operating income of $30.8 million increased by $4.0 million, or 14.9%, from the comparable prior year period. The increase was primarily due to higher net gains on sales of foreclosed assets of $8.3 million and higher net gains on sales of residential mortgage loans of $0.6 million, partially offset by lower rental income from foreclosed properties of $2.1 million, lower service charges on deposit accounts of $1.4 million, lower unrealized gains on interest rate locks of $1.3 million, and lower income from bank-owned life insurance of $0.7 million.

Other Operating Expense

Total other operating expense for the second quarter of 2013 was $35.0 million, compared to $39.7 million in the comparable prior year period. The decrease was primarily attributable to lower legal and professional fees of $1.9 million, an accrual totaling $1.8 million related to the settlement of a legal proceeding against the Company recorded in the second quarter of 2012, lower net credit-related charges (which include write-downs of loans held for sale, foreclosed asset expense, and changes in the reserve for unfunded commitments) of $1.6 million, lower amortization of other intangible assets of $0.9 million, and lower Federal Deposit Insurance Corporation (“FDIC”) insurance expense of $0.7 million, partially offset by a higher provision for repurchased residential mortgage loans of $1.7 million, higher salaries and employee benefits of $0.6 million, and higher net occupancy expense of $0.4 million.

For the six months ended June 30, 2013, total other operating expense of $67.8 million decreased by $7.2 million, or 9.6%, from the comparable prior year period. The decrease was primarily attributable to lower legal and professional fees of $3.6 million, lower net credit-related charges of $3.1 million, the aforementioned accrual totaling $1.8 million related to the settlement of a legal proceeding against the Company recorded in the second quarter of 2012, and lower FDIC insurance expense of $1.2 million, partially offset by higher salaries and employee benefits of $2.5 million.

50

Income Taxes

In the first quarter of 2013, the Company reversed a significant portion of the valuation allowance that was established against our net DTA during the third quarter of 2009. The valuation allowance was established during 2009 due to uncertainty at the time regarding our ability to generate sufficient future taxable income to fully realize the benefit of our net DTA. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios, and the expectation of continued profitability, the Company determined that it was more likely than not that a significant portion of our net DTA would be realized. The net impact of reversing the valuation allowance and recording the provision for income tax expense was a net income tax benefit of $119.8 million in the first quarter of 2013.

In the second quarter of 2013, the Company recorded income tax expense of $1.9 million, which was attributable to the income tax liability generated from the sale of a foreclosed property at a gain of $7.2 million.

As of June 30, 2013, the remaining valuation allowance on our net DTA totaled $9.6 million. Net of this valuation allowance, the Company's net DTA totaled $144.1 million as of June 30, 2013, compared to a fully reserved net deferred tax asset of $147.5 million as of December 31, 2012.

Financial Condition

Total assets at June 30, 2013 of $4.7 billion increased by $336.4 million from $4.4 billion at December 31, 2012.

Loans and Leases

Loans and leases, net of unearned income, of $2.4 billion at June 30, 2013, increased by $169.1 million, or 7.7%, from December 31, 2012. The increase was primarily due to net increases in the residential mortgage, commercial, and consumer loan portfolios totaling $99.4 million, $70.2 million, and $54.6 million, respectively, partially offset by a net reduction in the commercial mortgage loan, construction loan, and leases portfolios totaling $35.3 million, $16.7 million, and $3.0 million, respectively. The net increases in these portfolios reflect transfers of seven portfolio loans to other real estate totaling $3.2 million and charge-offs of loans and leases of $7.2 million.

Deposits

Total deposits of $3.9 billion at June 30, 2013 reflected an increase of $174.9 million, or 4.8%, from December 31, 2012. The increase was primarily attributable to increases in non-interest bearing demand deposits, interest-bearing demand deposits, and time deposits of $17.4 million, $47.9 million, and $114.9 million, respectively. These increases were partially offset by a decrease in savings and money market deposits of $5.4 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than $100,000, totaled $3.0 billion at June 30, 2013 and increased by $38.0 million from December 31, 2012.

Capital Resources

Common Stock

Shareholders' equity totaled $642.0 million at June 30, 2013, compared to $504.8 million at December 31, 2012. The increase in total shareholders' equity was attributable to the $151.6 million in net income recognized during the first half of 2013.

In June 2013, the U.S. Treasury held a private auction to sell its warrant positions in several financial institutions which included the Company's warrant to purchase up to 79,288 shares of our common stock at a purchase price of $10 per share. On June 6, 2013, we were notified that we were the winning bidder of the warrant at our bid of $752 thousand. The warrant was being carried as a derivative liability on our balance sheet at $828 thousand as at March 31, 2013. Accordingly, we recorded a credit to other noninterest expense of $76 thousand during the quarter related to the gain on the purchase of the warrant. After the completion of this transaction, the U.S. Treasury no longer holds any outstanding shares of our common stock, or any warrants to purchase our common stock they received in connection with our participation in the Troubled Assets Relief Program.

Trust Preferred Securities

We have five statutory trusts, CPB Capital Trust I, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of $105.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

We began deferring interest and dividend payments on the subordinated debentures and the trust preferred securities in the third quarter of 2009. In March 2013, the Company elected to pay all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities and resume quarterly payments for each outstanding trust. As a result, the deferred accrued interest in the amount of $13.0 million was paid in full in March 2013 and the Company resumed quarterly payments on all five statutory trusts.

In June 2013, the Company was notified that $10.0 million of the $15.0 million in trust preferred securities of CPB Capital Trust I (the "Trust") would be auctioned off as part of a larger pooled collateralized debt obligation liquidation. CPF placed a bid of $9.0 million for the securities which was accepted by the trustee and the transaction closed on June 18, 2013. Because our accepted bid of $9.0 million was less than the $10.0 million carrying value, we expect to recognize a gain of $1.0 million related to this transaction during the fourth quarter of 2013, which represents the next available date that these securities can be called. The Company determined that its investment in the Trust did not represent a variable interest and therefore the Company is not the primary beneficiary of the Trust. As a result, consolidation of the Trust by the Company was not required. The investment is currently recorded at $9.0 million and is included in investments in unconsolidated subsidiaries on the Company's consolidated balance sheet.

Holding Company Capital Resources

CPF is required to act as a source of strength to the bank under the Dodd-Frank Act. As described above, CPF deferred the payment of dividends on our trust preferred securities (along with interest on the related junior subordinated debentures) beginning in the third quarter of 2009. As mentioned in the previous section, in March 2013, the Company elected to resume quarterly payments for each outstanding trust and all deferred interest on its subordinated debentures and related dividend payments on its trust preferred securities were paid in full.

In the past, CPF has primarily relied upon dividends from the bank for its cash flow needs. CPF has not received dividends from the bank since September 2008. As a Hawaii state-chartered bank, the bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of June 30, 2013, the bank had Statutory Retained Earnings of $170.4 million. In light of the Company's improved capital position and financial condition, our Board of Directors and management, in consultation with our regulators, elected to reinstate dividend payments and declared a quarterly cash dividend of $0.08 per share on the Company's outstanding common shares. The dividend will be payable on September 16, 2013 to shareholders of record at the close of business on August 30, 2013. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

As of June 30, 2013, on a stand-alone basis, CPF had an available cash balance of approximately $30.3 million in order to meet its ongoing obligations.

Capital Ratios

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

FDIC-insured institutions must maintain leverage, Tier 1, and total risk-based capital ratios of at least 5%, 6%, and 10%, respectively, and not be subject to a regulatory capital directive to be considered "well capitalized" under the prompt corrective action provisions of the FDIC Improvement Act of 1991. The Company's and the bank's leverage capital, Tier 1, and total risk-based capital ratios as of June 30, 2013 were above the levels required for a "well capitalized" regulatory designation.

The following table sets forth the Company's and the bank's capital ratios, as well as the minimum capital adequacy requirements applicable to all financial institutions as of the dates indicated.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Company						
At June 30, 2013:						
Tier 1 risk-based capital	$ 631,054	21.6 %	$ 117,110	4.0 %	$ 175,664	6.0 %
Total risk-based capital	668,334	22.8	234,219	8.0	292,774	10.0
Leverage capital	631,054	14.2	177,310	4.0	221,637	5.0
At December 31, 2012:						
Tier 1 risk-based capital	$ 609,394	22.5 %	$ 108,128	4.0 %	$ 162,192	6.0 %
Total risk-based capital	644,044	23.8	216,256	8.0	270,320	10.0
Leverage capital	609,394	14.3	170,176	4.0	212,720	5.0
Central Pacific Bank						
At June 30, 2013:						
Tier 1 risk-based capital	$ 593,520	20.4 %	$ 116,648	4.0 %	$ 174,971	6.0 %
Total risk-based capital	630,629	21.6	233,295	8.0	291,619	10.0
Leverage capital	593,520	13.4	177,127	4.0	221,408	5.0
At December 31, 2012:						
Tier 1 risk-based capital	$ 580,860	21.5 %	$ 108,229	4.0 %	$ 162,343	6.0 %
Total risk-based capital	615,523	22.7	216,457	8.0	270,572	10.0
Leverage capital	580,860	13.6	170,274	4.0	212,843	5.0

On July 2, 2013, the FRB approved a final rule to implement in the U.S. the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4%. The final rule emphasizes common equity tier 1 capital, the most loss-absorbing form of capital, and implements strict eligibility criteria for regulatory capital instruments. The final rule also improves the methodology for calculating risk-weighted assets to enhance risk sensitivity.

On July 9, 2013, the FDIC also approved an interim final rule that is identical in substance to the final rules issued by the FRB.

The phase-in period of the final rules will not begin until January 1, 2015. Full compliance with all of the final rules requirements will be phased in over a multi-year schedule. Management is currently evaluating the provisions of the final rules and their expected impact to the Company.

Liquidity and Borrowing Arrangements

Our objective in managing liquidity is to maintain a balance between sources and uses of funds in order to economically meet the cash requirements of customers for loans and deposit withdrawals and participate in lending and investment opportunities as they arise. We monitor our liquidity position in relation to changes in loan and deposit balances on a daily basis to ensure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources.

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

The bank is a member of and maintained a $912.5 million line of credit with the FHLB as of June 30, 2013. Long-term borrowings under this arrangement totaled $23,000 at June 30, 2013, compared to $32,000 at December 31, 2012. There were no short-term borrowings under this arrangement at June 30, 2013 and December 31, 2012.

As of June 30, 2013, the bank's pledged assets to the FHLB included investment securities with a fair value of $76.5 million and certain real estate loans totaling $1.2 billion. These assets can be used to secure future advances in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB.

Besides its line of credit with the FHLB, the bank also maintained a $48.7 million line of credit with the Federal Reserve discount window. There were no borrowings under this arrangement at June 30, 2013 and December 31, 2012. Advances under this arrangement would have been secured by certain commercial and commercial real estate loans with a carrying value of $83.7 million at June 30, 2013. The Federal Reserve does not have the right to sell or repledge these loans.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to improve our risk profile, maintain our capital base, and comply with the provisions of our agreement with the regulators. Beyond the challenges specific to our situation, our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes in our contractual obligations since December 31, 2012.

Regulatory Matters

On October 9, 2012, the bank entered into a separate Memorandum of Understanding (the "Compliance MOU") with the FDIC to improve the bank's compliance management system ("CMS"). Under the Compliance MOU, we are required to, among other things, (i) improve the Board of Directors' oversight of the bank's CMS; (ii) ensure the establishment and implementation of the bank's CMS is commensurate with the complexity of the bank's operations; (iii) perform a full review of all compliance policy and procedures, then revise and adopt policy and procedures to ensure compliance with all consumer protection regulations; (iv) enhance the bank's training program relating to consumer protection and fair lending regulations; (v) develop and implement an effective internal monitoring program to ensure compliance with all applicable laws and regulations; (vi) strengthen the compliance audit function to ensure that the compliance audits are appropriately and comprehensively scoped; (vii) develop and implement internal controls for the bank's third-party payment processing activity; (viii) strengthen the Board of Directors and senior management's oversight of third-party relationships and (ix) enhance the bank's overdraft payment program The bank believes it has already taken substantial steps to comply with the Compliance MOU. In addition to the steps taken to comply with the Compliance MOU, the bank received an "Outstanding" rating in a recently completed Community Reinvestment performance evaluation that measures how financial institutions support their communities in the areas of lending, investment and service.

We cannot provide any assurance on whether or when the bank will be in full compliance with the Compliance MOU or whether or when the Compliance MOU will be terminated. Even if terminated, we may still be subject to other agreements with regulators that restrict our activities and may also continue to impose capital ratios or other requirements on our business. The requirements and restrictions of the Compliance MOU are judicially enforceable and the bank's failure to comply with such requirements and restrictions may subject the bank to additional regulatory restrictions including: the imposition of additional regulatory requirements or orders; limitations on our activities; the imposition of civil monetary penalties; and further directives which affect our business, including, in the most severe circumstances, termination of the bank’s deposit insurance or appointment of a conservator or receiver for the bank.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at June 30, 2013 would not result in a fluctuation of NII that would exceed the established policy limits.

This discussion should be read in conjunction with our financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” above and the information set forth in “Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Asset/Liability Management and Interest Rate Risk” in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), the Company's management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective.

Changes in Internal Controls

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on February 28, 2013.

Item 6. Exhibits

Exhibit No.	Document
10.1	Central Pacific Financial Corp. 2013 Stock Compensation Plan (the “2013 Plan”) +
10.2	Form of Stock Option Grant Agreement pursuant to the 2013 Plan +
10.3	Form of Restricted Stock Grant Agreement to the 2013 Plan +
10.4	Form of Restricted Stock Unit Agreement to the 2013 Plan +
10.5	Form of Stock Appreciation Rights Grant Agreement to the 2013 Plan +
10.6	Form of Key Employee Restricted Stock Unit Grant Agreement to the 2013 Plan +
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

\+ Filed as exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.6 to the Company’s Current Report on Form 8-K with the Securities and

Exchange Commission on May 1, 2013, and incorporated herein by reference.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

	CENTRAL PACIFIC FINANCIAL CORP. (Registrant)
Date: August 8, 2013	/s/ John C. Dean John C. Dean President and Chief Executive Officer
Date: August 8, 2013	/s/ Denis K. Isono Denis K. Isono Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.
Exhibit Index

Exhibit No.	Document
10.1	Central Pacific Financial Corp. 2013 Stock Compensation Plan (the “2013 Plan”) +
10.2	Form of Stock Option Grant Agreement pursuant to the 2013 Plan +
10.3	Form of Restricted Stock Grant Agreement to the 2013 Plan +
10.4	Form of Restricted Stock Unit Agreement to the 2013 Plan +
10.5	Form of Stock Appreciation Rights Grant Agreement to the 2013 Plan +
10.6	Form of Key Employee Restricted Stock Unit Grant Agreement to the 2013 Plan +
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

+ Filed as exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.6 to the Company’s Current Report on Form 8-K with the Securities and
Exchange Commission on May 1, 2013, and incorporated herein by reference.

* Filed herewith.

** Furnished herewith.