

BANK OF HAWAII CORP
Form 10-Q
July 22, 2013

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2013

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 99-0148992
(State of incorporation) (I.R.S. Employer Identification No.)

130 Merchant Street, Honolulu, Hawaii 96813
(Address of principal executive offices) (Zip Code)

1-888-643-3888
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 16, 2013, there were 44,591,814 shares of common stock outstanding.

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Interest Income				
Interest and Fees on Loans and Leases	\$62,729	\$63,910	\$125,549	\$128,601
Income on Investment Securities				
Available-for-Sale	15,073	16,988	30,924	34,701
Held-to-Maturity	19,189	25,054	39,043	51,467
Deposits	1	1	4	3
Funds Sold	74	119	133	248
Other	285	281	569	561
Total Interest Income	97,351	106,353	196,222	215,581
Interest Expense				
Deposits	2,579	3,219	5,225	6,692
Securities Sold Under Agreements to Repurchase	6,751	7,250	13,756	14,554
Funds Purchased	10	5	32	10
Long-Term Debt	671	498	1,309	996
Total Interest Expense	10,011	10,972	20,322	22,252
Net Interest Income	87,340	95,381	175,900	193,329
Provision for Credit Losses	—	628	—	979
Net Interest Income After Provision for Credit Losses	87,340	94,753	175,900	192,350
Noninterest Income				
Trust and Asset Management	12,089	11,195	23,975	22,113
Mortgage Banking	5,820	7,581	12,231	12,631
Service Charges on Deposit Accounts	9,112	9,225	18,413	18,816
Fees, Exchange, and Other Service Charges	13,133	12,326	25,067	24,725
Investment Securities Losses, Net	—	—	—	(90
Insurance	2,393	2,399	4,718	4,677
Bank-Owned Life Insurance	1,335	1,739	2,632	3,220
Other	4,159	2,383	8,783	8,838
Total Noninterest Income	48,041	46,848	95,819	94,930
Noninterest Expense				
Salaries and Benefits	45,341	44,037	94,016	91,061
Net Occupancy	9,661	10,058	19,296	20,574
Net Equipment	4,380	4,669	8,957	10,495
Data Services	3,050	3,160	6,316	6,747
Professional Fees	2,391	2,386	4,617	4,518
FDIC Insurance	1,949	2,088	3,898	4,159
Other	14,409	14,349	28,468	28,400
Total Noninterest Expense	81,181	80,747	165,568	165,954
Income Before Provision for Income Taxes	54,200	60,854	106,151	121,326
Provision for Income Taxes	16,437	20,107	32,408	36,769
Net Income	\$37,763	\$40,747	\$73,743	\$84,557
Basic Earnings Per Share	\$0.85	\$0.90	\$1.66	\$1.86
Diluted Earnings Per Share	\$0.85	\$0.90	\$1.65	\$1.85
Dividends Declared Per Share	\$0.45	\$0.45	\$0.90	\$0.90
Basic Weighted Average Shares	44,493,069	45,221,293	44,518,629	45,465,910

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Diluted Weighted Average Shares	44,608,497	45,347,368	44,644,348	45,610,489
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The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net Income	\$37,763	\$40,747	\$73,743	\$84,557
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	(46,572)	3,387	(56,213)	(3,067)
Defined Benefit Plans	201	153	279	306
Total Other Comprehensive Income (Loss)	(46,371)	3,540	(55,934)	(2,761)
Comprehensive Income (Loss)	\$(8,608)	\$44,287	\$17,809	\$81,796

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition (Unaudited)

(dollars in thousands)	June 30, 2013	December 31, 2012
Assets		
Interest-Bearing Deposits	\$4,635	\$3,393
Funds Sold	329,922	185,682
Investment Securities		
Available-for-Sale	2,815,408	3,367,557
Held to Maturity (Fair Value of \$4,036,197 and \$3,687,676)	4,027,829	3,595,065
Loans Held for Sale	25,880	21,374
Loans and Leases	5,859,152	5,854,521
Allowance for Loan and Lease Losses	(124,575)	(128,857)
Net Loans and Leases	5,734,577	5,725,664
Total Earning Assets	12,938,251	12,898,735
Cash and Noninterest-Bearing Deposits	136,386	163,786
Premises and Equipment	105,752	105,005
Customers' Acceptances	114	173
Accrued Interest Receivable	43,375	43,077
Foreclosed Real Estate	3,256	3,887
Mortgage Servicing Rights	27,631	25,240
Goodwill	31,517	31,517
Other Assets	447,136	456,952
Total Assets	\$13,733,418	\$13,728,372
Liabilities		
Deposits		
Noninterest-Bearing Demand	\$3,396,835	\$3,367,185
Interest-Bearing Demand	2,269,196	2,163,473
Savings	4,433,042	4,399,316
Time	1,350,125	1,599,508
Total Deposits	11,449,198	11,529,482
Funds Purchased	9,983	11,296
Securities Sold Under Agreements to Repurchase	866,237	758,947
Long-Term Debt	174,727	128,055
Banker's Acceptances	114	173
Retirement Benefits Payable	47,318	47,658
Accrued Interest Payable	4,399	4,776
Taxes Payable and Deferred Taxes	48,947	88,014
Other Liabilities	146,127	138,306
Total Liabilities	12,747,050	12,706,707
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: June 30, 2013 - 57,488,745 / 44,644,596 and December 31, 2012 - 57,319,352 / 44,754,835)	572	571
Capital Surplus	518,804	515,619
Accumulated Other Comprehensive Income (Loss)	(26,726)	29,208
Retained Earnings	1,115,594	1,084,477
Treasury Stock, at Cost (Shares: June 30, 2013 - 12,844,149	(621,876)	(608,210)

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and December 31, 2012 - 12,564,517)

Total Shareholders' Equity	986,368	1,021,665
Total Liabilities and Shareholders' Equity	\$13,733,418	\$13,728,372

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre- hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2012	44,754,835	\$571	\$515,619	\$29,208	\$1,084,477	\$(608,210)	\$1,021,665
Net Income	—	—	—	—	73,743	—	73,743
Other Comprehensive Loss	—	—	—	(55,934)	—	—	(55,934)
Share-Based Compensation	—	—	2,732	—	—	—	2,732
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	379,870	1	453	—	(2,235)	10,294	8,513
Common Stock Repurchased	(490,109)	—	—	—	—	(23,960)	(23,960)
Cash Dividends Paid (\$0.90 per share)	—	—	—	—	(40,391)	—	(40,391)
Balance as of June 30, 2013	44,644,596	\$572	\$518,804	\$(26,726)	\$1,115,594	\$(621,876)	\$986,368
Balance as of December 31, 2011	45,947,116	\$571	\$507,558	\$35,263	\$1,003,938	\$(544,663)	\$1,002,667
Net Income	—	—	—	—	84,557	—	84,557
Other Comprehensive Loss	—	—	—	(2,761)	—	—	(2,761)
Share-Based Compensation	—	—	3,723	—	—	—	3,723
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	400,094	—	448	—	(2,758)	10,684	8,374
Common Stock Repurchased	(1,098,933)	—	—	—	—	(51,586)	(51,586)
Cash Dividends Paid (\$0.90 per share)	—	—	—	—	(41,149)	—	(41,149)
Balance as of June 30, 2012	45,248,277	\$571	\$511,729	\$32,502	\$1,044,588	\$(585,565)	\$1,003,825

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended	
	June 30,	
(dollars in thousands)	2013	2012
Operating Activities		
Net Income	\$73,743	\$84,557
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	—	979
Depreciation and Amortization	6,106	6,883
Amortization of Deferred Loan and Lease Fees	(1,807	) (1,548
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	31,996	28,147
Share-Based Compensation	2,732	3,723
Benefit Plan Contributions	(677	) (5,574
Deferred Income Taxes	(4,650	) (11,358
Net Gains on Sales of Loans and Leases	(13,938	) (7,542
Net Losses on Investment Securities	—	90
Proceeds from Sales of Loans Held for Sale	445,293	198,197
Originations of Loans Held for Sale	(438,711	) (189,219
Tax Benefits from Share-Based Compensation	(491	) (623
Net Change in Other Assets and Other Liabilities	22,287	(11,086
Net Cash Provided by Operating Activities	121,883	95,626
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	567,569	468,489
Proceeds from Sales	—	34,831
Purchases	(373,053	) (401,944
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	569,150	446,346
Purchases	(769,040	) (540,472
Net Change in Loans and Leases	(11,483	) (141,526
Premises and Equipment, Net	(6,853	) (10,755
Net Cash Used in Investing Activities	(23,710	) (145,031
Financing Activities		
Net Change in Deposits	(80,284	) 955,370
Net Change in Short-Term Borrowings	105,977	(857,380
Proceeds from Long-Term Debt	50,000	—
Tax Benefits from Share-Based Compensation	491	623
Proceeds from Issuance of Common Stock	8,076	7,858
Repurchase of Common Stock	(23,960	) (51,586
Cash Dividends Paid	(40,391	) (41,149
Net Cash Provided by Financing Activities	19,909	13,736
Net Change in Cash and Cash Equivalents	118,082	(35,669
Cash and Cash Equivalents at Beginning of Period	352,861	669,909
Cash and Cash Equivalents at End of Period	\$470,943	\$634,240
Supplemental Information		

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Cash Paid for Interest	\$21,281	\$23,152
Cash Paid for Income Taxes	33,554	41,775
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	254,779	—
Transfer from Loans to Foreclosed Real Estate	2,551	2,309

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

Bank of Hawaii Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its Subsidiaries (the "Company") provides a broad range of financial products and services to customers in Hawaii, Guam, and other Pacific Islands. The Parent's principal and only operating subsidiary is Bank of Hawaii (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements. In the opinion of management, the consolidated financial statements reflect normal recurring adjustments necessary for a fair presentation of the results for the interim periods.

Certain prior period information has been reclassified to conform to the current period presentation.

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Investment Securities

Realized gains and losses are recorded in noninterest income using the specific identification method.

Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with

master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions. The Company adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impacted the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial position, the adoption had no impact on the Company's consolidated statements of income and condition. See Note 5 to the Consolidated Financial Statements for the disclosures required by ASU No. 2011-11 and ASU No. 2013-01.

Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the transparency of reporting these reclassifications. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities) and the income statement line item affected by the reclassification (e.g., realized gains (losses) on sales of investment securities). If a component is not required to be reclassified to net income in its entirety (e.g., amortization of defined benefit plan items), entities would instead cross reference to the related note to the financial statements for additional information (e.g., pension footnote). The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2013. As the provisions of ASU No. 2013-02 only amended the disclosure requirements for accumulated other comprehensive income, the adoption had no impact on the Company's consolidated statements of income and condition. See Note 6 to the Consolidated Financial Statements for the disclosures required by ASU No. 2013-02.

Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of June 30, 2013 and December 31, 2012 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$570,944	\$15,125	\$(43)	\$586,026
Debt Securities Issued by States and Political Subdivisions	565,781	9,189	(13,050)	561,920
Debt Securities Issued by Corporations	280,438	1,336	(6,485)	275,289
Mortgage-Backed Securities:				
Residential - Government Agencies	798,266	17,696	(635)	815,327
Residential - U.S. Government-Sponsored Enterprises	26,872	1,606	—	28,478
Commercial - Government Agencies	575,246	—	(26,878)	548,368
Total Mortgage-Backed Securities	1,400,384	19,302	(27,513)	1,392,173
Total	\$2,817,547	\$44,952	\$(47,091)	\$2,815,408
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$365,272	\$3,832	\$(2,796)	\$366,308
Debt Securities Issued by States and Political Subdivisions	254,741	1,761	—	256,502
Debt Securities Issued by Corporations	113,621	—	(3,326)	110,295
Mortgage-Backed Securities:				
Residential - Government Agencies	3,268,222	37,866	(30,497)	3,275,591
Residential - U.S. Government-Sponsored Enterprises	25,973	1,528	—	27,501
Total Mortgage-Backed Securities	3,294,195	39,394	(30,497)	3,303,092
Total	\$4,027,829	\$44,987	\$(36,619)	\$4,036,197
December 31, 2012				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$855,070	\$14,936	\$(17)	\$869,989
Debt Securities Issued by States and Political Subdivisions	753,207	30,159	(955)	782,411
Debt Securities Issued by Corporations	82,450	1,984	—	84,434
Mortgage-Backed Securities:				
Residential - Government Agencies	1,041,669	27,283	(292)	1,068,660
Residential - U.S. Government-Sponsored Enterprises	35,234	2,064	—	37,298
Commercial - Government Agencies	524,055	1,907	(1,197)	524,765
Total Mortgage-Backed Securities	1,600,958	31,254	(1,489)	1,630,723
Total	\$3,291,685	\$78,333	\$(2,461)	\$3,367,557
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$190,168	\$5,198	\$—	\$195,366
Debt Securities Issued by Corporations	24,000	4	—	24,004
Mortgage-Backed Securities:				
Residential - Government Agencies	3,349,403	86,673	(1,366)	3,434,710

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Residential - U.S. Government-Sponsored Enterprises	31,494	2,102	—	33,596
Total Mortgage-Backed Securities	3,380,897	88,775	(1,366)	3,468,306
Total	\$3,595,065	\$93,977	\$(1,366)	\$3,687,676

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of June 30, 2013. Mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	\$ 168,292	\$ 168,666
Due After One Year Through Five Years	256,637	260,614
Due After Five Years Through Ten Years	624,515	614,924
Due After Ten Years	367,719	379,031
	1,417,163	1,423,235
Mortgage-Backed Securities:		
Residential - Government Agencies	798,266	815,327
Residential - U.S. Government-Sponsored Enterprises	26,872	28,478
Commercial - Government Agencies	575,246	548,368
Total Mortgage-Backed Securities	1,400,384	1,392,173
Total	\$ 2,817,547	\$ 2,815,408
Held-to-Maturity:		
Due in One Year or Less	\$ 70,241	\$ 70,603
Due After One Year Through Five Years	295,032	295,706
Due After Five Years Through Ten Years	94,830	95,553
Due After Ten Years	273,531	271,243
	733,634	733,105
Mortgage-Backed Securities:		
Residential - Government Agencies	3,268,222	3,275,591
Residential - U.S. Government-Sponsored Enterprises	25,973	27,501
Total Mortgage-Backed Securities	3,294,195	3,303,092
Total	\$ 4,027,829	\$ 4,036,197

Investment securities with carrying values of \$2.7 billion and \$2.9 billion as of June 30, 2013 and December 31, 2012, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

There were no sales of investment securities for the three and six months ended June 30, 2013 and for the three months ended June 30, 2012. Gross realized gains on the sales of investment securities were \$0.2 million and gross realized losses on the sales of investment securities were \$0.3 million for the six months ended June 30, 2012.

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The Company's investment securities in an unrealized loss position, segregated by continuous length of impairment, were as follows:

(dollars in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2013						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$2,706	\$(40)	\$429	\$(3)	\$3,135	\$(43)
Debt Securities Issued by States and Political Subdivisions	352,120	(13,050)	—	—	352,120	(13,050)
Debt Securities Issued by Corporations	201,741	(6,485)	—	—	201,741	(6,485)
Mortgage-Backed Securities:						
Residential - Government Agencies	46,355	(179)	12,288	(456)	58,643	(635)
Commercial - Government Agencies	548,367	(26,878)	—	—	548,367	(26,878)
Total Mortgage-Backed Securities	594,722	(27,057)	12,288	(456)	607,010	(27,513)
Total	\$1,151,289	\$(46,632)	\$12,717	\$(459)	\$1,164,006	\$(47,091)
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$183,046	\$(2,796)	\$—	\$—	\$183,046	\$(2,796)
Debt Securities Issued by Corporations	88,295	(3,326)	—	—	88,295	(3,326)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,513,576	(30,497)	—	—	1,513,576	(30,497)
Total	\$1,784,917	\$(36,619)	\$—	\$—	\$1,784,917	\$(36,619)
December 31, 2012						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$2,295	\$(14)	\$564	\$(3)	\$2,859	\$(17)
Debt Securities Issued by States and Political Subdivisions	72,400	(955)	—	—	72,400	(955)
Mortgage-Backed Securities:						
Residential - Government Agencies	7,325	(57)	22,389	(235)	29,714	(292)
Commercial - Government Agencies	261,883	(1,197)	—	—	261,883	(1,197)
Total Mortgage-Backed Securities	269,208	(1,254)	22,389	(235)	291,597	(1,489)
Total	\$343,903	\$(2,223)	\$22,953	\$(238)	\$366,856	\$(2,461)
Held-to-Maturity:						
Mortgage-Backed Securities:						
Residential - Government Agencies	\$351,762	\$(1,366)	\$—	\$—	\$351,762	\$(1,366)
Total	\$351,762	\$(1,366)	\$—	\$—	\$351,762	\$(1,366)

The Company does not believe that the investment securities that were in an unrealized loss position as of June 30, 2013, which was comprised of 247 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were

purchased, and not due to the credit quality of the investment securities. As of June 30, 2013 and December 31, 2012, the gross unrealized losses reported for mortgage-backed securities were related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of June 30, 2013, included in the Company's investment securities at fair value were securities issued by political subdivisions within the State of Hawaii of \$569.9 million, representing 70% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 76% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of June 30, 2013, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 5% of the total fair value of the Company's municipal debt securities.

As of June 30, 2013, the carrying value of the Company's Federal Home Loan Bank and Federal Reserve Bank stock was as follows:

(dollars in thousands)	June 30, 2013	December 31, 2012
Federal Home Loan Bank Stock	\$59,109	\$ 60,200
Federal Reserve Bank Stock	19,055	18,952
Total	\$78,164	\$ 79,152

These securities can only be redeemed or sold at their par value and only to the respective issuing government-supported institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and periodically evaluates these securities for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Note 3. Loans and Leases and the Allowance for Loan and Lease Losses

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of June 30, 2013 and December 31, 2012:

(dollars in thousands)	June 30, 2013	December 31, 2012
Commercial		
Commercial and Industrial	\$875,702	\$829,512
Commercial Mortgage	1,160,977	1,097,425
Construction	107,016	113,987
Lease Financing	257,067	274,969
Total Commercial	2,400,762	2,315,893
Consumer		
Residential Mortgage	2,252,117	2,349,916
Home Equity	751,790	770,376
Automobile	233,475	209,832
Other ¹	221,008	208,504
Total Consumer	3,458,390	3,538,628
Total Loans and Leases	\$5,859,152	\$5,854,521

¹ Comprised of other revolving credit, installment, and lease financing.

Most of the Company's lending activity is with customers located in the State of Hawaii. A substantial portion of the Company's real estate loans are secured by real estate in Hawaii.

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income, were \$4.8 million and \$2.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$12.4 million and \$4.7 million for the six months ended June 30, 2013 and 2012, respectively.

Allowance for Loan and Lease Losses (the “Allowance”)

The following presents by portfolio segment, the activity in the Allowance for the three and six months ended June 30, 2013 and 2012. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company’s impairment measurement method and the related recorded investment in loans and leases as of June 30, 2013 and 2012.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended June 30, 2013			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$73,416	\$53,462	\$126,878
Loans and Leases Charged-Off	(266)	(4,438)	(4,704)
Recoveries on Loans and Leases Previously Charged-Off	470	1,931	2,401
Net Loans and Leases Charged-Off	204	(2,507)	(2,303)
Provision for Credit Losses	(3,423)	3,423	—
Balance at End of Period	\$70,197	\$54,378	\$124,575
Six Months Ended June 30, 2013			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$72,704	\$56,153	\$128,857
Loans and Leases Charged-Off	(648)	(9,355)	(10,003)
Recoveries on Loans and Leases Previously Charged-Off	1,267	4,454	5,721
Net Loans and Leases Charged-Off	619	(4,901)	(4,282)
Provision for Credit Losses	(3,126)	3,126	—
Balance at End of Period	\$70,197	\$54,378	\$124,575
As of June 30, 2013			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$195	\$3,927	\$4,122
Collectively Evaluated for Impairment	70,002	50,451	120,453
Total	\$70,197	\$54,378	\$124,575
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$20,059	\$36,756	\$56,815
Collectively Evaluated for Impairment	2,380,703	3,421,634	5,802,337
Total	\$2,400,762	\$3,458,390	\$5,859,152
Three Months Ended June 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$78,174	\$57,432	\$135,606
Loans and Leases Charged-Off	(1,078)	(4,858)	(5,936)
Recoveries on Loans and Leases Previously Charged-Off	545	1,600	2,145
Net Loans and Leases Charged-Off	(533)	(3,258)	(3,791)
Provision for Credit Losses	371	257	628
Balance at End of Period	\$78,012	\$54,431	\$132,443
Six Months Ended June 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$80,562	\$58,044	\$138,606
Loans and Leases Charged-Off	(2,839)	(10,856)	(13,695)
Recoveries on Loans and Leases Previously Charged-Off	2,574	3,979	6,553
Net Loans and Leases Charged-Off	(265)	(6,877)	(7,142)
Provision for Credit Losses	(2,285)	3,264	979

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Balance at End of Period As of June 30, 2012	\$78,012	\$54,431	\$132,443
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$54	\$4,774	\$4,828
Collectively Evaluated for Impairment	77,958	49,657	127,615
Total	\$78,012	\$54,431	\$132,443
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$14,131	\$32,687	\$46,818
Collectively Evaluated for Impairment	2,108,229	3,516,436	5,624,665
Total	\$2,122,360	\$3,549,123	\$5,671,483

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Credit Quality Indicators

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company uses an internal credit risk rating system that categorizes loans and leases into pass, special mention, or classified categories. Credit risk ratings are applied individually to those classes of loans and leases that have significant or unique credit characteristics that benefit from a case-by-case evaluation. These are typically loans and leases to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans and leases that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk-rated and monitored collectively. These are typically loans and leases to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Company's credit quality indicators:

Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely Pass: rated. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.

Loans and leases in the classes within the commercial portfolio segment that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease. The special mention credit quality indicator Special Mention: is not used for classes of loans and leases that are included in the consumer portfolio segment. Management believes that there is a moderate likelihood of some loss related to those loans and leases that are considered special mention.

Loans and leases in the classes within the commercial portfolio segment that are inadequately protected by the sound worth and paying capacity of the borrower or of the collateral pledged, if any. Classified loans and leases are also those in the classes within the consumer portfolio segment that are past due 90 days or more as to principal or interest. Residential mortgage loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection and the current loan-to-value ratio is 60% or less. Home equity loans that are past due 90 days or more as to principal or Classified: interest may be considered pass if the Company is in the process of collection, the first mortgage is with the Company, and the current combined loan-to-value ratio is 60% or less. Residential mortgage and home equity loans may be current as to principal and interest, but may be considered classified for a period of up to six months following a loan modification. Following a period of demonstrated performance in accordance with the modified contractual terms, the loan may be removed from classified status. Management believes that there is a distinct possibility that the Company will sustain some loss if the deficiencies related to classified loans and leases are not corrected in a timely manner.

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of June 30, 2013 and December 31, 2012.

June 30, 2013					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$822,965	\$1,086,806	\$90,439	\$230,545	\$2,230,755
Special Mention	9,736	25,044	13,542	25,696	74,018
Classified	43,001	49,127	3,035	826	95,989
Total	\$875,702	\$1,160,977	\$107,016	\$257,067	\$2,400,762
December 31, 2012					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other ¹	Total Consumer
Pass	\$2,228,382	\$747,318	\$233,380	\$220,153	\$3,429,233
Classified	23,735	4,472	95	855	29,157
Total	\$2,252,117	\$751,790	\$233,475	\$221,008	\$3,458,390
Total Recorded Investment in Loans and Leases					\$5,859,152
December 31, 2012					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$779,654	\$1,018,128	\$96,058	\$247,401	\$2,141,241
Special Mention	22,759	23,848	15,839	26,540	88,986
Classified	27,099	55,449	2,090	1,028	85,666
Total	\$829,512	\$1,097,425	\$113,987	\$274,969	\$2,315,893
December 31, 2012					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other ¹	Total Consumer
Pass	\$2,326,216	\$766,912	\$209,646	\$207,917	\$3,510,691
Classified	23,700	3,464	186	587	27,937
Total	\$2,349,916	\$770,376	\$209,832	\$208,504	\$3,538,628
Total Recorded Investment in Loans and Leases					\$5,854,521

¹ Comprised of other revolving credit, installment, and lease financing.

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Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of June 30, 2013 and December 31, 2012.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current ²
As of June 30, 2013								
Commercial								
Commercial and Industrial	\$467	\$1,255	\$—	\$4,909	\$6,631	\$869,071	\$875,702	\$4,332
Commercial Mortgage	422	742	—	2,772	3,936	1,157,041	1,160,977	1,938
Construction	—	—	—	—	—	107,016	107,016	—
Lease Financing	—	—	—	16	16	257,051	257,067	—
Total Commercial	889	1,997	—	7,697	10,583	2,390,179	2,400,762	6,270
Consumer								
Residential Mortgage	8,191	3,134	6,875	22,876	41,076	2,211,041	2,252,117	4,002
Home Equity	4,533	4,285	2,768	2,602	14,188	737,602	751,790	736
Automobile	3,313	355	95	—	3,763	229,712	233,475	—
Other ¹	2,243	1,296	855	—	4,394	216,614	221,008	—
Total Consumer	18,280	9,070	10,593	25,478	63,421	3,394,969	3,458,390	4,738
Total	\$19,169	\$11,067	\$10,593	\$33,175	\$74,004	\$5,785,148	\$5,859,152	\$11,008
As of December 31, 2012								
Commercial								
Commercial and Industrial	\$806	\$10,382	\$27	\$5,534	\$16,749	\$812,763	\$829,512	\$4,963
Commercial Mortgage	188	542	—	3,030	3,760	1,093,665	1,097,425	1,810
Construction	—	—	—	833	833	113,154	113,987	833
Lease Financing	—	—	—	—	—	274,969	274,969	—
Total Commercial	994	10,924	27	9,397	21,342	2,294,551	2,315,893	7,606
Consumer								
Residential Mortgage	6,891	5,433	6,908	21,725	40,957	2,308,959	2,349,916	4,941
Home Equity	6,768	3,267	2,701	2,074	14,810	755,566	770,376	191
Automobile	3,758	586	186	—	4,530	205,302	209,832	—
Other ¹	2,144	1,093	587	—	3,824	204,680	208,504	—
Total Consumer	19,561	10,379	10,382	23,799	64,121	3,474,507	3,538,628	5,132
Total	\$20,555	\$21,303	\$10,409	\$33,196	\$85,463	\$5,769,058	\$5,854,521	\$12,738

¹ Comprised of other revolving credit, installment, and lease financing.

² Represents non-accrual loans that are not past due 30 days or more; however, full payment of principal and interest is still not expected.

Impaired Loans

The following presents by class, information related to impaired loans as of June 30, 2013 and December 31, 2012.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2013			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$9,166	\$14,415	\$—
Commercial Mortgage	8,318	8,818	—
Total Commercial	17,484	23,233	—
Total Impaired Loans with No Related Allowance Recorded	\$17,484	\$23,233	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$2,528	\$2,528	\$184
Commercial Mortgage	47	47	11
Total Commercial	2,575	2,575	195
Consumer			
Residential Mortgage	31,327	37,580	3,846
Automobile	5,151	5,151	69
Other ¹	278	278	12
Total Consumer	36,756	43,009	3,927
Total Impaired Loans with an Allowance Recorded	\$39,331	\$45,584	\$4,122
Impaired Loans:			
Commercial	\$20,059	\$25,808	\$195
Consumer	36,756	43,009	3,927
Total Impaired Loans	\$56,815	\$68,817	\$4,122
December 31, 2012			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$7,464	\$12,714	\$—
Commercial Mortgage	2,971	3,471	—
Construction	833	1,163	—
Total Commercial	11,268	17,348	—
Total Impaired Loans with No Related Allowance Recorded	\$11,268	\$17,348	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$1,772	\$1,772	\$148
Commercial Mortgage	58	58	13
Total Commercial	1,830	1,830	161
Consumer			
Residential Mortgage	31,577	38,219	3,492
Automobile	5,641	5,641	58

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Other ¹	282	282	14
Total Consumer	37,500	44,142	3,564
Total Impaired Loans with an Allowance Recorded	\$39,330	\$45,972	\$3,725
Impaired Loans:			
Commercial	\$13,098	\$19,178	\$161
Consumer	37,500	44,142	3,564
Total Impaired Loans	\$50,598	\$63,320	\$3,725

¹ Comprised of other revolving credit and installment financing.

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2013 and 2012.

(dollars in thousands)	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$8,067	\$ —	\$9,093	\$ —
Commercial Mortgage	6,085	—	2,571	—
Construction	—	—	1,332	—
Total Commercial	14,152	—	12,996	—
Total Impaired Loans with No Related Allowance Recorded	\$ 14,152	\$ —	\$ 12,996	\$ —