

NEW YORK--( [BUSINESS WIRE](#) )--Following Fitch Rating's community bank peer review, Fitch has upgraded Central Pacific Financial's (CPF) Long-Term Issuer Default Rating (IDR) to 'BB+' from 'BB-'. The Rating Outlook is Stable. Please refer to the press release: 'Fitch Takes Rating Actions on Its Community Bank Group Following Peer Review' dated Sept. 23, 2013 for a discussion of rating actions taken on the community banks. A complete list of rating actions for CPF and subsidiaries follows at the end of this release.

## KEY RATING DRIVERS - IDR & VR

Fitch Ratings has upgraded the Long-Term IDRs of CPF due to faster than anticipated reductions of problem loans without taking sizeable credit losses. The ratings upgrade also reflects strong reserves, improved financial performance and removal of its regulatory written agreement.

Nonperforming assets (NPAs) declined from 8.3% to 3.7% year over year, while keeping net charge-offs low. Net charge-offs have remained below 0.2% and 0.3% in 2013 and 2012 respectively. Fitch believes CPF's ability to reduce NPAs with limited losses demonstrates an improving local economy and conservative marks on its non-performing and other real estate owned (OREO) properties. Fitch expects continued reductions of NPAs in the near term.

Fitch believes CPF has the capacity to release at least \$30 million of reserves over the medium term. CPF carries a 3.6% reserve balance against loans 'collectively evaluated for impairment', which are typically performing loans. Banks of similar size typically maintain roughly 1.5% reserve coverage for its performing loan portfolio. As such, Fitch believes CPF will continue to release reserves over the medium term, which will continue to augment earnings.

Regulators recently terminated a safety and soundness enforcement actions against CPF. Fitch believes this further demonstrates that the bulk of its legacy asset quality and risk management problems are under control. While a compliance MOU remains outstanding, Fitch believes the financial and operational impact to the company will be limited.

Capital levels are strong, but Fitch expects capital levels to be optimized in the near term. At present CPF's capital levels are the highest amongst its community bank peer group with a 13.38% tangible common equity ratio. During the first half of 2013, CPF eliminated two hurdles which prevented capital reductions in the past. First, the written agreement requiring approval to pay bank dividends was terminated. Second, CPF became current on its accrued dividends outstanding on its trust preferred securities. The company resumed dividends to common shareholders after second quarter.

## RATING SENSITIVITIES - IDR & VR

CPF's ratings can move higher if NPAs continue to decline and credit costs remain low. Further, resolution of the bank's compliance MOU could also generate positive ratings momentum.

Fitch also recognizes the overall organizational and risk management improvement led by CEO John Dean. His leadership has been viewed positively by Fitch. However, given his strengths, key-man risk is a ratings constraint. Although nothing has been communicated to Fitch suggesting management change, a succession plan could improve positive ratings prospects.

Negative ratings pressure could build if CPF builds lending concentrations outside its core markets or if the Hawaii economy deteriorates significantly. Additionally, increasing NPAs or credit costs could negatively pressure ratings.

Fitch has upgraded the following ratings:

Central Pacific Financial Corp.

--Long-term IDR to 'BB+' from 'BB-';

--Viability rating to 'bb+' from 'bb-'

Central Pacific Bank

--Long-term IDR to 'BB+' from 'BB-';

--Viability Rating to 'bb+' from 'bb-';

--Long-term deposits to 'BBB-' from 'BB';

CPB Capital Trust I, II & IV

CPB Statutory Trust III & V

--Trust preferred securities to 'BB-' from 'CC'

Fitch has affirmed the following ratings:

Central Pacific Financial Corp.

--Short-term IDR at 'B';

--Support Rating Floor at 'NF';

--Support affirmed at '5'.

Central Pacific Bank

--Short-term IDR at 'B'

--Short-term deposits at 'B'

--Support Rating Floor at 'NF';

--Support Rating at '5'

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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# Fitch Details Rationale on Upgrade of Central Pacific's IDR to 'BB+' on Community Bank Peer Review

Written by Australian Business

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