

**CENTRAL PACIFIC FINANCIAL CORP.**

**BOARD OF DIRECTORS**

**AUDIT COMMITTEE CHARTER**

(Adopted by the Board of Directors, January 25, 2006)

**I. DEFINITIONS OF TERMS USED HEREIN**

The following terms used in this Charter have the following meanings:

- A. “applicable laws” means and includes all laws, rules, regulations and requirements applicable or relating to a particular matter, and includes, without limitation, the Sarbanes-Oxley Act of 2002, the NYSE Listing Standards, the Securities Exchange Act of 1934, the FDIC Rules and Regulations (including, without limitation, Part 363), the Federal Deposit Insurance Corporation Improvement Act of 1991, and the Interagency Policy Statement on the Internal Audit Function and Its Outsourcing (FDIC FIL-21-2003, dated March 17, 2003).
- B. “Bank” means Central Pacific Bank.
- C. “Board” means the Board of Directors of the Company.
- D. “Charter” means this Audit Committee Charter of the Company.
- E. “Committee” means the Audit Committee of the Company.
- F. “Company” means Central Pacific Financial Corp.
- G. “Exchange Act” means the Securities Exchange Act of 1934.
- H. “FDIC” means the Federal Deposit Insurance Corporation.
- I. “GAAP” means generally accepted accounting principles.
- J. “NYSE” means the New York Stock Exchange.
- K. “outsourcing” means the engagement of third parties to provide services to and/or perform work for the Company which has traditionally been accomplished within the Company.
- L. “SEC” means the United States Securities and Exchange Commission.

**II. PURPOSE**

The Committee’s primary purpose is to assist the Board in overseeing various accounting, auditing, internal control, legal and regulatory matters of the Company. Accordingly, in fulfillment of this purpose, the Committee’s primary objectives are to:

- A. Monitor the integrity of the financial statements and accounting, of the internal audits, of the internal controls, and of the handling of legal matters, of the Company and its subsidiaries.
- B. Appoint (subject to shareholder approval, if applicable), determine the qualifications, independence and compensation of, oversee the work of, and evaluate the performance of, the Company's independent and internal auditors that audit the Company and any of its subsidiaries.
- C. Monitor the compliance by the Company with legal and regulatory requirements, to include without limitation, the Company's Code of Conduct & Ethics for all employees, officers and directors, and the Company's Code of Conduct & Ethics for Senior Financial Officers.
- D. Coordinate and facilitate communication among the auditors, Company management and the Board respecting accounting, auditing, internal control and legal matters.
- E. Perform such other duties and responsibilities as may be requested by the Board or required by law to be performed by the Committee as the audit committee for the Company.
- F. Take all such related and other actions as the Committee deems reasonably necessary in order to fulfill its duties and responsibilities under this Charter.

### **III. AUTHORITY**

The Committee is established pursuant to Article V of the Bylaws (as amended and restated) of the Company.

In order to carry out its purpose, objectives and responsibilities under this Charter, the Committee shall have the following authority:

- A. To take all necessary or appropriate actions in order to fulfill its responsibilities under this Charter.
- B. To appoint (subject to shareholder approval, if applicable), terminate, determine the qualifications, independence and compensation of, oversee the work of, and evaluate the performance of, the Company's independent auditors and the internal audit function of the Company and any of its subsidiaries. The Committee shall have the sole authority (subject only to any applicable shareholder approval), with respect to the matters set forth in the preceding sentence. The Committee shall also have the authority to outsource the internal audit function.
- C. To communicate directly with and have direct access to the Company's independent and internal auditors that audit the Company and any of its subsidiaries.
- D. To determine the level of funding appropriate for payment of compensation to the auditors (independent and internal) for issuing audit reports and rendering

other audit services and to any advisors employed by the Committee. The Committee shall have sole authority to approve all audit engagement fees.

- E. To request that any officer or employee of the Company or the Company's auditors (independent and internal) or outside attorneys to attend a meeting of the Committee or to meet with any members of, or consultants or advisors to, the Committee.
- F. To the extent it deems necessary or appropriate, to ask the Company to provide the Committee with resources to assist it in carrying out its duties.
- G. To the extent it deems necessary or appropriate, to form and delegate authority to subcommittees consisting of one or more committee members, including the authority to grant pre-approvals of audit and non-audit services, provided that the decision of such subcommittees to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.
- H. To conduct any investigation that it deems necessary or appropriate pursuant to its fulfillment of its responsibilities under this Charter.
- I. To the extent it deems necessary or appropriate, to retain independent legal, accounting or other consultants or advisors.
- J. To perform such other duties and responsibilities as may be requested by the Board or required by law to be performed by the Committee as the audit committee for the Company.

#### **IV. MEMBERSHIP**

- A. Appointment. The members of the Committee are appointed annually by the Board and serve until their successors are duly elected and qualified.
- B. Number. The Board determines the number of members in the Committee from time to time, but the number shall not be less than the minimum number prescribed by the Company's Bylaws, or by any applicable laws.
- C. Independence. Committee members must be non-employee directors, be independent and free from any relationship that would interfere with the exercise of their independent judgment, and fully satisfy any and all other independence requirements as prescribed by all applicable laws.
- D. Financial Experience. All members of the Committee shall have sufficient business, financial and/or accounting background and experience in order to fully satisfy any and all financial and accounting experience requirements which are prescribed by all applicable laws.
- E. Audit Committee Financial Expert. At least one member of the Committee shall have sufficient business, financial and/or accounting background and experience in order to fully qualify such person as an "audit committee financial expert", as defined by any applicable laws.

- F. Committee Chair and Vice Chair. The Board will appoint one of the members of the Committee to serve as Committee Chair and another member of the Committee to serve as Committee Vice Chair. The Committee Chair (and in the Committee Chair's absence, the Committee Vice Chair) will have authority to act on behalf of the Committee between meetings.
- G. Other Membership Requirements. The members of the Committee and its Chair and Vice Chair, shall satisfy all other applicable laws pertaining to the qualifications of any member or Chair or Vice Chair of the Committee, or to the composition of the Committee.

## V. MEETINGS

- A. Chair/Vice Chair. The Chair of the Committee shall preside over the Committee meetings. In the absence of the Chair, the Vice Chair will preside over the Committee meetings. In the event both the Chair and Vice Chair are absent and neither the Chair nor Vice Chair have delegated another Committee member to preside over the meeting, the Committee members present at any such Committee meeting shall decide among themselves which member shall preside over that meeting.
- B. Frequency. The Committee shall meet at least four times annually, and may meet more frequently as it deems necessary or appropriate.
- C. Agenda. The Chair (and in the Chair's absence, the Vice Chair) shall be responsible for preparing or having prepared an agenda for each Committee meeting.
- D. Attendance by Others. The Chair (and in the Chair's absence, the Vice Chair) shall coordinate the attendance at the meeting by management, auditors (independent and internal), and all others whom the Committee seeks to meet with.
- E. Private Sessions. The Committee will, on a periodic basis, meet separately with the independent auditors, the internal auditors, and management, to discuss any matters which the Committee or these other groups want to discuss privately.
- F. Minutes. The Chair (and in the Chair's absence, the Vice Chair) shall ensure that minutes of every Committee meeting are taken, recorded and kept, and also that all documentation submitted before the Committee is maintained with the minutes.
- G. Joint Sessions. The Committee may meet simultaneously as a committee of the Company and of the Bank, though it should hold separate sessions if necessary to address issues that are relevant to one entity but not the other or to consider transactions between the two entities or other matters where the Company and the Bank may have different interests. The Committee should consult with internal or outside counsel if, in the opinion of the Committee, any matter under consideration by the Committee has the potential for any conflict between the interests of the Company and those of the Bank or the Company's other subsidiaries in order to ensure that appropriate procedures are established for

addressing any such potential conflict and for ensuring compliance with the Company's policies regarding Sections 23A and 23B of the Federal Reserve Act and related Regulation W.

## VI. RESPONSIBILITIES

In fulfilling its primary purpose and objectives, the Committee shall have the following responsibilities:

- A. Charter Review. The Committee will review and reassess the adequacy of this Charter annually, and thereafter recommend this Charter, and any proposed changes to this Charter, to the Board for annual approval. The Committee shall ensure this Charter is published and otherwise made publicly available in accordance with all applicable laws.
- B. Financial Reporting. The Committee will accomplish the following with respect to monitoring the Company's financial reporting.
  - 1. Review and discuss with management and the independent auditors the Company's quarterly financial statements, including disclosures made in management's discussion and analysis, prior to the filing of its Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements. This review should include a discussion of all applicable items set forth in this subsection B.
  - 2. Review and discuss with management and the independent auditors the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K. This review should include a discussion of all applicable items set forth in this subsection B.
  - 3. Review and discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including the appropriateness and quality of the Company's accounting principles, any significant changes in the Company's selection or application of accounting principles, the development, selection and disclosure of critical accounting estimates and the use thereof, and analyses of the effect of alternative assumptions, estimates or GAAP methods on the Company's financial statements.
  - 4. Discuss with management, either specifically or by discussion of the types of information to be disclosed and the types of presentation to be made, the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information and any earnings guidance, as well as financial information provided to analysts and rating agencies.
  - 5. Review and discuss any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise); any communication between the audit team and the audit firm's national

office respecting auditing or accounting issues presented by the engagement; and any “management” or “internal control” letter issued, or proposed to be issued by the audit firm of the Company.

6. Discuss with management and the independent auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company’s financial statements.
  7. Discuss with management the Company’s policies with respect to risk assessment and risk management, including the risk of fraud. The Committee shall also discuss the Company’s major financial risk exposures and the steps management has taken to monitor and control such exposures.
  8. Discuss with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61.
  9. Discuss with the Company’s independent auditors, internal auditors, and management any weaknesses or deficiencies that any of the foregoing have identified relating to financial reporting or other related matters and their proposals for rectifying such weaknesses or deficiencies.
  10. Monitor the Company’s progress in promptly addressing and correcting any and all identified weaknesses or deficiencies in financial reporting or related matters.
  11. Receive periodic reports from the independent auditors and appropriate officers of the Company on significant accounting or reporting developments proposed by the Financial Accounting Standards Board or the SEC that may impact the Company.
  12. Receive periodic reports from independent auditors and appropriate officers of the Company on significant financial reporting or other related matters for non-bank subsidiaries.
  13. Oversee the preparation of the Committee’s report required by the rules of the SEC to be included in the Company’s annual proxy statement.
- C. Internal Controls. The Committee will accomplish the following with respect to monitoring the Company’s internal controls.
1. Discuss and review management’s assessment of the effectiveness of internal controls over financial reporting as of the end of the most recent fiscal year and the independent auditors report on management’s assessment.
  2. Discuss with the Company’s independent auditors, internal auditors, and management any weaknesses or deficiencies that any of the foregoing have identified relating to internal controls or other related matters and their proposals for rectifying such weaknesses or deficiencies, in connection with the required quarterly certifications under Section 302 of

the Sarbanes-Oxley Act. In addition, the Committee shall discuss with management, the internal auditors and independent auditors any significant changes in internal controls over financial reporting that are disclosed or considered for disclosure, in the Company's periodic filing with the SEC.

3. Monitor the Company's progress in promptly addressing and correcting any and all identified weaknesses or deficiencies in internal controls or related matters.
4. Receive periodic reports from independent and internal auditors and appropriate officers of the Company on internal controls or other related matters for non-bank subsidiaries.

D. Independent and Internal Auditors and Audits. The Committee will accomplish the following with respect to the independent and internal auditors and audits of the Company or any of its subsidiaries.

1. Appoint (subject to shareholder approval, if applicable), compensate, and oversee the work of the independent and internal auditors (including resolution of disagreements between management and the auditors) for the purpose of preparing or issuing an audit report or related work. The Committee is directly responsible for appointing, compensating and overseeing the work of the auditors and the auditors are directly accountable to and shall report directly to the Committee.
2. In selecting an auditor, the Committee shall ensure that sufficient due diligence is performed, to include, without limitation, reviewing the auditor's and its staffs' experience, expertise, qualifications and available resources.
3. The Committee shall ensure that all auditor engagements are in writing and cover all pertinent areas of the engagement, to include, without limitation: the expectations and responsibilities of both parties; the scope and frequency of the work; fees; type and frequency of reporting to senior management and the Board; the handling of amendments, defaults and termination of the engagement; possession, ownership, accessibility, location, and retention regarding reports and work-papers; submission to regulatory review; dispute resolution process and allocation of liability; and, separation of auditor from management/employee functions.
4. Oversee the rotation of the lead (or coordinating) audit partner having primary responsibility for the independent audit and the audit partner responsible for reviewing the independent audit at least once every five years and consider whether, in order to assure the continuing auditor independence, it is appropriate to rotate the auditing firm itself on a regular basis.
5. Review and monitor the independence, qualifications and performance of the independent and internal auditors by, among other things:

- a. Obtaining and reviewing a report from the auditors at least annually regarding (i) the auditors' internal quality-control procedures, (ii) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more audits carried out by the firm, (iii) any steps taken to deal with any such issues, (iv) all relationships between the auditors and the Company, and (v) all significant relationships that could impair the auditors' independence;
  - b. Evaluating the independence, qualifications and performance of the auditors, including considering (i) whether the auditors' quality controls are adequate, (ii) whether any disclosed relationships or services may impair the objectivity and independence of the auditors, (iii) whether the experience, qualifications and independence of the senior members of the independent and internal audit teams are acceptable, and (iv) whether, for the independent auditor, the provision of any non-audit services is compatible with maintaining the independent auditors' independence, taking into account the opinions of management and the internal auditors; and
  - c. Taking appropriate action to ensure the continued independence of the independent and internal auditors.
6. Review and discuss with the independent and internal auditors, and approve, their respective annual audit plans, budgets, staffing, reports and responsibilities, and the scope, approach and results of their audits, and any reliance upon management and others.
  7. Ensure that the internal auditors accomplish the following items.
    - a. Develop and execute a comprehensive internal audit plan. This plan must be presented to the Committee for approval. In addition, any deviations from the plan shall be reported to and receive the approval from the Committee.
    - b. Examine the effectiveness of all levels of management in their stewardship of Company resources and in their compliance with established policies and procedures, and with all applicable laws.
    - c. When necessary, recommend improvement of management controls designed to safeguard Company resources, ensure accurate reporting, and ensure compliance with all applicable laws.
    - d. Review policies, procedures, records and other documentation for their adequacy to accomplish intended objectives.

- e. Provide reports to the Committee on the results of internal audits, and meet with the Committee regarding such reports and management's responses thereto.
- f. Appraise the adequacy of actions taken by management to correct reported deficiencies, accept adequate corrective action, reject inadequate corrective action, and continue reviews on inadequate corrective action until adequate corrective action or some other alternate acceptable action is taken or the matter is otherwise satisfactorily resolved.
- g. Conduct special examinations at the request of management, the Committee or the Board.
- h. Provide advice and opinions at the request of management regarding management controls, provided, however, that the internal auditors shall not participate in any decision-making process or in the implementation of any management decision.

Internal auditors shall not have any authority to approve transactions of any nature, nor may internal auditors administer or supervise any Company function or operation.

- 8. Pre-approve all auditing services and permitted non-audit services to be performed for the Company or any of its subsidiaries by the independent auditors, except as provided in this paragraph. In no event shall the independent auditors perform any non-audit services for the Company which are prohibited by any applicable laws. The Committee shall establish general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and shall review such guidelines with the Board. The Committee may delegate to one or more of its members the authority to grant pre-approvals of such permitted non-audit services, provided that any such pre-approvals granted pursuant to this delegated authority shall be reported to the Committee at its next regular meeting. Formal pre-approval shall not be required for the provision of non-audit services if (i) the aggregate amount of all such non-audit services constitutes not more than 5% of the total amount of revenues paid by the Company to the auditors during the fiscal year in which the non-audit services are provided, (ii) such services were not recognized by the Company at the time of engagement to be non-audit services, and (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit. Approvals of a non-audit service to be performed by the independent auditors and, if applicable, the guidelines pursuant to which such services were approved, shall be disclosed as promptly as practicable in the Company's quarterly or annual reports required by Section 13(a) of the Exchange Act. In carrying out its responsibilities under the preceding paragraph, if the Committee approves an audit service within the scope of engagement of the independent auditors, such audit service shall be deemed to have been preapproved for purposes of this paragraph.

9. Preapprove all services to be performed for the Company or any of its subsidiaries by the internal auditors.
10. Ensure that the independent and internal auditors have access to all necessary Company resources and personnel.
11. Instruct the independent and internal auditors to communicate directly to the Committee, any disputes with management, or any problems or difficulties encountered in connection with any audit.
12. Obtain from the independent and internal auditors any reports required to be furnished to the Committee under all applicable laws.
13. Review all reports prepared by the independent and internal auditors for or on behalf of the Company and/or management, and any management responses thereto.
14. Determine and approve the fees and other compensation paid to the independent and internal auditors.
15. Discharge and terminate the independent and/or internal auditors when circumstances warrant.
16. Review with management and the independent auditors the basis for the reports required to be filed by management and by the independent auditors with the FDIC pursuant to 12 C.F.R. Section 363.2(a) and (b) and Sections 363.3(a) and (b), respectively.

E. Compliance Oversight. The Committee will conduct the following oversight activities.

1. Receive, investigate and otherwise handle complaints of an accounting, auditing or internal control nature, pursuant to the Company's Complaint Policy, and in accordance with all applicable laws. On at least an annual basis, review and recommend to the Board approval of, the Complaint Policy and any changes thereto.
2. Determine conflicts of interest pursuant to the Company's Code of Conduct & Ethics, and Code of Conduct & Ethics for Senior Financial Officers, and in accordance with all applicable laws. On at least an annual basis, review and recommend to the Board approval of, the Code of Conduct & Ethics, and Code of Conduct & Ethics for Senior Financial Officers and any changes thereto.
3. Discuss with management and the independent and internal auditors the status and adequacy of the Company's management information systems, including the significant risks and major controls over such risks.
4. Review and evaluate all related party transactions that are material to the financial statements.

5. Discuss with management and the external and internal auditors the Company's processes regarding compliance with applicable laws, and when appropriate request and receive reports from management concerning such compliance.
6. Discuss with management and the independent and internal auditors any correspondence, complaints, inquiries, investigations or reports, from regulators, governmental agencies, or others, which raise material issues regarding the Company's financial statements or accounting policies or which result in substantial non-compliance with the Company's Code of Conduct & Ethics or Code of Conduct & Ethics for Senior Financial Officers, or which result in substantial non-compliance with any other applicable laws.
7. Discuss with the Company's General Counsel legal matters that may have a significant adverse impact on the Company.
8. Discuss with the Company's Compliance Manager compliance matters that may have a significant adverse impact on the Company.
9. Discuss with the Company's Chief Risk Officer risks that may have a significant adverse impact on the Company.

F. General. The Committee will also accomplish the following:

1. Regularly report to the Board on the Committee's activities, and seek Board ratification (exclusive of inside directors) of Committee actions as and when required and/or permitted by all applicable laws.
2. In addition to Committee minutes, maintain any other records of the Committee's activities.
3. Review and assess the quality and clarity of the information provided to the Committee and make recommendations to management as the Committee may deem appropriate for improving such materials.
4. Annually review the performance of the Committee.
5. Perform the duties required to be performed by the audit committee for any subsidiary of the Company that does not have its own audit committee, in each case to the extent permitted, and in the manner required, by applicable laws and regulations.
6. Perform any other activities in fulfillment of and consistent with the responsibilities of the Committee under this Charter, and as the Board may deem necessary or appropriate.

**VII. HIRING OF EMPLOYEES OR FORMER EMPLOYEES OF INDEPENDENT AUDITOR.** The Company shall not employ in any position involved in financial reporting matters (to include, but not be limited to, the Company's chief executive

officer, chief financial officer, and controller), any person who, within the one-year period preceding the commencement of the audit of the Company's current year's financial statements, was employed by the Company's independent auditor and performed more than ten hours of work on the independent audit or any other audit, review or attestation engagement for the Company. The Company may employ such person at any time in a position that does not involve financial reporting matters.

**VIII. AMENDMENT.** This Charter may only be amended by a majority of the Board. The Committee, may, however, in its best judgment and discretion, deviate from or alter, modify or change any of its responsibilities in this Charter if doing so would better serve the primary purpose and objectives of this Charter, provided such deviation is of a temporary nature, and provided further that the Chair informs the Board of such deviation and obtains Board approval of same.

**IX. LIMITATIONS.**

- A. It should be noted that the Committee's job is one of oversight as set forth in this Charter. It is not the duty of the Committee to prepare the Company's and its subsidiaries financial statements, to conduct audits, or to determine that the Company's and its subsidiaries financial statements are complete and accurate and are in accordance with GAAP. The Company's management is responsible for preparing the Company's and its subsidiaries financial statements and for maintaining internal controls, and the independent auditors are responsible for auditing the financial statements. Nor is it the duty of the Committee to assure the Company's and its subsidiaries compliance with all applicable laws.
- B. In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by the following persons and groups.
  - 1. One or more officers or employees of the Company whom the Committee members reasonably believe to be reliable and competent in the matters presented.
  - 2. Accountants, auditors, counsel or other persons as to matters which the Committee members reasonably believe to be within the professional or expert competence of such person.
  - 3. Another committee of the Board as to matters within its designated authority which committee the Committee members reasonably believe to merit confidence.