

BANK OF HAWAII CORP
Form 10-Q
October 22, 2012
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**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 September 30, 2012

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
(State of incorporation)

99-0148992
(I.R.S. Employer Identification No.)

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

96813
(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

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 October 15, 2012, there were 44,950,484 shares of common stock outstanding.

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

(dollars in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest Income				
Interest and Fees on Loans and Leases	\$ 64,668	\$ 65,344	\$ 193,269	\$ 197,479
Income on Investment Securities				
Available-for-Sale	15,922	23,097	50,623	84,256
Held-to-Maturity	23,232	20,344	74,699	48,530
Deposits	3	6	6	6
Funds Sold	105	160	353	708
Other	283	279	844	837
Total Interest Income	104,213	109,230	319,794	331,816
Interest Expense				
Deposits	2,931	4,561	9,623	14,585
Securities Sold Under Agreements to Repurchase	7,185	7,400	21,739	21,779
Funds Purchased	7	4	17	15
Long-Term Debt	458	499	1,454	1,475
Total Interest Expense	10,581	12,464	32,833	37,854
Net Interest Income	93,632	96,766	286,961	293,962
Provision for Credit Losses	-	2,180	979	10,471
Net Interest Income After Provision for Credit Losses	93,632	94,586	285,982	283,491
Noninterest Income				
Trust and Asset Management	11,050	10,788	33,163	34,021
Mortgage Banking	11,745	5,480	24,376	11,263
Service Charges on Deposit Accounts	9,346	9,820	28,162	29,127
Fees, Exchange, and Other Service Charges	11,907	16,219	36,632	47,826
Investment Securities Gains (Losses), Net	13	-	(77)	6,084
Insurance	2,326	2,664	7,003	8,645
Other	5,987	5,892	18,045	17,282
Total Noninterest Income	52,374	50,863	147,304	154,248
Noninterest Expense				
Salaries and Benefits	47,231	44,307	138,292	137,889
Net Occupancy	10,524	11,113	31,098	31,916
Net Equipment	4,523	4,662	15,018	14,101
Professional Fees	2,494	2,245	7,012	6,697
FDIC Insurance	1,822	2,065	5,981	7,319
Other	18,284	19,563	53,431	65,889
Total Noninterest Expense	84,878	83,955	250,832	263,811
Income Before Provision for Income Taxes	61,128	61,494	182,454	173,928
Provision for Income Taxes	19,896	18,188	56,665	53,114
Net Income	\$ 41,232	\$ 43,306	\$ 125,789	\$ 120,814
Basic Earnings Per Share	\$ 0.92	\$ 0.93	\$ 2.78	\$ 2.55
Diluted Earnings Per Share	\$ 0.92	\$ 0.92	\$ 2.77	\$ 2.54
Dividends Declared Per Share	\$ 0.45	\$ 0.45	\$ 1.35	\$ 1.35
Basic Weighted Average Shares	44,913,348	46,806,439	45,280,541	47,358,049
Diluted Weighted Average Shares	45,050,638	46,934,140	45,421,624	47,531,066

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 (Unaudited)

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2012		2011		2012		2011	
(dollars in thousands)								
Net Income	\$	41,232	\$	43,306	\$	125,789	\$	120,814
Other Comprehensive Income, Net of Tax:								
Net Unrealized Gains on Investment Securities		9,770		18,611		6,703		18,376
Defined Benefit Plans		152		365		458		1,413
Other Comprehensive Income		9,922		18,976		7,161		19,789
Comprehensive Income	\$	51,154	\$	62,282	\$	132,950	\$	140,603

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

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

(dollars in thousands)	September 30, 2012	December 31, 2011
Assets		
Interest-Bearing Deposits	\$ 4,673	\$ 3,036
Funds Sold	251,664	512,384
Investment Securities		
Available-for-Sale	3,124,209	3,451,885
Held-to-Maturity (Fair Value of \$3,587,997 and \$3,754,206)	3,475,259	3,657,796
Loans Held for Sale	25,971	18,957
Loans and Leases	5,782,304	5,538,304
Allowance for Loan and Lease Losses	(130,971)	(138,606)
Net Loans and Leases	5,651,333	5,399,698
Total Earning Assets	12,533,109	13,043,756
Cash and Noninterest-Bearing Deposits	153,599	154,489
Premises and Equipment	107,144	103,550
Customers' Acceptances	242	476
Accrued Interest Receivable	47,192	43,510
Foreclosed Real Estate	3,067	3,042
Mortgage Servicing Rights	23,980	24,279
Goodwill	31,517	31,517
Other Assets	482,575	441,772
Total Assets	\$ 13,382,425	\$ 13,846,391
Liabilities		
Deposits		
Noninterest-Bearing Demand	\$ 2,985,561	\$ 2,850,923
Interest-Bearing Demand	2,034,319	2,005,983
Savings	4,480,733	4,398,638
Time	1,719,934	1,337,079
Total Deposits	11,220,547	10,592,623
Funds Purchased	10,942	10,791
Securities Sold Under Agreements to Repurchase	818,080	1,925,998
Long-Term Debt	28,065	30,696
Bankers' Acceptances	242	476
Retirement Benefits Payable	41,872	46,949
Accrued Interest Payable	5,997	5,330
Taxes Payable and Deferred Taxes	94,369	95,840
Other Liabilities	137,749	135,021
Total Liabilities	12,357,863	12,843,724
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2012 - 57,315,093 / 45,004,813 and December 31, 2011 - 57,134,470 / 45,947,116)	571	571
Capital Surplus	513,758	507,558
Accumulated Other Comprehensive Income	42,424	35,263
Retained Earnings	1,065,245	1,003,938
Treasury Stock, at Cost (Shares: September 30, 2012 - 12,310,280 and December 31, 2011 - 11,187,354)	(597,436)	(544,663)
Total Shareholders' Equity	1,024,562	1,002,667
Total Liabilities and Shareholders' Equity	\$ 13,382,425	\$ 13,846,391

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

Table of Contents**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	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2011	45,947,116	\$ 571	\$ 507,558	\$ 35,263	\$ 1,003,938	\$ (544,663)	\$ 1,002,667
Net Income	-	-	-	-	125,789	-	125,789
Other Comprehensive Income	-	-	-	7,161	-	-	7,161
Share-Based Compensation	-	-	5,687	-	-	-	5,687
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	471,104	-	513	-	(3,023)	13,472	10,962
Common Stock Repurchased	(1,413,407)	-	-	-	-	(66,245)	(66,245)
Cash Dividends Paid (\$1.35 per share)	-	-	-	-	(61,459)	-	(61,459)
Balance as of September 30, 2012	45,004,813	\$ 571	\$ 513,758	\$ 42,424	\$ 1,065,245	\$ (597,436)	\$ 1,024,562
Balance as of December 31, 2010	48,097,672	\$ 570	\$ 500,888	\$ 26,965	\$ 932,629	\$ (449,919)	\$ 1,011,133
Net Income	-	-	-	-	120,814	-	120,814
Other Comprehensive Income	-	-	-	19,789	-	-	19,789
Share-Based Compensation	-	-	2,001	-	-	-	2,001
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	309,108	1	366	-	(3,193)	13,303	10,477
Common Stock Repurchased	(1,836,367)	-	-	-	-	(82,391)	(82,391)
Cash Dividends Paid (\$1.35 per share)	-	-	-	-	(64,048)	-	(64,048)
Balance as of September 30, 2011	46,570,413	\$ 571	\$ 503,255	\$ 46,754	\$ 986,202	\$ (519,007)	\$ 1,017,775

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

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

(dollars in thousands)	Nine Months Ended September 30,	
	2012	2011
Operating Activities		
Net Income	\$ 125,789	\$ 120,814
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	979	10,471
Depreciation and Amortization	10,339	10,918
Amortization of Deferred Loan and Lease Fees	(2,493)	(1,986)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	42,633	35,899
Share-Based Compensation	5,687	2,001
Benefit Plan Contributions	(5,888)	(965)
Deferred Income Taxes	(16,793)	(8,277)
Net Gain on Sale of Proprietary Mutual Funds	-	(1,956)
Net Gains on Sales of Loans and Leases	(11,645)	(4,658)
Net Losses (Gains) on Investment Securities	77	(6,084)
Proceeds from Sales of Loans Held for Sale	369,481	334,883
Originations of Loans Held for Sale	(367,965)	(317,646)
Tax Benefits from Share-Based Compensation	(712)	(696)
Net Change in Other Assets and Other Liabilities	(24,094)	9,770
Net Cash Provided by Operating Activities	125,395	182,488
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	737,377	730,294
Proceeds from Sales	44,844	682,283
Purchases	(452,430)	(1,535,348)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	689,246	199,844
Purchases	(540,472)	(384,785)
Proceeds from Sale of Proprietary Mutual Funds	-	1,956
Net Change in Loans and Leases	(253,521)	(37,522)
Premises and Equipment, Net	(13,933)	(7,257)
Net Cash Provided by (Used in) Investing Activities	211,111	(350,535)
Financing Activities		
Net Change in Deposits	627,924	120,018
Net Change in Short-Term Borrowings	(1,107,767)	28,786
Tax Benefits from Share-Based Compensation	712	696
Proceeds from Issuance of Common Stock	10,356	9,919
Repurchase of Common Stock	(66,245)	(82,391)
Cash Dividends Paid	(61,459)	(64,048)
Net Cash Provided by (Used in) Financing Activities	(596,479)	12,980
Net Change in Cash and Cash Equivalents	(259,973)	(155,067)
Cash and Cash Equivalents at Beginning of Period	669,909	607,547
Cash and Cash Equivalents at End of Period	\$ 409,936	\$ 452,480
Supplemental Information		
Cash Paid for Interest	\$ 31,483	\$ 35,448
Cash Paid for Income Taxes	58,625	68,613
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	-	2,220,814
Transfer from Loans to Foreclosed Real Estate	3,230	2,067
Transfers from Loans to Loans Held for Sale	-	8,555

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

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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*) provide 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, 2011. 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, 2012.

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.

Securities Sold Under Agreements to Repurchase

In April 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The provisions of ASU No. 2011-03 modify the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The Company adopted the provisions of ASU No. 2011-03 prospectively for transactions or modifications of existing transactions that occurred on or after January 1, 2012. As the Company accounted for all of its repurchase agreements as collateralized financing arrangements prior to the adoption of ASU No. 2011-03, the adoption had no impact on the Company's Consolidated Financial Statements.

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Fair Value Measurements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The provisions of ASU No. 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been expanded for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012. The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company's statements of income and condition. See Note 12 to the Consolidated Financial Statements for the expanded disclosures required by ASU No. 2011-04.

Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Under either method, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU No. 2011-05 also eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 was effective for the Company's interim reporting period beginning on or after January 1, 2012, with retrospective application required. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The provisions of ASU No. 2011-12 defer indefinitely the requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU No. 2011-12, which shares the same effective date as ASU No. 2011-05, does not defer the requirement for entities to present components of comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the provisions of ASU No. 2011-05 and ASU No. 2011-12 which resulted in a new statement of comprehensive income for the interim period ended March 31, 2012. The adoption of ASU No. 2011-05 and ASU No. 2011-12 had no impact on the Company's statements of income and condition.

Future Application of Accounting Pronouncements

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In December 2011, the FASB issued 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 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. ASU No. 2011-11 is effective for interim and annual reporting periods beginning on or after January 1, 2013. As the provisions of ASU No. 2011-11 only impact the disclosure requirements related to the offsetting of assets and liabilities, the adoption will have no impact on the Company's statements of income and condition.

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In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. The provisions of ASU No. 2012-02 permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test, as is currently required by GAAP. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. As the Company does not have any indefinite-lived intangible assets, other than goodwill, the adoption of ASU No. 2012-02 is expected to have no impact on the Company's Consolidated Financial Statements.

Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of September 30, 2012 and December 31, 2011 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 990,957	\$ 15,193	\$ (4)	\$ 1,006,146
Debt Securities Issued by States and Political Subdivisions	682,054	32,990	(1)	715,043
Debt Securities Issued by Corporations	82,567	2,341	(10)	84,898
Mortgage-Backed Securities Issued by				
Government Agencies	1,241,154	35,876	(615)	1,276,415
U.S. Government-Sponsored Enterprises	39,327	2,380	-	41,707
Total Mortgage-Backed Securities	1,280,481	38,256	(615)	1,318,122
Total	\$ 3,036,059	\$ 88,780	\$ (630)	\$ 3,124,209
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 179,451	\$ 5,802	\$ -	\$ 185,253
Mortgage-Backed Securities Issued by				
Government Agencies	3,260,932	104,407	(22)	3,365,317
U.S. Government-Sponsored Enterprises	34,876	2,551	-	37,427
Total Mortgage-Backed Securities	3,295,808	106,958	(22)	3,402,744
Total	\$ 3,475,259	\$ 112,760	\$ (22)	\$ 3,587,997
December 31, 2011				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 1,220,282	\$ 11,204	\$ (468)	\$ 1,231,018
Debt Securities Issued by States and Political Subdivisions	391,276	15,783	-	407,059
Debt Securities Issued by Corporations	97,917	607	(2,137)	96,387
Mortgage-Backed Securities Issued by				
Government Agencies	1,618,913	38,066	(1,107)	1,655,872
U.S. Government-Sponsored Enterprises	58,548	3,001	-	61,549
Total Mortgage-Backed Securities	1,677,461	41,067	(1,107)	1,717,421
Total	\$ 3,386,936	\$ 68,661	\$ (3,712)	\$ 3,451,885
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 179,474	\$ 6,704	\$ -	\$ 186,178
Mortgage-Backed Securities Issued by				
Government Agencies	3,429,038	89,801	(2,918)	3,515,921
U.S. Government-Sponsored Enterprises	49,284	2,823	-	52,107
Total Mortgage-Backed Securities	3,478,322	92,624	(2,918)	3,568,028
Total	\$ 3,657,796	\$ 99,328	\$ (2,918)	\$ 3,754,206

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of September 30, 2012. 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	\$	515,969	\$	517,705
Due After One Year Through Five Years		234,406		242,906
Due After Five Years Through Ten Years		302,891		315,529
Due After Ten Years		702,312		729,947
		1,755,578		1,806,087
Mortgage-Backed Securities Issued by				
Government Agencies		1,241,154		1,276,415
U.S. Government-Sponsored Enterprises		39,327		41,707
Total Mortgage-Backed Securities		1,280,481		1,318,122
Total	\$	3,036,059	\$	3,124,209
Held-to-Maturity:				
Due After One Year Through Five Years	\$	179,451	\$	185,253
Mortgage-Backed Securities Issued by				
Government Agencies		3,260,932		3,365,317
U.S. Government-Sponsored Enterprises		34,876		37,427
Total Mortgage-Backed Securities		3,295,808		3,402,744
Total	\$	3,475,259	\$	3,587,997

Investment securities with carrying values of \$2.9 billion and \$3.6 billion as of September 30, 2012 and December 31, 2011, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase. As of September 30, 2012 and December 31, 2011, the Company did not have any investment securities pledged where the secured party had the right to sell or repledge the collateral.

Gross realized gains were less than \$0.1 million and there were no gross realized losses on the sales of investment securities for the three months ended September 30, 2012. There were no sales of investment securities for the three months ended September 30, 2011. Gross realized gains on the sales of investment securities were \$0.3 million and \$10.3 million for the nine months ended September 30, 2012 and 2011, respectively. Gross realized losses on the sales of investment securities were \$0.3 million and \$4.2 million for the nine months ended September 30, 2012 and 2011, respectively.

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
September 30, 2012						
Debt Securities Issued by						
the U.S. Treasury and Government Agencies	\$ 260	\$ (1)	\$ 626	\$ (3)	\$ 886	\$ (4)
Debt Securities Issued by States and Political Subdivisions	100	(1)	-	-	100	(1)
Debt Securities Issued by Corporations	-	-	9,990	(10)	9,990	(10)

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Mortgage-Backed Securities Issued by Government Agencies	57,368	(533)	12,663	(104)	70,031	(637)
Total	\$ 57,728	\$ (535)	\$ 23,279	\$ (117)	\$ 81,007	\$ (652)

December 31, 2011

Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 127,644	\$ (464)	\$ 920	\$ (4)	\$ 128,564	\$ (468)
Debt Securities Issued by Corporations	38,059	(2,137)	-	-	38,059	(2,137)
Mortgage-Backed Securities Issued by Government Agencies	727,726	(3,751)	34,824	(274)	762,550	(4,025)
Total	\$ 893,429	\$ (6,352)	\$ 35,744	\$ (278)	\$ 929,173	\$ (6,630)

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The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2012, which was comprised of 18 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. 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 September 30, 2012 and December 31, 2011, the gross unrealized losses reported for mortgage-backed securities were attributable related to investment securities issued by the Government National Mortgage Association.

As of September 30, 2012, the carrying value of the Company's Federal Home Loan Bank and Federal Reserve Bank stock was \$60.7 million and \$18.8 million, respectively. 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 September 30, 2012 and December 31, 2011:

(dollars in thousands)	September 30, 2012	December 31, 2011
Commercial		
Commercial and Industrial	\$ 808,621	\$ 817,170
Commercial Mortgage	1,039,556	938,250
Construction	101,818	98,669
Lease Financing	277,328	311,928
Total Commercial	2,227,323	2,166,017
Consumer		
Residential Mortgage	2,392,871	2,215,892
Home Equity	770,284	780,691
Automobile	200,788	192,506
Other 1	191,038	183,198
Total Consumer	3,554,981	3,372,287
Total Loans and Leases	\$ 5,782,304	\$ 5,538,304

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

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The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2012 and 2011. 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 September 30, 2012 and 2011.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$ 78,012	\$ 54,431	\$ 132,443
Loans and Leases Charged-Off	(519)	(4,515)	(5,034)
Recoveries on Loans and Leases Previously Charged-Off	678	2,884	3,562
Net Loans and Leases Charged-Off	159	(1,631)	(1,472)
Provision for Credit Losses	1,647	(1,647)	-
Balance at End of Period	\$ 79,818	\$ 51,153	\$ 130,971
Nine Months Ended September 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$ 80,562	\$ 58,044	\$ 138,606
Loans and Leases Charged-Off	(3,358)	(15,371)	(18,729)
Recoveries on Loans and Leases Previously Charged-Off	3,252	6,863	10,115
Net Loans and Leases Charged-Off	(106)	(8,508)	(8,614)
Provision for Credit Losses	(638)	1,617	979
Balance at End of Period	\$ 79,818	\$ 51,153	\$ 130,971
As of September 30, 2012			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$ 39	\$ 3,244	\$ 3,283
Collectively Evaluated for Impairment	79,779	47,909	127,688
Total	\$ 79,818	\$ 51,153	\$ 130,971
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$ 13,119	\$ 34,889	\$ 48,008
Collectively Evaluated for Impairment	2,214,204	3,520,092	5,734,296
Total	\$ 2,227,323	\$ 3,554,981	\$ 5,782,304
Three Months Ended September 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$ 88,985	\$ 55,991	\$ 144,976
Loans and Leases Charged-Off	(4,215)	(6,556)	(10,771)
Recoveries on Loans and Leases Previously Charged-Off	4,929	2,096	7,025
Net Loans and Leases Charged-Off	714	(4,460)	(3,746)
Provision for Credit Losses	(7,024)	9,204	2,180
Balance at End of Period	\$ 82,675	\$ 60,735	\$ 143,410
Nine Months Ended September 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$ 80,977	\$ 66,381	\$ 147,358
Loans and Leases Charged-Off	(7,379)	(19,773)	(27,152)
Recoveries on Loans and Leases Previously Charged-Off	5,994	6,739	12,733
Net Loans and Leases Charged-Off	(1,385)	(13,034)	(14,419)
Provision for Credit Losses	3,083	7,388	10,471
Balance at End of Period	\$ 82,675	\$ 60,735	\$ 143,410
As of September 30, 2011			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$ -	\$ 4,179	\$ 4,179
Collectively Evaluated for Impairment	82,675	56,556	139,231
Total	\$ 82,675	\$ 60,735	\$ 143,410
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$ 8,602	\$ 26,400	\$ 35,002
Collectively Evaluated for Impairment	2,085,561	3,227,909	5,313,470

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Total	\$	2,094,163	\$	3,254,309	\$	5,348,472
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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:

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

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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 September 30, 2012 and December 31, 2011.

							September 30, 2012				
(dollars in thousands)		Commercial and Industrial		Commercial Mortgage		Construction		Lease Financing		Total Commercial	
Pass	\$	752,688	\$	956,582	\$	86,050	\$	249,734	\$	2,045,054	
Special Mention		23,640		30,851		11,684		26,282		92,457	
Classified		32,293		52,123		4,084		1,312		89,812	
Total	\$	808,621	\$	1,039,556	\$	101,818	\$	277,328	\$	2,227,323	
(dollars in thousands)		Residential Mortgage		Home Equity		Automobile		Other 1		Total Consumer	
Pass	\$	2,367,353	\$	766,462	\$	200,634	\$	190,459	\$	3,524,908	
Classified		25,518		3,822		154		579		30,073	
Total	\$	2,392,871	\$	770,284	\$	200,788	\$	191,038	\$	3,554,981	
Total Recorded Investment in Loans and Leases									\$	5,782,304	

							December 31, 2011				
(dollars in thousands)		Commercial and Industrial		Commercial Mortgage		Construction		Lease Financing		Total Commercial	
Pass	\$	765,339	\$	859,891	\$	83,722	\$	282,081	\$	1,991,033	
Special Mention		30,316		43,805		370		26,257		100,748	
Classified		21,515		34,554		14,577		3,590		74,236	
Total	\$	817,170	\$	938,250	\$	98,669	\$	311,928	\$	2,166,017	
(dollars in thousands)		Residential Mortgage		Home Equity		Automobile		Other 1		Total Consumer	
Pass	\$	2,186,063	\$	776,473	\$	192,336	\$	182,431	\$	3,337,303	
Classified		29,829		4,218		170		767		34,984	
Total	\$	2,215,892	\$	780,691	\$	192,506	\$	183,198	\$	3,372,287	
Total Recorded Investment in Loans and Leases									\$	5,538,304	

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

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

The following presents by class, an aging analysis of the Company's accruing and non-accruing loans and leases as of September 30, 2012 and December 31, 2011.

(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 September 30, 2012								
Commercial								
Commercial and Industrial	\$ 1,197	\$ 1,342	\$ -	\$ 5,635	\$ 8,174	\$ 800,447	\$ 808,621	\$ 5,014
Commercial Mortgage	-	542	-	2,671	3,213	1,036,343	1,039,556	2,446
Construction	-	-	-	953	953	100,865	101,818	953
Lease Financing	-	-	-	-	-	277,328	277,328	-
Total Commercial	1,197	1,884	-	9,259	12,340	2,214,983	2,227,323	8,413
Consumer								
Residential Mortgage	10,123	5,221	3,988	25,456	44,788	2,348,083	2,392,871	5,202
Home Equity	4,012	2,293	2,755	2,502	11,562	758,722	770,284	477
Automobile	3,412	541	154	-	4,107	196,681	200,788	-
Other ¹	2,029	1,192	578	-	3,799	187,239	191,038	-
Total Consumer	19,576	9,247	7,475	27,958	64,256	3,490,725	3,554,981	5,679
Total	\$ 20,773	\$ 11,131	\$ 7,475	\$ 37,217	\$ 76,596	\$ 5,705,708	\$ 5,782,304	\$ 14,092
As of December 31, 2011								
Commercial								
Commercial and Industrial	\$ 2,959	\$ 743	\$ 1	\$ 6,243	\$ 9,946	\$ 807,224	\$ 817,170	\$ 5,661
Commercial Mortgage	678	-	-	2,140	2,818	935,432	938,250	959
Construction	-	-	-	2,080	2,080	96,589	98,669	-
Lease Financing	-	-	-	5	5	311,923	311,928	5
Total Commercial	3,637	743	1	10,468	14,849	2,151,168	2,166,017	6,625
Consumer								
Residential Mortgage	8,878	9,258	6,422	25,256	49,814	2,166,078	2,215,892	1,856
Home Equity	5,310	2,694	2,194	2,024	12,222	768,469	780,691	97
Automobile	4,095	839	170	-	5,104	187,402	192,506	-
Other ¹	1,679	1,528	435	-	3,642	179,556	183,198	-
Total Consumer	19,962	14,319	9,221	27,280	70,782	3,301,505	3,372,287	1,953
Total	\$ 23,599	\$ 15,062	\$ 9,222	\$ 37,748	\$ 85,631	\$ 5,452,673	\$ 5,538,304	\$ 8,578

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.

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The following presents by class, information related to the Company's impaired loans as of September 30, 2012 and December 31, 2011.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2012			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$ 8,496	\$ 13,746	\$ -
Commercial Mortgage	2,963	3,463	-
Construction	953	1,283	-
Total Commercial	12,412	18,492	-
Total Impaired Loans with No Related Allowance Recorded	\$ 12,412	\$ 18,492	\$ -
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$ 707	\$ 707	\$ 39
Total Commercial	707	707	39
Consumer			
Residential Mortgage	28,983	35,166	3,195
Automobile	5,621	5,621	31
Other 1	285	285	18
Total Consumer	34,889	41,072	3,244
Total Impaired Loans with an Allowance Recorded	\$ 35,596	\$ 41,779	\$ 3,283
Impaired Loans:			
Commercial	\$ 13,119	\$ 19,199	\$ 39
Consumer	34,889	41,072	3,244
Total Impaired Loans	\$ 48,008	\$ 60,271	\$ 3,283
December 31, 2011			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$ 6,176	\$ 13,526	\$ -
Commercial Mortgage	2,140	2,640	-
Total Commercial	8,316	16,166	-
Total Impaired Loans with No Related Allowance Recorded	\$ 8,316	\$ 16,166	\$ -
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$ 4,447	\$ 4,447	\$ 846
Commercial Mortgage	292	292	19
Construction	2,080	2,080	330
Total Commercial	6,819	6,819	1,195
Consumer			
Residential Mortgage	25,726	30,606	4,138
Home Equity	21	21	1
Automobile	6,190	6,190	75
Other 1	528	528	42
Total Consumer	32,465	37,345	4,256
Total Impaired Loans with an Allowance Recorded	\$ 39,284	\$ 44,164	\$ 5,451
Impaired Loans:			
Commercial	\$ 15,135	\$ 22,985	\$ 1,195
Consumer	32,465	37,345	4,256
Total Impaired Loans	\$ 47,600	\$ 60,330	\$ 5,451

1 Comprised of other revolving credit and installment financing.

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2012 and 2011.

(dollars in thousands)	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 8,765	\$ -	\$ 4,019	\$ -
Commercial Mortgage	2,996	-	2,693	-
Construction	1,068	-	144	-
Total Commercial	12,829	-	6,856	-
Total Impaired Loans with No Related Allowance Recorded	\$ 12,829	\$ -	\$ 6,856	\$ -
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 797	\$ 26	\$ 3,030	\$ 27
Commercial Mortgage	-	4	311	1
Total Commercial	797	30	3,341	28
Consumer				
Residential Mortgage	27,826	97	25,374	78
Home Equity	-	-	21	-
Automobile	5,675	140	5,837	150
Other 1	287	4	601	8
Total Consumer	33,788	241	31,833	236
Total Impaired Loans with an Allowance Recorded	\$ 34,585	\$ 271	\$ 35,174	\$ 264
Impaired Loans:				
Commercial	\$ 13,626	\$ 30	\$ 10,197	\$ 28
Consumer	33,788	241	31,833	236
Total Impaired Loans	\$ 47,414	\$ 271	\$ 42,030	\$ 264

(dollars in thousands)	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 8,215	\$ -	\$ 2,665	\$ -
Commercial Mortgage	2,561	-	3,022	-
Construction	904	-	192	-
Total Commercial	11,680	-	5,879	-
Total Impaired Loans with No Related Allowance Recorded	\$ 11,680	\$ -	\$ 5,879	\$ -
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 1,748	\$ 90	\$ 3,873	\$ 116
Commercial Mortgage	146	12	351	10
Construction	520	-	96	-
Total Commercial	2,414	102	4,320	126
Consumer				
Residential Mortgage	26,244	254	23,662	252
Home Equity	5	-	21	-
Automobile	5,854	443	5,841	438

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Other 1	404	14	513	22
Total Consumer	32,507	711	30,037	712
Total Impaired Loans with an Allowance Recorded	\$ 34,921	\$ 813	\$ 34,357	\$ 838

Impaired Loans:

Commercial	\$ 14,094	\$ 102	\$ 10,199	\$ 126
Consumer	32,507	711	30,037	712
Total Impaired Loans	\$ 46,601	\$ 813	\$ 40,236	\$ 838

1 Comprised of other revolving credit and installment financing.

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For the three and nine months ended September 30, 2012 and 2011, the amount of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2012 and 2011, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring (TDR) when the Company for economic or legal reasons related to a borrower s financial difficulties grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were \$41.3 million and \$38.8 million as of September 30, 2012 and December 31, 2011, respectively. There were no commitments to lend additional funds on loans modified in a TDR as of September 30, 2012.

The Company offers various types of concessions when modifying a loan or lease, however, forgiveness of principal is rarely granted. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Lease financing modifications generally involve a short-term forbearance period, usually about three months, after which the missed payments are added to the end of the lease term, thereby extending the maturity date. Interest continues to accrue on the missed payments and as a result, the effective yield on the lease remains unchanged. As the forbearance period usually involves an insignificant payment delay, lease financing modifications typically do not meet the reporting criteria for a TDR. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally two years. During that time, the borrower s entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loans modified in a TDR typically involve extending the balloon payment by one to three years, changing the monthly payments from interest-only to principal and interest, while leaving the interest rate unchanged. Home equity modifications are made infrequently and are offered to borrowers if the Company does not hold the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Borrowers having both a first mortgage and home equity loan with the Company are offered a residential mortgage loan modification. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

Loans modified in a TDR are typically already on non-accrual status and partial charge-offs have in some cases already been taken against the outstanding loan balance. As a result, loans modified in a TDR may have the financial effect of increasing the specific Allowance associated with the loan. An Allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2012.

Loans Modified as a TDR for the

Loans Modified as a TDR for the

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Troubled Debt Restructurings 1 (dollars in thousands)	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Construction	-	\$ -	\$ -	1	\$ 953	\$ -
Total Commercial	-	-	-	1	953	-
Consumer						
Residential Mortgage	6	2,757	513	11	7,106	957
Automobile	60	635	3	146	1,516	8
Total Consumer	66	3,392	516	157	8,622	965
Total	66	\$ 3,392	\$ 516	158	\$ 9,575	\$ 965

1 The period end balances reflect all paydowns and charge-offs since the modification date. TDRs fully paid off, charged-off, or foreclosed upon by period end are not included.

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The following presents by class, all loans modified in a TDR that defaulted during the three and nine months ended September 30, 2012, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Number of Contracts	Recorded Investment (as of period end) ¹	Number of Contracts	Recorded Investment (as of period end) ¹
Consumer				
Residential Mortgage	-	\$ -	2	\$ 702
Automobile	3	6	6	32
Total Consumer	3	6	8	734
Total	3	\$ 6	8	\$ 734

¹ The period end balances reflect all paydowns and charge-offs since the modification date. TDRs fully paid off, charged-off, or foreclosed upon by period end are not included.

There were no residential mortgage loans modified in a TDR that subsequently defaulted during the three months ended September 30, 2012. Of the two residential mortgage loans modified in a TDR that subsequently defaulted during the nine months ended September 30, 2012, one was modified by temporarily lowering monthly payments and applying all payments during this time to principal. The other residential mortgage loan in default pertained to a land loan which was modified from an interest-only loan to an amortizing loan, while granting a brief extension on the balloon payment. The automobile loans modified in a TDR that subsequently defaulted were primarily modified by lowering monthly payments by extending the term.

Commercial and consumer loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. The specific Allowance associated with the loan may be increased, adjustments may be made in the allocation of the Allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

Note 4. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was \$3.1 billion and \$3.2 billion as of September 30, 2012 and December 31, 2011, respectively. Generally, the Company's residential mortgage loans sold to third parties are sold on a non-recourse basis. The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$2.0 million and \$2.2 million for the three months ended September 30, 2012 and 2011, respectively, and \$6.0 million and \$6.3 million for the nine months ended September 30, 2012 and 2011, respectively. Servicing income is recorded as a component of mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

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For the three and nine months ended September 30, 2012 and 2011, the change in the carrying value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance at Beginning of Period	\$ 5,459	\$ 8,852	\$ 7,131	\$ 10,226
Change in Fair Value:				
Due to Change in Valuation Assumptions 1	(5)	(1,162)	(886)	(1,649)
Due to Payoffs	(338)	(257)	(1,129)	(1,144)
Total Changes in Fair Value of Mortgage Servicing Rights	(343)	(1,419)	(2,015)	(2,793)
Balance at End of Period	\$ 5,116	\$ 7,433	\$ 5,116	\$ 7,433

1 Principally represents changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.

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For the three and nine months ended September 30, 2012 and 2011, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method was as follows:

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Balance at Beginning of Period	\$ 17,795	\$ 16,220	\$ 17,148	\$ 15,153
Servicing Rights that Resulted From Asset Transfers	1,747	976	3,716	2,938
Amortization	(678)	(639)	(2,000)	(1,534)
Balance at End of Period	\$ 18,864	\$ 16,557	\$ 18,864	\$ 16,557
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method				
Beginning of Period	\$ 18,937	\$ 21,483	\$ 17,159	\$ 20,340
End of Period	\$ 20,241	\$ 17,156	\$ 20,241	\$ 17,156

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
Weighted-Average Constant Prepayment Rate 1	13.74%	15.56%
Weighted-Average Life (in years)	5.65	5.03
Weighted-Average Note Rate	4.69%	4.87%
Weighted-Average Discount Rate 2	5.54%	6.31%

1 Represents annualized loan repayment rate assumption.

2 Derived from multiple interest rate scenarios that incorporate a spread to the London Interbank Offered Rate swap curve and market volatilities.

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of September 30, 2012 and December 31, 2011 is presented in the following table.

(dollars in thousands)	September 30, 2012	December 31, 2011
Constant Prepayment Rate		
Decrease in fair value from 25 basis points (bps) adverse change	\$ (333)	\$ (295)
Decrease in fair value from 50 bps adverse change	(657)	(582)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(386)	(331)
Decrease in fair value from 50 bps adverse change	(760)	(652)

This analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's mortgage servicing rights usually is not linear. Also, the effect of changing one key assumption without changing other assumptions is not realistic.

Table of Contents**Note 5. Securities Sold Under Agreements to Repurchase**

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts and are delivered to and held as collateral by third party trustees.

As of September 30, 2012, the contractual maturities of the Company's securities sold under agreements to repurchase were as follows:

(dollars in thousands)	Amount
Overnight	\$ -
2 to 30 Days	41,631
31 to 90 Days	13,599
Over 90 Days	762,850
Total	\$ 818,080

Table of Contents**Note 6. Other Comprehensive Income**

The following table presents the components of other comprehensive income for the three and nine months ended September 30, 2012 and 2011:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2012			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 20,129	\$ 7,893	\$ 12,236
Less: Reclassification Adjustment for Gains Realized in Net Income	(4,099)	(1,633)	(2,466)
Net Unrealized Gains on Investment Securities	16,030	6,260	9,770
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	251	99	152
Defined Benefit Plans, Net	251	99	152
Other Comprehensive Income	\$ 16,281	\$ 6,359	\$ 9,922
Three Months Ended September 30, 2011			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 32,184	\$ 12,677	\$ 19,507
Less: Reclassification Adjustment for Gains Realized in Net Income	(1,508)	(612)	(896)
Net Unrealized Gains on Investment Securities	30,676	12,065	18,611
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	777	412	365
Defined Benefit Plans, Net	777	412	365
Other Comprehensive Income	\$ 31,453	\$ 12,477	\$ 18,976
Nine Months Ended September 30, 2012			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 23,125	\$ 9,111	\$ 14,014
Less: Reclassification Adjustment for Gains Realized in Net Income	(12,062)	(4,751)	(7,311)
Net Unrealized Gains on Investment Securities	11,063	4,360	6,703
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	756	298	458
Defined Benefit Plans, Net	756	298	458
Other Comprehensive Income	\$ 11,819	\$ 4,658	\$ 7,161
Nine Months Ended September 30, 2011			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 40,003	\$ 15,784	\$ 24,219
Less: Reclassification Adjustment for Gains Realized in Net Income	(9,640)	(3,797)	(5,843)
Net Unrealized Gains on Investment Securities	30,363	11,987	18,376
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	2,331	918	1,413
Defined Benefit Plans, Net	2,331	918	1,413
Other Comprehensive Income	\$ 32,694	\$ 12,905	\$ 19,789

Table of Contents**Note 7. Earnings Per Share**

There were no adjustments to net income, the numerator, for purposes of computing earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Denominator for Basic Earnings Per Share	44,913,348	46,806,439	45,280,541	47,358,049
Dilutive Effect of Stock Options	99,270	110,617	115,516	156,226
Dilutive Effect of Restricted Stock	38,020	17,084	25,567	16,791
Denominator for Diluted Earnings Per Share	45,050,638	46,934,140	45,421,624	47,531,066
Antidilutive Shares Outstanding	529,050	253,052	529,050	217,209

Note 8. Business Segments

The Company's business segments are defined as Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. The Company's internal management accounting process measures the performance of the business segments based on the management structure of the Company. This process, which is not necessarily comparable with similar information for any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the provision for credit losses, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive authoritative guidance for management accounting that is equivalent to GAAP. Previously reported results have been reclassified to conform to the current organizational reporting structure.

The net interest income of the business segments reflects the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics and reflects the allocation of net interest income related to the Company's overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of the Company's assumptions that are subject to change based on changes in current interest rates and market conditions. Funds transfer pricing also serves to transfer interest rate risk to Treasury. However, the other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines.

The provision for credit losses reflects the actual net charge-offs of the business segments. This may be adjusted periodically for changes in the risk profile of the business segment. The amount of the consolidated provision for loan and lease losses is based on the methodology that we use to estimate our consolidated Allowance. The residual provision for credit losses to arrive at the consolidated provision for credit losses is included in Treasury and Other.

Implicit in noninterest income and expense are allocations from support units to business units. These allocations are based on actual usage where practicably calculated or by management's estimate of such usage.

The provision for income taxes is allocated to business segments using a 37% effective tax rate, with the exception of our Leasing business unit which is assigned its actual effective tax rate due to the unique relationship that income taxes have with their leasing products. The residual income tax expense or benefit to arrive at the consolidated effective tax rate is included in Treasury and Other.

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, installment loans, and small business loans and leases. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers retail life insurance products. Products and services from Retail Banking are delivered to customers through 66 Hawaii branch locations, 495 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

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Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, and deposit products. Commercial lending and deposit products are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders predominantly domiciled in Hawaii. Commercial Banking also includes international banking and operations at the Bank's 11 branches in the Pacific Islands and also provides merchant services to its small business customers.

Investment Services

Investment Services includes private banking, trust services, investment management, and institutional investment advisory services. A significant portion of this segment's income is derived from fees, which are generally based on the market values of assets under management. The private banking and personal trust group assists individuals and families in building and preserving their wealth by providing investment, credit, and trust services to high-net-worth individuals. The investment management group manages portfolios and creates investment products. Institutional client services offer investment advice to corporations, government entities, and foundations. This segment also provides a full service brokerage offering equities, mutual funds, life insurance, and annuity products.

Treasury and Other

Treasury consists of corporate asset and liability management activities, including interest rate risk management and a foreign currency exchange business. This segment's assets and liabilities (and related interest income and expense) consist of interest-bearing deposits, investment securities, federal funds sold and purchased, government deposits, and short and long-term borrowings. The primary sources of noninterest income are from bank-owned life insurance, net gains from the sale of investment securities, and foreign exchange income related to customer-driven currency requests from merchants and island visitors. The net residual effect of the transfer pricing of assets and liabilities is included in Treasury, along with the elimination of intercompany transactions.

Other organizational units (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) provide a wide-range of support to the Company's other income earning segments. Expenses incurred by these support units are charged to the business segments through an internal cost allocation process.

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Selected business segment financial information as of and for the three and nine months ended September 30, 2012 and 2011 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury and Other	Consolidated Total
Three Months Ended September 30, 2012					
Net Interest Income	\$ 38,530	\$ 30,811	\$ 3,607	\$ 20,684	\$ 93,632
Provision for Credit Losses	1,677	(180)	(24)	(1,473)	-
Net Interest Income After Provision for Credit Losses	36,853	30,991	3,631	22,157	93,632
Noninterest Income	24,918	8,687	15,350	3,419	52,374
Noninterest Expense	(45,454)	(22,120)	(14,519)	(2,785)	(84,878)
Income Before Provision for Income Taxes	16,317	17,558	4,462	22,791	61,128
Provision for Income Taxes	(6,038)	(6,051)	(1,651)	(6,156)	(19,896)
Net Income	\$ 10,279	\$ 11,507	\$ 2,811	\$ 16,635	\$ 41,232
Total Assets as of September 30, 2012	\$ 3,242,817	\$ 2,397,307	\$ 321,273	\$ 7,421,028	\$ 13,382,425
Three Months Ended September 30, 2011					
Net Interest Income	\$ 43,334	\$ 33,935	\$ 3,698	\$ 15,799	\$ 96,766
Provision for Credit Losses	4,477	(935)	205	(1,567)	2,180
Net Interest Income After Provision for Credit Losses	38,857	34,870	3,493	17,366	94,586
Noninterest Income	24,677	9,426	15,971	789	50,863
Noninterest Expense	(45,026)	(22,626)	(14,615)	(1,688)	(83,955)
Income Before Provision for Income Taxes	18,508	21,670	4,849	16,467	61,494
Provision for Income Taxes	(6,848)	(7,468)	(1,794)	(2,078)	(18,188)
Net Income	\$ 11,660	\$ 14,202	\$ 3,055	\$ 14,389	\$ 43,306
Total Assets as of September 30, 2011	\$ 3,050,418	\$ 2,249,890	\$ 212,914	\$ 7,791,536	\$ 13,304,758
Nine Months Ended September 30, 2012					
Net Interest Income	\$ 117,179	\$ 93,069	\$ 10,738	\$ 65,975	\$ 286,961
Provision for Credit Losses	9,041	(691)	265	(7,636)	979
Net Interest Income After Provision for Credit Losses	108,138	93,760	10,473	73,611	285,982
Noninterest Income	65,443	28,816	44,482	8,563	147,304
Noninterest Expense	(133,758)	(67,247)	(43,524)	(6,303)	(250,832)
Income Before Provision for Income Taxes	39,823	55,329	11,431	75,871	182,454
Provision for Income Taxes	(14,735)	(15,103)	(4,229)	(22,598)	(56,665)
Net Income	\$ 25,088	\$ 40,226	\$ 7,202	\$ 53,273	\$ 125,789
Total Assets as of September 30, 2012	\$ 3,242,817	\$ 2,397,307	\$ 321,273	\$ 7,421,028	\$ 13,382,425
Nine Months Ended September 30, 2011					
Net Interest Income	\$ 131,648	\$ 103,624	\$ 11,353	\$ 47,337	\$ 293,962
Provision for Credit Losses	15,105	(726)	65	(3,973)	10,471
Net Interest Income After Provision for Credit Losses	116,543	104,350	11,288	51,310	283,491
Noninterest Income	66,494	28,224	46,256	13,274	154,248
Noninterest Expense	(141,114)	(71,363)	(45,062)	(6,272)	(263,811)
Income Before Provision for Income Taxes	41,923	61,211	12,482	58,312	173,928
Provision for Income Taxes	(15,512)	(21,215)	(4,618)	(11,769)	(53,114)
Net Income	\$ 26,411	\$ 39,996	\$ 7,864	\$ 46,543	\$ 120,814
Total Assets as of September 30, 2011	\$ 3,050,418	\$ 2,249,890	\$ 212,914	\$ 7,791,536	\$ 13,304,758

Table of Contents**Note 9. Pension Plans and Postretirement Benefit Plan**

Components of net periodic benefit cost for the Company's pension plans and the postretirement benefit plan are presented in the following table for the three and nine months ended September 30, 2012 and 2011.

(dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Three Months Ended September 30,				
Service Cost	\$ -	\$ -	\$ 145	\$ 123
Interest Cost	1,263	1,305	319	359
Expected Return on Plan Assets	(1,354)	(1,612)	-	-
Amortization of:				
Prior Service Credit	-	-	(80)	(53)
Net Actuarial Losses	331	830	-	-
Net Periodic Benefit Cost	\$ 240	\$ 523	\$ 384	\$ 429
Nine Months Ended September 30,				
Service Cost	\$ -	\$ -	\$ 435	\$ 369
Interest Cost	3,789	3,914	958	1,078
Expected Return on Plan Assets	(4,371)	(4,837)	-	-
Amortization of:				
Prior Service Credit	-	-	(242)	(160)
Net Actuarial Losses (Gains)	998	2,492	-	(1)
Net Periodic Benefit Cost	\$ 416	\$ 1,569	\$ 1,151	\$ 1,286

The net periodic benefit cost for the Company's pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the consolidated statements of income. For the three and nine months ended September 30, 2012, the Company contributed \$0.1 million and \$5.4 million, respectively, to the pension plans and \$0.2 million and \$0.5 million, respectively, to the postretirement benefit plan. The Company expects to contribute \$5.5 million to the pension plans and \$1.3 million to the postretirement benefit plan for the year ending December 31, 2012.

Note 10. Derivative Financial Instruments

The following table presents the Company's derivative financial instruments, their fair values, and balance sheet location as of September 30, 2012 and December 31, 2011:

Derivative Financial Instruments Not Designated as Hedging Instruments ¹ (dollars in thousands)	September 30, 2012		December 31, 2011	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Interest Rate Lock Commitments	\$ 13,037	\$ -	\$ 2,344	\$ 10
Forward Commitments	53	3,331	8	946
Interest Rate Swap Agreements	34,991	35,260	35,503	35,779
Foreign Exchange Contracts	57	58	230	97
Total	\$ 48,138	\$ 38,649	\$ 38,085	\$ 36,832

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1 Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the consolidated statements of condition.

The following table presents the Company's derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income for the three and nine months ended September 30, 2012 and 2011:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses) Recognized in the Statement of Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Interest Rate Lock Commitments	Mortgage Banking	\$ 15,219	\$ 8,809	\$ 28,286	\$ 12,197
Forward Commitments	Mortgage Banking	(2,132)	(4,206)	(3,894)	(4,311)
Interest Rate Swap Agreements	Other Noninterest Income	2	(67)	7	300
Foreign Exchange Contracts	Other Noninterest Income	852	717	2,432	2,357
Total		\$ 13,941	\$ 5,253	\$ 26,831	\$ 10,543

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Management has received authorization from the Bank's Board of Directors to use derivative financial instruments as an end-user in connection with its risk management activities and to accommodate the needs of its customers. As with any financial instrument, derivative financial instruments have inherent risks. Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates, and equity prices. Market risks associated with derivative financial instruments are balanced with the expected returns to enhance earnings performance and shareholder value, while limiting the volatility of each. The Company uses various processes to monitor its overall market risk exposure, including sensitivity analysis, value-at-risk calculations, and other methodologies.

Derivative financial instruments are also subject to credit and counterparty risk, which is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with the underlying contractual terms. Credit and counterparty risks associated with derivative financial instruments are similar to those relating to traditional financial instruments. The Company manages derivative credit and counterparty risk by evaluating the creditworthiness of each borrower or counterparty, adhering to the same credit approval process used for commercial lending activities.

Derivative financial instruments are required to be carried at their fair value on the Company's consolidated statements of condition. As of September 30, 2012 and December 31, 2011, the Company did not designate any derivative financial instruments in formal hedging relationships. The Company's free-standing derivative financial instruments have been recorded at fair value on the Company's consolidated statements of condition. These financial instruments have been limited to interest rate lock commitments (IRLCs), forward commitments, interest rate swap agreements, and foreign exchange contracts.

The Company enters IRLCs for residential mortgage loans which commit us to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To mitigate this risk, the Company utilizes forward commitments as economic hedges against the potential decreases in the values of the loans held for sale. The IRLCs and forward commitments are free-standing derivatives which are carried at fair value with changes recorded in the mortgage banking component of noninterest income in the Company's consolidated statements of income. Changes in the fair value of IRLCs and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates this risk by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions. The interest rate swap agreements are free-standing derivatives which are carried at fair value with changes included in other noninterest income in the Company's consolidated statements of income. The Company is party to master netting arrangements with its institutional counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of marketable securities, is posted by the counterparty with liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling \$35.3 million and \$35.8 million as of September 30, 2012 and December 31, 2011, respectively. The collateral posted by the Company for these net liability positions was \$3.4 million and \$3.6 million as of September 30, 2012 and December 31, 2011, respectively.

The Company's interest rate swap agreements with institutional counterparties contain credit-risk-related contingent features tied to the Company's debt ratings or capitalization levels. Under these provisions, if the Company's debt rating falls below investment grade or if the Company's capitalization levels fall below stipulated thresholds, certain counterparties may require immediate and ongoing collateralization on interest rate swaps in net liability positions, or may require immediate settlement of the contracts. As of September 30, 2012, the Company's

debt ratings and capital levels were in excess of these minimum requirements.

The Company utilizes foreign exchange contracts to offset risks related to transactions executed on behalf of customers. The foreign exchange contracts are free-standing derivatives which are carried at fair value with changes included in other noninterest income in the Company's consolidated statements of income.

Table of Contents**Note 11. Credit Commitments**

The Company's credit commitments as of September 30, 2012 and December 31, 2011 were as follows:

(dollars in thousands)	September 30,		December 31,	
	2012		2011	
Unfunded Commitments to Extend Credit	\$	2,017,086	\$	1,975,327
Standby Letters of Credit		64,325		74,082
Commercial Letters of Credit		15,004		18,486
Total Credit Commitments	\$	2,096,415	\$	2,067,895

Unfunded Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn, the total commitment amount does not necessarily represent future cash requirements.

Standby and Commercial Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Company. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit, and holds cash and deposits as collateral on those standby letters of credit for which collateral is deemed necessary.

Note 12. Fair Value of Assets and Liabilities*Fair Value Hierarchy*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

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Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities 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. A contractually binding sales price also provides reliable evidence of fair value.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that requires significant management judgment or estimation, some of which may be internally developed.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

Fair values of investment securities available-for-sale were primarily measured using information from a third-party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Level 1 investment securities are comprised of debt securities issued by the U.S. Treasury. As quoted prices were available, unadjusted, for identical securities in active markets, these securities were classified as Level 1 measurements. Level 2 investment securities were primarily comprised of debt securities issued by the Small Business Administration, states and municipalities, corporations, as well as mortgage-backed securities issued by government agencies. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the Company's third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. As of September 30, 2012 and December 31, 2011, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company's third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Loans Held for Sale

The fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets, and therefore, is classified as a Level 2 measurement.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company stratifies its mortgage servicing portfolio on the basis of loan type. The assumptions used in the discounted cash flow

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model are those that we believe market participants would use in estimating future net servicing income. Significant assumptions in the valuation of mortgage servicing rights include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. Mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

Other Assets

Other assets recorded at fair value on a recurring basis are primarily comprised of investments related to deferred compensation arrangements. Quoted prices for these investments, primarily in mutual funds, are available in active markets. Thus, the Company's investments related to deferred compensation arrangements are classified as Level 1 measurements in the fair value hierarchy.

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Derivative Financial Instruments

Derivative financial instruments recorded at fair value on a recurring basis are comprised of interest rate lock commitments (IRLCs), forward commitments, interest rate swap agreements, and foreign exchange contracts. The fair values of IRLCs are calculated based on the value of the underlying loan, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a lock position will ultimately close. This factor, the closing ratio, is derived from the Bank's internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements. Forward commitments are classified as Level 2 measurements as they are primarily based on quoted prices from the secondary market based on the settlement date of the contracts, interpolated or extrapolated, if necessary, to estimate a fair value as of the end of the reporting period. The fair values of interest rate swap agreements are calculated using a discounted cash flow approach and utilize Level 2 observable inputs such as the LIBOR swap curve, effective date, maturity date, notional amount, and stated interest rate. In addition, the Company includes in its fair value calculation a credit factor adjustment which is based primarily on management judgment. Thus, interest rate swap agreements are classified as a Level 3 measurement. The fair values of foreign exchange contracts are calculated using the Bank's multi-currency accounting system which utilizes contract specific information such as currency, maturity date, contractual amount, and strike price, along with market data information such as the spot rates of specific currency and yield curves. Foreign exchange contracts are classified as Level 2 measurements because while they are valued using the Bank's multi-currency accounting system, significant management judgment or estimation is not required.

The Company is exposed to credit risk if borrowers or counterparties fail to perform. The Company seeks to minimize credit risk through credit approvals, limits, monitoring procedures, and collateral requirements. The Company generally enters into transactions with borrowers and counterparties that carry high quality credit ratings. Credit risk associated with borrowers or counterparties as well as the Company's non-performance risk is factored into the determination of the fair value of derivative financial instruments.

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2012				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 592,065	\$ 414,081	\$ -	\$ 1,006,146
Debt Securities Issued by States and Political Subdivisions	-	715,043	-	715,043
Debt Securities Issued by Corporations	-	84,898	-	84,898
Mortgage-Backed Securities Issued by Government Agencies	-	1,276,415	-	1,276,415
U.S. Government-Sponsored Enterprises	-	41,707	-	41,707
Total Mortgage-Backed Securities	-	1,318,122	-	1,318,122
Total Investment Securities Available-for-Sale	592,065	2,532,144	-	3,124,209
Loans Held for Sale	-	25,971	-	25,971
Mortgage Servicing Rights	-	-	5,116	5,116
Other Assets	12,438	-	-	12,438
Derivatives 1	-	110	48,028	48,138
Total Assets Measured at Fair Value on a Recurring Basis as of September 30, 2012	\$ 604,503	\$ 2,558,225	\$ 53,144	\$ 3,215,872
Liabilities:				
Derivatives 1	-	3,389	35,260	38,649
Total Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2012	\$ -	\$ 3,389	\$ 35,260	\$ 38,649
December 31, 2011				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 822,508	\$ 408,510	\$ -	\$ 1,231,018
Debt Securities Issued by States and Political Subdivisions	-	407,059	-	407,059
Debt Securities Issued by Corporations	-	96,387	-	96,387
Mortgage-Backed Securities Issued by Government Agencies	-	1,655,872	-	1,655,872
U.S. Government-Sponsored Enterprises	-	61,549	-	61,549
Total Mortgage-Backed Securities	-	1,717,421	-	1,717,421
Total Investment Securities Available-for-Sale	822,508	2,629,377	-	3,451,885
Loans Held for Sale	-	18,957	-	18,957
Mortgage Servicing Rights	-	-	7,131	7,131
Other Assets	11,082	-	-	11,082
Derivatives 1	-	238	37,847	38,085
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2011	\$ 833,590	\$ 2,648,572	\$ 44,978	\$ 3,527,140
Liabilities:				
Derivatives 1	-	1,043	35,789	36,832
Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2011	\$ -	\$ 1,043	\$ 35,789	\$ 36,832

1 The fair value of each class of derivatives is shown in Note 10 to the Consolidated Financial Statements.

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For the three and nine months ended September 30, 2012 and 2011, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)	Mortgage Servicing Rights 1	Net Derivative Assets and Liabilities 2	Total
Three Months Ended September 30, 2012			
Balance as of July 1, 2012	\$ 5,459	\$ 7,106	\$ 12,565
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(343)	15,221	14,878
Transfers to Loans Held for Sale	-	(9,559)	(9,559)
Balance as of September 30, 2012	\$ 5,116	\$ 12,768	\$ 17,884
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2012	\$ (5)	\$ 12,768	\$ 12,763
Three Months Ended September 30, 2011			
Balance as of July 1, 2011	\$ 8,852	\$ 432	\$ 9,284
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(1,419)	8,742	7,323
Transfers to Loans Held for Sale	-	(4,128)	(4,128)
Balance as of September 30, 2011	\$ 7,433	\$ 5,046	\$ 12,479
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2011	\$ (1,162)	\$ 5,046	\$ 3,884
Nine Months Ended September 30, 2012			
Balance as of January 1, 2012	\$ 7,131	\$ 2,058	\$ 9,189
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(2,015)	28,293	26,278
Transfers to Loans Held for Sale	-	(17,583)	(17,583)
Balance as of September 30, 2012	\$ 5,116	\$ 12,768	\$ 17,884
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2012	\$ (886)	\$ 12,768	\$ 11,882
Nine Months Ended September 30, 2011			
Balance as of January 1, 2011	\$ 10,226	\$ (332)	\$ 9,894
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(2,793)	12,127	9,334
Transfers to Loans Held for Sale	-	(6,749)	(6,749)
Balance as of September 30, 2011	\$ 7,433	\$ 5,046	\$ 12,479
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2011	\$ (1,649)	\$ 5,046	\$ 3,397

1 Realized and unrealized gains and losses related to mortgage servicing rights are reported as a component of mortgage banking income in the Company's consolidated statements of income.

2 Realized and unrealized gains and losses related to interest rate lock commitments are reported as a component of mortgage banking income in the Company's consolidated statements of income. Realized and unrealized gains and losses related to interest rate swap agreements are reported as a component of other noninterest income in the Company's consolidated statements of income.

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For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of September 30, 2012, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Fair Value at September 30, 2012	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Mortgage Servicing Rights	\$ 25,357	Discounted Cash Flow	Weighted Average Constant Prepayment Rate 1	13.74 %
			Weighted Average Discount Rate 2	5.54 %
Net Derivative Assets and Liabilities:				
Interest Rate Lock Commitments	\$ 13,037	Pricing Model	Weighted Average Closing Ratio	87.37 %
Interest Rate Swap Agreements	\$ (269)	Discounted Cash Flow	Weighted Average Credit Factor	0.76 %

1 Represents annualized loan repayment rate assumption.

2 Derived from multiple interest rate scenarios that incorporate a spread to the London Interbank Offered Rate swap curve and market volatilities.

The significant unobservable inputs used in the fair value measurement of the Company's mortgage servicing rights are the weighted average constant prepayment rate and weighted average discount rate. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. Although the constant prepayment rate and the discount rate are not directly interrelated, they will generally move in opposite directions of each other.

The Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company's Treasury Division enters observable and unobservable inputs into the model to arrive at an estimated fair value. To assess the reasonableness of the fair value measurement, the Treasury Division performs a back-test by applying the model to historical prepayment data. The fair value and constant prepayment rate are also compared to forward-looking estimates to assess reasonableness. The Treasury Division also compares the fair value of the Company's mortgage servicing rights to a value calculated by an independent third-party. Discussions are held with members from the Treasury, Mortgage Banking, and Controllers Divisions, along with the independent third-party to discuss and reconcile the fair value estimates and key assumptions used by the respective parties in arriving at those estimates. A subcommittee of the Company's Asset/Liability Management Committee is responsible for providing oversight over the valuation methodology and key assumptions.

The significant unobservable input used in the fair value measurement of the Company's IRLCs is the closing ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an IRLC is positive (negative) if the prevailing interest rate is lower (higher) than the IRLC rate. Therefore, an increase in the closing ratio (i.e., higher percentage of loans are estimated to close) will result in the fair value of the IRLC to increase if in a gain position, or decrease if in a loss position. The closing ratio is largely dependent on the loan processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The closing ratio is computed by our secondary marketing system using historical data and the ratio is periodically reviewed by the Company's Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

The unobservable input used in the fair value measurement of the Company's interest rate swap agreements is the credit factor. This factor represents the risk that a counterparty is either unable or unwilling to settle a transaction in accordance with the underlying contractual terms. A

significant increase (decrease) in the credit factor could result in a significantly lower (higher) fair value measurement. The credit factor is determined by the Treasury Division based on the risk rating assigned to each counterparty in which the Company holds a net asset position. The Company's Credit Policy Committee periodically reviews and approves the Expected Default Frequency of the Economic Capital Model for Credit Risk. The Expected Default Frequency is used as the credit factor for the interest rate swap agreements.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets. As of September 30, 2012 and 2011, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

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The Company elected the fair value option for all residential mortgage loans held for sale originated on or after October 1, 2011. This election allows for a more effective offset of the changes in fair values of the loans held for sale and the derivative financial instruments used to economically hedge them without having to apply complex hedge accounting requirements. As noted above, the fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets.

The following table reflects the difference between the aggregate fair value and the aggregate unpaid principal balance of the Company's residential mortgage loans held for sale as of September 30, 2012 and December 31, 2011.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
September 30, 2012			
Loans Held for Sale	\$ 25,971	\$ 24,908	\$ 1,063
December 31, 2011			
Loans Held for Sale	\$ 18,957	\$ 18,088	\$ 869

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company's consolidated statements of income. For the three and nine months ended September 30, 2012, the Company recorded net losses of \$3.3 million and \$4.2 million, respectively, as a result of the change in fair value of the Company's residential mortgage loans held for sale.

Disclosures about Fair Value of Financial Instruments

The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Investment Securities Held-to-Maturity

The fair value of the Company's investment securities held-to-maturity was primarily measured using information from a third-party pricing service. Level 1 investment securities are comprised of debt securities issued by the U.S. Treasury as quoted prices were available, unadjusted, for identical securities in active markets. If quoted prices were not available, fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the Company's third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

Loans

The fair value of the Company's loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans were first segregated by type such as commercial, real estate, and consumer, and were then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Time Deposits

The fair values of the Company's time deposits were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits with similar remaining maturities. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Securities Sold Under Agreements to Repurchase

The fair value of the Company's securities sold under agreements to repurchase was calculated using discounted cash flow analyses, applying discount rates currently offered for new agreements with similar remaining maturities and considering the Company's non-performance risk.

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The fair value of the Company's long-term debt was calculated using a discounted cash flow approach and applying discount rates currently offered for new notes with similar remaining maturities and considering the Company's non-performance risk.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2012 and December 31, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as 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. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2012					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	\$ 3,475,259	\$ 3,587,997	\$ 185,253	\$ 3,402,744	\$ -
Loans ¹	5,383,152	5,737,168	-	-	5,737,168
Financial Instruments - Liabilities					
Time Deposits	1,719,934	1,730,848	-	1,730,848	-
Securities Sold Under Agreements to Repurchase	818,080	934,477	-	934,477	-
Long-Term Debt ²	19,184	22,076	-	22,076	-
December 31, 2011					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	\$ 3,657,796	\$ 3,754,206	\$ 186,178	\$ 3,568,028	\$ -
Loans ¹	5,098,681	5,373,777	-	-	5,373,777
Financial Instruments - Liabilities					
Time Deposits	1,337,079	1,347,576	-	1,347,576	-
Securities Sold Under Agreements to Repurchase	1,925,998	2,031,057	-	2,031,057	-
Long-Term Debt ²	21,787	24,076	-	24,076	-

1 Comprised of loans, net of unearned income and the Allowance related to loans.

2 Excludes capitalized lease obligations.

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Item 2. Management's Discussion and Analysis of

Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) the competitive pressure among financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any interruption or breach in security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 14) changes to the amount and timing of proposed common stock repurchases; and 15) natural disasters or adverse weather, public unrest, public health and other conditions that impact us and our customers operations. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, refer to the section entitled "Risk Factors" in Part II of this report and Part I of our Annual Report on Form 10-K for the year ended December 31, 2011, and subsequent periodic and current reports, filed with the U.S. Securities and Exchange Commission (the SEC). Words such as believes, anticipates, expects, intends, targeted, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Reclassifications

Certain prior period information in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) has been reclassified to conform to current period classifications.

Overview

Bank of Hawaii Corporation (the Parent) is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. The Parent's principal and only operating subsidiary is Bank of Hawaii (the Bank).

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The Bank, directly and through its subsidiaries, provides a broad range of financial services to businesses, consumers, and governments in Hawaii, Guam, and other Pacific Islands. References to we, our, us, or the Company refer to the Parent and its subsidiaries that are consolidated for financial reporting purposes.

Exceptional people working together are the foundation for our success and enable us to build exceptional value for our customers, communities, shareholders, and each other. Excellence, integrity, respect, innovation, commitment, and teamwork are the core values for the way we do business. Our business plan is balanced between growth and risk management, including the flexibility to adjust, given the uncertainties of the economy. We remain cautious about the economy, interest rates, and loan demand. We intend to continue to focus on providing customers with a competitive mix of products and services, improving expense management, and efficiently managing capital.

Hawaii Economy

Hawaii's economy continued to improve during the third quarter of 2012 led by tourism, the State's largest industry. For the first eight months of 2012, total visitor arrivals increased by 10.0% and visitor spending increased by 20.0% compared to the same period in 2011. The most significant growth continues to come from international markets. For the first eight months of 2012, hotel occupancy and revenue per available room also continued to improve. The statewide seasonally-adjusted unemployment rate declined to 5.7% in September 2012, compared to 7.8% nationally. For the first nine months of 2012, the volume of single-family home sales on Oahu was 3.5% higher compared to the same period in 2011. However, the median price of single-family homes sold was 8.8% higher for the first nine months of 2012 compared to the same period in 2011. As of September 30, 2012, months of inventory of single-family homes on Oahu remained low at approximately 3.3 months.

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Earnings Summary

Net income for the third quarter of 2012 was \$41.2 million, a decrease of \$2.1 million or 5% compared to the same period in 2011. Diluted earnings per share were \$0.92 for the third quarter of 2012, unchanged compared to the same period in 2011. The change in net income for the third quarter of 2012 compared to the same period in 2011 was primarily due to the following:

- Net interest income for the third quarter of 2012 was \$93.6 million, a decrease of \$3.1 million or 3% compared to the same period in 2011. The net interest margin was 2.98% in the third quarter of 2012, a decrease of 11 basis points compared to the same period in 2011. This decrease was primarily due to lower yields on loans and investments, a result of the low interest rate environment.
- We recorded no provision for credit losses (the Provision) in the third quarter of 2012, a decrease of \$2.2 million compared to the same period in 2011. This decrease was primarily due to improving credit trends and the underlying risk profile of the loan portfolio as economic conditions in Hawaii continued to improve.
- Mortgage banking income for the third quarter of 2012 was \$11.7 million, an increase of \$6.3 million compared to the same period in 2011. This increase was primarily due to an increase in loan origination volume related to refinancing activity, a result of low interest rates.
- Debit card income was \$3.7 million for the third quarter of 2012, a decrease of \$3.9 million or 51% compared to the same period in 2011. This decrease was primarily due to changes in debit card interchange rules as a result of pricing restrictions imposed by the Durbin Amendment which was effective October 1, 2011.

Noninterest expense was \$0.9 million higher in the third quarter of 2012 compared to the same period in 2011. This was primarily due to start-up expenses related to our new consumer credit card product, higher profit sharing and bonus accruals due to higher profitability, and higher separation expense. The provision for income taxes was also \$1.7 million higher in the third quarter of 2012 compared to the same period in 2011. This was primarily due to the release of a valuation allowance in the third quarter of 2011.

Net income for the first nine months of 2012 was \$125.8 million, an increase of \$5.0 million or 4% compared to the same period in 2011. Diluted earnings per share were \$2.77 for the first nine months of 2012, an increase of \$0.23 or 9% compared to the same period in 2011. The change in net income for the first nine months of 2012 was primarily due to the following:

- Net interest income was \$287.0 million for the first nine months of 2012, a decrease of \$7.0 million or 2% compared to the same period in 2011. The net interest margin was 3.01% for the first nine months of 2012, a decrease of 15 basis points compared to the same period in 2011. This decrease was primarily due to lower yields on loans and investments, a result of the low interest rate environment, and investing conservatively.
- The Provision for the first nine months of 2012 was \$1.0 million, a decrease of \$9.5 million compared to the same period in 2011. Consistent with improvements in our credit quality, the Provision was \$7.6 million less than net charge-offs of loans and leases for the first nine months of 2012.

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- Mortgage banking income for the first nine months of 2012 was \$24.4 million, an increase of \$13.1 million compared to the same period in 2011. This was primarily due to increased loan refinancing activity as a result of low interest rates.
- Debit card income was \$11.3 million for the first nine months of 2012, a decrease of \$10.9 million or 49% compared to the same period in 2011. This decrease was primarily due to changes in debit card interchange rules as a result of pricing restrictions imposed by the Durbin Amendment which was effective October 1, 2011.
- Other noninterest expense for the first nine months of 2012 was \$53.4 million, a decrease of \$12.5 million or 19% compared to the same period in 2011. Our financial results in 2011 included a \$9.0 million accrual related to the settlement of overdraft litigation recorded in the second quarter of 2011.

We also recorded lower net gains from the sales of investment securities for the first nine months of 2012. We recorded net losses from the sales of investment securities of \$0.1 million for the first nine months of 2012 compared to net gains of \$6.1 million for the same period in 2011. The amount and timing of our sale of investment securities are dependent on a number of factors, including our efforts to preserve capital levels while managing duration and extension risk. The provision for income taxes was also \$3.6 million higher for the first nine months of 2012 compared to the same period in 2011. This was primarily due to the release of reserves in the second quarter of 2011 and the previously noted release of a valuation allowance in the third quarter of 2011.

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Our results for the first nine months of 2012 were influenced by a generally improving economy in Hawaii. However, we remained cautious about the slow pace of economic recovery both in Hawaii and on the U.S. Mainland. We also continued to monitor regulatory changes and the associated costs of compliance as well as volatility in the financial markets. As a result of the uncertainties in the economic recovery, we continued to maintain adequate reserves for credit losses and high levels of liquidity and capital. In particular:

- The allowance for loan and lease losses (the Allowance) was \$131.0 million as of September 30, 2012, a decrease of \$7.6 million or 6% from December 31, 2011. The ratio of our Allowance to total loans and leases outstanding decreased to 2.27% as of September 30, 2012, compared to 2.50% as of December 31, 2011. Absent significant deterioration in the economy and assuming continued improvement and/or stability in credit quality, we may further reduce the Allowance in future periods.
- Total deposits were \$11.2 billion as of September 30, 2012, an increase of \$627.9 million or 6% from December 31, 2011. This increase was primarily due to local government entities transferring funds from repurchase agreements to time deposits. Commercial and consumer deposits also increased over this period as customers remain cautious about investing and spending.
- We continued to invest excess liquidity in high-grade investment securities. As of September 30, 2012, the total carrying value of our investment securities portfolio was \$6.6 billion, a decrease of \$510.2 million or 7% from December 31, 2011. During the first nine months of 2012, we continued to change the composition of our investment securities portfolio. We decreased our holdings in mortgage-backed securities to somewhat reduce extension risk and increased our state and municipal bond holdings.
- Total shareholders equity was \$1.0 billion as of September 30, 2012, an increase of \$21.9 million or 2% from December 31, 2011. We continued to return capital to our shareholders in the form of share repurchases and dividends. During the first nine months of 2012, we repurchased 1.4 million shares of common stock at a total cost of \$64.5 million under our share repurchase program. We also paid cash dividends of \$61.5 million during the first nine months of 2012. In the third quarter of 2012, we reduced our share repurchases to \$14.5 million, compared to \$20.0 million in the second quarter of 2012 and \$30.0 million in the first quarter of 2012. This combined with a lower level of total assets, compared to the second quarter of 2012, produced a higher Tier 1 Leverage Ratio of 6.78% compared to 6.57% in the second quarter of 2012.

Should economic conditions continue to improve in Hawaii, we may see improving prospects for loan growth in certain portfolios. However, we remain cautious about interest rates, the uncertainties of increased government regulation, as well as increased pressure on fee-based revenues in future periods. In particular, we continue to monitor the pressure on our net interest margin in the current low interest rate environment, and the impact of compliance with the Durbin Amendment which has significantly reduced debit card income. We intend to continue to focus on controlling expenses and maintaining adequate levels of liquidity, reserves for credit losses, and capital.

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Our financial highlights are presented in Table 1.

Financial Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(dollars in thousands, except per share amounts)				
For the Period:				
Operating Results				
Net Interest Income	\$ 93,632	\$ 96,766	\$ 286,961	\$ 293,962
Provision for Credit Losses	-	2,180	979	10,471
Total Noninterest Income	52,374	50,863	147,304	154,248
Total Noninterest Expense	84,878	83,955	250,832	263,811
Net Income	41,232	43,306	125,789	120,814
Basic Earnings Per Share	0.92	0.93	2.78	2.55
Diluted Earnings Per Share	0.92	0.92	2.77	2.54
Dividends Declared Per Share	0.45	0.45	1.35	1.35
Performance Ratios				
Return on Average Assets	1.22 %	1.31 %	1.23 %	1.24 %
Return on Average Shareholders' Equity	16.02	16.80	16.49	15.85
Efficiency Ratio 1	58.13	56.87	57.76	58.86
Net Interest Margin 2	2.98	3.09	3.01	3.16
Dividend Payout Ratio 3	48.91	48.39	48.56	52.94
Average Shareholders' Equity to Average Assets	7.59	7.79	7.47	7.83
Average Balances				
Average Loans and Leases	\$ 5,716,421	\$ 5,340,406	\$ 5,640,733	\$ 5,326,209
Average Assets	13,490,835	13,125,077	13,640,304	13,019,898
Average Deposits	11,301,668	9,871,750	10,786,654	9,845,269
Average Shareholders' Equity	1,023,804	1,022,585	1,018,903	1,019,409
Market Price Per Share of Common Stock				
Closing	\$ 45.62	\$ 36.40	\$ 45.62	\$ 36.40
High	48.92	47.10	49.99	49.26
Low	45.29	35.30	44.02	35.30
			September 30, 2012	December 31, 2011
As of Period End:				
Balance Sheet Totals				
Loans and Leases			\$ 5,782,304	\$ 5,538,304
Total Assets			13,382,425	13,846,391
Total Deposits			11,220,547	10,592,623
Long-Term Debt			28,065	30,696
Total Shareholders' Equity			1,024,562	1,002,667
Asset Quality				
Allowance for Loan and Lease Losses			\$ 130,971	\$ 138,606
Non-Performing Assets			40,284	40,790
Financial Ratios				
Allowance to Loans and Leases Outstanding			2.27 %	2.50 %
Tier 1 Capital Ratio			16.12	16.68
Total Capital Ratio			17.39	17.95
Tier 1 Leverage Ratio			6.78	6.73
Total Shareholders' Equity to Total Assets			7.66	7.24
Tangible Common Equity to Tangible Assets 4			7.44	7.03
Tangible Common Equity to Risk-Weighted Assets 4			17.43	17.93

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Non-Financial Data

Full-Time Equivalent Employees	2,304	2,370
Branches and Offices	77	81
ATMs	495	506

1 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and total noninterest income).

2 Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

3 Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share.

4 Tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. See the Use of Non-GAAP Financial Measures section below.

Table of Contents**Use of Non-GAAP Financial Measures**

The ratios tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. The Company believes these measurements are useful for investors, regulators, management and others to evaluate capital adequacy relative to other financial institutions. Although these Non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. Table 2 provides a reconciliation of these Non-GAAP financial measures with financial measures defined by GAAP.

GAAP to Non-GAAP Reconciliation

	September 30, 2012	Table 2 December 31, 2011
(dollars in thousands)		
Total Shareholders' Equity	\$ 1,024,562	\$ 1,002,667
Less: Goodwill	31,517	31,517
Intangible Assets	46	83
Tangible Common Equity	\$ 992,999	\$ 971,067
Total Assets	\$ 13,382,425	\$ 13,846,391
Less: Goodwill	31,517	31,517
Intangible Assets	46	83
Tangible Assets	\$ 13,350,862	\$ 13,814,791
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	\$ 5,697,581	\$ 5,414,481
Total Shareholders' Equity to Total Assets	7.66%	7.24%
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.44%	7.03%
Tier 1 Capital Ratio	16.12%	16.68%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP)	17.43%	17.93%

Table of Contents**Analysis of Statements of Income**

Average balances, related income and expenses, and resulting yields and rates are presented in Table 3. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 4.

Average Balances and Interest Rates - Taxable-Equivalent Basis**Table 3**

(dollars in millions)	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011			Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets												
Interest-Bearing												
Deposits	\$ 4.0	\$ -	0.33%	\$ 3.7	\$ -	0.56%	\$ 3.4	\$ -	0.24%	\$ 4.4	\$ -	0.18%
Funds Sold	221.5	0.1	0.19	309.4	0.2	0.20	240.5	0.4	0.19	427.8	0.7	0.22
Investment Securities												
Available-for-Sale	3,247.8	18.3	2.26	4,309.3	23.5	2.18	3,369.5	57.4	2.27	4,667.6	85.4	2.44
Held-to-Maturity	3,617.3	23.2	2.57	2,511.0	20.3	3.24	3,714.2	74.7	2.68	1,949.2	48.6	3.32
Loans Held for Sale	15.8	0.2	4.32	9.2	0.1	4.87	13.3	0.4	4.26	9.7	0.3	4.46
Loans and Leases 1												
Commercial and												
Industrial	797.2	7.7	3.86	815.5	8.2	3.97	796.5	23.5	3.94	788.0	23.8	4.03
Commercial												
Mortgage	993.2	10.8	4.32	876.7	10.7	4.85	962.9	31.7	4.40	873.1	31.9	4.88
Construction	100.1	1.3	4.97	74.5	1.0	5.15	101.1	3.9	5.13	78.1	3.0	5.14
Commercial Lease												
Financing	278.5	1.7	2.42	314.6	2.0	2.61	285.7	5.1	2.37	325.8	6.6	2.72
Residential Mortgage	2,391.8	28.1	4.70	2,129.8	27.8	5.23	2,342.8	83.8	4.77	2,114.7	84.2	5.31
Home Equity	770.2	8.3	4.28	780.5	9.3	4.72	773.8	25.2	4.35	787.2	28.4	4.82
Automobile	194.9	2.9	5.90	191.4	3.2	6.66	193.9	8.8	6.05	195.7	10.1	6.91
Other 2	190.5	3.9	8.09	157.4	3.0	7.50	184.0	11.2	8.10	163.6	9.2	7.51
Total Loans and												
Leases	5,716.4	64.7	4.51	5,340.4	65.2	4.86	5,640.7	193.2	4.57	5,326.2	197.2	4.94
Other	80.1	0.3	1.41	79.9	0.3	1.40	80.0	0.8	1.41	79.9	0.8	1.40
Total Earning												
Assets 3	12,902.9	106.8	3.30	12,562.9	109.6	3.48	13,061.6	326.9	3.34	12,464.8	333.0	3.56
Cash and												
Noninterest-Bearing												
Deposits	134.9			135.1			134.6			133.0		
Other Assets	453.0			427.1			444.1			422.1		
Total Assets	\$ 13,490.8			\$ 13,125.1			\$ 13,640.3			\$ 13,019.9		
Interest-Bearing												
Liabilities												
Interest-Bearing												
Deposits Demand	1,968.8	0.1	0.03	1,772.5	0.2	0.04	1,914.2	0.3	0.03	1,782.2	0.6	0.04
Savings	4,456.2	1.0	0.09	4,497.1	1.8	0.16	4,446.6	3.5	0.10	4,518.9	5.9	0.18
Time	1,823.2	1.8	0.38	1,069.4	2.6	0.96	1,447.1	5.8	0.53	1,041.7	8.1	1.04
Total												
Interest-Bearing												
Deposits	8,248.2	2.9	0.14	7,339.0	4.6	0.25	7,807.9	9.6	0.16	7,342.8	14.6	0.27
	18.5	-	0.15	19.0	-	0.08	16.4	-	0.14	17.4	-	0.12

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Short-Term Borrowings												
Securities Sold Under Agreements to Repurchase	853.0	7.2	3.30	1,908.9	7.4	1.52	1,523.4	21.8	1.88	1,844.7	21.8	1.56
Long-Term Debt	28.0	0.5	6.52	30.7	0.5	6.50	29.8	1.5	6.51	32.0	1.5	6.15
Total												
Interest-Bearing Liabilities	9,147.7	10.6	0.46	9,297.6	12.5	0.53	9,377.5	32.9	0.46	9,236.9	37.9	0.54
Net Interest Income		\$ 96.2			\$ 97.1			\$ 294.0			\$ 295.1	
Interest Rate Spread			2.84%			2.95%			2.88%			3.02%
Net Interest Margin			2.98%			3.09%			3.01%			3.16%
Noninterest-Bearing												
Demand Deposits	3,053.5			2,532.8			2,978.8			2,502.5		
Other Liabilities	265.8			272.1			265.1			261.1		
Shareholders' Equity	1,023.8			1,022.6			1,018.9			1,019.4		
Total Liabilities and Shareholders' Equity	\$ 13,490.8			\$ 13,125.1			\$ 13,640.3			\$ 13,019.9		

1 Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

2 Comprised of other consumer revolving credit, installment, and consumer lease financing.

3 Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$2,529,000 and \$364,000 for the three months ended September 30, 2012 and 2011, respectively, and \$7,080,000 and \$1,142,000 for the nine months ended September 30, 2012 and 2011, respectively.

Table of Contents**Analysis of Change in Net Interest Income - Taxable-Equivalent Basis**

Table 4

(dollars in millions)	Nine Months Ended September 30, 2012 Compared to September 30, 2011		
	Volume 1	Rate 1	Total
Change in Interest Income:			
Funds Sold	\$ (0.2)	\$ (0.1)	\$ (0.3)
Investment Securities			
Available-for-Sale	(22.4)	(5.6)	(28.0)
Held-to-Maturity	36.9	(10.8)	26.1
Loans Held for Sale	0.1	-	0.1
Loans and Leases			
Commercial and Industrial	0.3	(0.6)	(0.3)
Commercial Mortgage	3.1	(3.3)	(0.2)
Construction	0.9	-	0.9
Commercial Lease Financing	(0.8)	(0.7)	(1.5)
Residential Mortgage	8.6	(9.0)	(0.4)
Home Equity	(0.5)	(2.7)	(3.2)
Automobile	(0.1)	(1.2)	(1.3)
Other 2	1.2	0.8	2.0
Total Loans and Leases	12.7	(16.7)	(4.0)
Total Change in Interest Income	27.1	(33.2)	(6.1)
Change in Interest Expense:			
Interest-Bearing Deposits			
Demand	-	(0.3)	(0.3)
Savings	(0.1)	(2.3)	(2.4)
Time	2.5	(4.8)	(2.3)
Total Interest-Bearing Deposits	2.4	(7.4)	(5.0)
Securities Sold Under Agreements to Repurchase	(4.1)	4.1	-
Long-Term Debt	(0.1)	0.1	-
Total Change in Interest Expense	(1.8)	(3.2)	(5.0)
Change in Net Interest Income	\$ 28.9	\$ (30.0)	\$ (1.1)

1 The change in interest income and expense not solely due to changes in volume or rate has been allocated on a pro-rata basis to the volume and rate columns.

2 Comprised of other consumer revolving credit, installment, and consumer lease financing.

Net Interest Income

Net interest income is affected by the size and mix of our balance sheet components as well as the spread between interest earned on assets and interest paid on liabilities. Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

Net interest income was \$93.6 million in the third quarter of 2012, a decrease of \$3.1 million or 3% compared to the same period in 2011. On a taxable-equivalent basis, net interest income was \$96.2 million in the third quarter of 2012, relatively unchanged compared to the same period in 2011. The net interest margin was 2.98% in the third quarter of 2012, a decrease of 11 basis points compared to the same period in 2011. Net interest income was \$287.0 million for the first nine months of 2012, a decrease of \$7.0 million or 2% compared to the same period in 2011. On a taxable-equivalent basis, net interest income was \$294.0 million for the first nine months of 2012, relatively unchanged compared to the same period in 2011. The net interest margin was 3.01% for the first nine months of 2012, a decrease of 15 basis points compared to the same period in 2011. The lower margins in 2012 were primarily due to lower yields on investment securities and loans. As higher yielding assets continue to run-off, we expect pressure on our net interest margin as our assets re-price in the current low interest rate environment.

Yields on our earning assets decreased by 18 basis points in the third quarter of 2012 and by 22 basis points for the first nine months of 2012 compared to the same periods in 2011, reflective of lower yields on investment securities and loans. Yields on our investment securities portfolio decreased by 15 basis points in the third quarter of 2012 and by 21 basis points for the first nine months of 2012 compared to the same periods in 2011. Yields on our loans and leases decreased by 35 basis points in the third quarter of 2012 and by 37 basis points for the first nine months of 2012 compared to the same periods in 2011, with lower yields in nearly every category of loans and leases. Partially offsetting the lower yields on our earning assets were lower funding costs, primarily due to lower rates paid on our interest-bearing deposits, reflective of the re-pricing of our deposits at lower interest rates. Rates paid on our time deposits decreased by 58 basis points in the third quarter of 2012 and by 51 basis points for the first nine months of 2012 compared to the same periods in 2011.

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Average balances of our earning assets increased by \$340.0 million or 3% in the third quarter of 2012 compared to the same period in 2011, primarily due to a \$262.1 million increase in our residential mortgage loan portfolio and a \$116.5 million increase in our commercial mortgage loan portfolio. The increase in our residential mortgage portfolio was primarily due to higher origination volume related to strong refinancing activity, the result of low interest rates, as well as our decision to retain additional conforming saleable loans in our portfolio. The increase in our commercial mortgage loan portfolio was primarily due to increased demand from new and existing customers.

Average balances of our earning assets increased by \$596.7 million or 5% for the first nine months of 2012 compared to the same period in 2011, primarily due to a \$466.7 million increase in average balances of our investment securities portfolio. In 2011 and during the first nine months of 2012, we reduced our holdings in mortgage-backed securities issued by the Government National Mortgage Association (Ginnie Mae) to somewhat reduce extension risk. Average balances of our mortgage-backed securities issued by Ginnie Mae decreased by \$309.1 million for the first nine months of 2012 compared to the same period in 2011. We invested our excess liquidity into state and municipal securities and securities issued by the Small Business Administration (the SBA). Average balances of our investments in state and municipal bond holdings increased by \$520.5 million and average balances of our SBA securities increased by \$336.3 million for the first nine months of 2012 compared to the same period in 2011. Also contributing to the increase in our average balances of earning assets was a \$228.2 million increase in our residential mortgage loan portfolio primarily due to higher origination volume related to strong refinancing activity, the result of low interest rates, as well as our decision to retain additional conforming saleable loans in our portfolio, partially offset by a \$187.3 million reduction in funds sold.

Average balances of our interest-bearing liabilities decreased by \$149.9 million or 2% in the third quarter of 2012 compared to the same period in 2011 primarily due to a \$1.1 billion decrease in average balances of our public repurchase agreements, partially offset by an \$822.5 million increase in public time deposits of \$100 thousand or more as a result of local government entities transferring their funds from repurchase agreements to time deposits. Average balances of our interest-bearing liabilities increased by \$140.6 million or 2% for the first nine months of 2012 compared to the same period in 2011 primarily due to a \$482.6 million increase in average balances of our public time deposits of \$100 thousand or more, partially offset by a \$321.3 million decrease in our public repurchase agreements.

Provision for Credit Losses

The Provision reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of the loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of credit quality. We recorded no Provision in the third quarter of 2012 and recorded a Provision of \$1.0 million for the first nine months of 2012 compared to a Provision of \$2.2 million in the third quarter of 2011 and \$10.5 million for the first nine months of 2011. The lower Provision in 2012 reflected improving credit trends and the underlying risk profile of the loan and lease portfolio as economic conditions in Hawaii continued to improve. Net charge-offs were \$1.5 million in the third quarter of 2012 and \$8.6 million for the first nine months of 2012, a decrease of \$2.3 million or 61% and \$5.8 million or 40% compared to the same periods in 2011, respectively. Non-performing assets appear to have stabilized and were \$40.3 million as of September 30, 2012, a decrease of \$0.5 million from December 31, 2011. For further discussion, see the Corporate Risk Profile - Reserve for Credit Losses section in MD&A for information on net charge-offs, non-performing assets, and other factors considered by management in assessing the credit quality of the loan portfolio and establishing the Allowance.

Noninterest Income

Noninterest income increased by \$1.5 million or 3% in the third quarter of 2012 and decreased by \$6.9 million or 5% for the first nine months of 2012 compared to the same periods in 2011.

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Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets that we manage and the fee rate charged to customers. Total trust assets under administration were \$10.1 billion as of September 30, 2012, \$9.3 billion as of December 31, 2011, and \$9.5 billion as of September 30, 2011. Trust and asset management income increased by \$0.3 million or 2% in the third quarter of 2012 primarily due to higher agency fees. Trust and asset management income decreased by \$0.9 million or 3% for the first nine months of 2012 compared to the same period in 2011. This decrease was primarily due to a \$0.6 million decline in special service fees which were mainly the result of two large termination fees recorded in the first quarter of 2011. In addition, mutual fund investment management fees decreased by \$0.3 million primarily due to our decision to liquidate our proprietary money market funds in November 2011.

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Mortgage banking income is highly influenced by mortgage interest rates and the housing market. Mortgage banking income increased by \$6.3 million or 114% in the third quarter of 2012 compared to the same period in 2011. This increase was primarily due to higher loan origination volume related to refinancing activity and an increase in loan sale margins. Residential mortgage loan originations were \$287.5 million in the third quarter of 2012, a \$92.4 million or 47% increase compared to the same period in 2011. Residential mortgage loan sales were \$174.1 million in the third quarter of 2012, a \$74.2 million or 74% increase compared to the same period in 2011. Mortgage banking income increased by \$13.1 million or 116% for the first nine months of 2012 compared to the same period in 2011 primarily due to the aforementioned increases in loan origination volume and loan sale margins. Residential mortgage loan originations were \$873.2 million for the first nine months of 2012, an increase of \$270.2 million or 45% compared to the same period in 2011. Residential mortgage loan sales were \$369.5 million for the first nine months of 2012, an increase of \$58.2 million or 19% compared to the same period in 2011.

Service charges on deposit accounts decreased by \$0.5 million or 5% in the third quarter of 2012 and by \$1.0 million or 3% for the first nine months of 2012 compared to the same periods in 2011. These decreases were primarily due to a decline in account analysis fees as a result of reduced charges applied against the customers' earnings credit rate.

Fees, exchange, and other service charges are primarily comprised of debit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges decreased by \$4.3 million or 27% in the third quarter of 2012 and by \$11.2 million or 23% for the first nine months of 2012 compared to the same periods in 2011. These decreases were primarily due to a decline in debit card income resulting mainly from the pricing restrictions imposed by the Durbin Amendment, which was effective October 1, 2011.

Sales of investment securities resulted in a net gain of less than \$0.1 million in the third quarter of 2012 compared to no sales of investment securities during the same period in 2011. Sales of investment securities resulted in a net loss of \$0.1 million for the first nine months of 2012 compared to a net gain of \$6.1 million for the same period in 2011. The amount and timing of our sales of investment securities are dependent on a number of factors, including our efforts to preserve capital levels while managing duration and extension risk.

Insurance income decreased by \$0.3 million or 13% in the third quarter of 2012 and by \$1.6 million or 19% for the first nine months of 2012 compared to the same periods in 2011. These decreases were primarily due to lower sales of our annuity products. The low interest rate environment, in particular, continues to adversely affect sales of our fixed annuity products.

Other noninterest income increased by \$0.1 million or 2% in the third quarter of 2012 and by \$0.8 million or 4% for the first nine months of 2012 compared to the same periods in 2011. The year-to-date increase was primarily due to a lessee exercising its early buy-out option on two cargo ship leveraged leases which resulted in a pre-tax gain of \$3.5 million in the first quarter of 2012. This increase was partially offset by a \$2.0 million contingent payment received in the third quarter of 2011 related to the 2010 sale of our proprietary mutual funds, combined with a \$1.0 million pre-tax loss related to the sale and termination of an aircraft lease in the first quarter of 2012.

Noninterest Expense

Noninterest expense increased by \$0.9 million or 1% in the third quarter of 2012 and decreased by \$13.0 million or 5% for the first nine months of 2012 compared to the same periods in 2011.

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Table 5 presents the components of salaries and benefits expense.

Salaries and Benefits

(dollars in thousands)	Three Months Ended		Table 5	
	September 30,		Nine Months Ended	
	2012	2011	2012	2011
Salaries	\$ 29,312	\$ 28,965	\$ 85,830	\$ 87,182
Incentive Compensation	4,492	4,777	12,678	12,486
Share-Based Compensation and Cash Grants for the Purchase of Company Stock	1,817	743	5,260	3,901
Commission Expense	1,750	1,572	5,040	4,788
Retirement and Other Benefits	4,322	3,634	12,193	12,400
Payroll Taxes	2,267	2,241	8,522	8,615
Medical, Dental, and Life Insurance	2,255	2,056	6,931	6,717
Separation Expense	1,016	319	1,838	1,800
Total Salaries and Benefits	\$ 47,231	\$ 44,307	\$ 138,292	\$ 137,889

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Salaries and benefits expense increased by \$2.9 million or 7% in the third quarter of 2012 compared to the same period in 2011. Share-based compensation increased by \$1.1 million primarily due to a new stock option program introduced in the fourth quarter of 2011, coupled with an increase in amortization related to performance-based restricted stock granted in the first quarter of 2012. In addition, profit sharing accruals increased by \$0.6 million due to higher Company profitability and separation expense increased by \$0.7 million. Salaries and benefits expense increased by \$0.4 million or less than 1% for the first nine months of 2012 compared to the same period in 2011. An increase in share-based compensation was largely offset by a decrease in salaries expense.

Net occupancy expense decreased by \$0.6 million or 5% in the third quarter of 2012 and by \$0.8 million or 3% for the first nine months of 2012 compared to the same periods in 2011. These decreases were primarily due to a decline in depreciation expense primarily related to the closure of two branches in April 2012.

Net equipment expense decreased by \$0.1 million or 3% in the third quarter of 2012 and increased by \$0.9 million or 7% for the first nine months of 2012 compared to the same periods in 2011. The increase for the first nine months of 2012 was primarily due to the purchase of technology equipment in the first quarter of 2012.

FDIC insurance expense decreased by \$0.2 million or 12% in the third quarter of 2012 and by \$1.3 million or 18% for the first nine months of 2012 compared to the same periods in 2011. The decrease for the first nine months of 2012 was primarily due to lower rate assessments as a result of new rules finalized by the FDIC. As required by the Dodd-Frank Act, on February 7, 2011, the FDIC finalized new rules which redefined the assessment base as average consolidated total assets minus average tangible equity. The new rate schedule and other revisions to the assessment rules became effective April 1, 2011. On October 9, 2012, the FDIC issued a final rule that revises the definitions of subprime consumer loans and leveraged commercial loans for banks with more than \$10.0 billion in assets that are subject to the large-bank pricing assessment system. The final rule is effective April 1, 2013. As of the date of this filing, management is still assessing the potential impact that the provisions of this final rule may have on the Company's FDIC assessments.

Other noninterest expense decreased by \$1.3 million or 7% in the third quarter of 2012 compared to the same period in 2011. This decrease was primarily due to a \$2.0 million reduction in donations, partially offset by \$1.0 million of start-up expenses related to our new consumer credit card product. Other noninterest expense decreased by \$12.5 million or 19% for the first nine months of 2012 compared to the same period in 2011. This decrease was primarily due to the accrual of \$9.0 million related to the settlement of overdraft litigation recorded in the second quarter of 2011. In addition, operating losses, which include losses as a result of bank error, fraud, items processing, or theft, decreased by \$1.3 million, while donations declined by \$1.0 million.

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Provision for Income Taxes

Table 6 presents our provision for income taxes and effective tax rates.

(dollars in thousands)	Three Months Ended September 30,		Table 6 Nine Months Ended September 30,	
	2012	2011	2012	2011
Provision for Income Taxes	\$ 19,896	\$ 18,188	\$ 56,665	\$ 53,114
Effective Tax Rates	32.55%	29.58%	31.06%	30.54%

The higher effective tax rate for the third quarter of 2012 compared to the same period in 2011 was primarily due to a \$1.8 million credit to the provision for income taxes recorded in the third quarter of 2011 for the release of a valuation allowance related to low-income housing investments.

The slightly higher effective tax rate for the first nine months of 2012 compared to the same period in 2011 was primarily due to a \$2.7 million credit to the provision for income taxes recorded in the second quarter of 2011 related to the release of reserves due to the closing of the Internal Revenue Service audit for tax years 2007 and 2008 as well as the previously noted release of the valuation allowance related to low-income housing investments. This was partially offset by a \$2.7 million credit to the provision for income taxes recorded in the first quarter of 2012 related to the sale of our equity interest in two cargo ship leveraged leases.

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Analysis of Statements of Condition*Investment Securities*

The carrying value of our investment securities was \$6.6 billion as of September 30, 2012, a decrease of \$510.2 million or 7% compared to December 31, 2011.

We continually evaluate our investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities, change the composition of our investment securities portfolio, and change the proportion of investments made into the available-for-sale and held-to-maturity investment categories.

During the third quarter of 2012, we continued to reduce our positions in mortgage-backed securities issued by the Government National Mortgage Corporation (Ginnie Mae) in an effort to manage extension risk related to our mortgage-backed securities. As of September 30, 2012, our portfolio of Ginnie Mae mortgage-backed securities were primarily comprised of securities issued between 2008 and 2011 and were all AAA-rated. As of September 30, 2012, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of less than three years.

Gross unrealized gains in our investment securities portfolio were \$201.5 million as of September 30, 2012 and \$168.0 million as of December 31, 2011. Gross unrealized losses on our temporarily impaired investment securities were \$0.7 million as of September 30, 2012 and \$6.6 million as of December 31, 2011. As of September 30, 2012, the gross unrealized losses were primarily related to mortgage-backed securities issued by government agencies and were attributable primarily to changes in interest rates, relative to when the investment securities were purchased.

As of September 30, 2012, we did not own any subordinated debt, or preferred or common stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. See Note 2 to the Consolidated Financial Statements for more information.

Loans and Leases

Table 7 presents the composition of our loan and lease portfolio by major categories.

Loan and Lease Portfolio Balances

		September 30, 2012		Table 7 December 31, 2011
(dollars in thousands)				
Commercial				
Commercial and Industrial	\$	808,621	\$	817,170
Commercial Mortgage		1,039,556		938,250
Construction		101,818		98,669
Lease Financing		277,328		311,928

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Total Commercial		2,227,323		2,166,017
Consumer				
Residential Mortgage		2,392,871		2,215,892
Home Equity		770,284		780,691
Automobile		200,788		192,506
Other 1		191,038		183,198
Total Consumer		3,554,981		3,372,287
Total Loans and Leases	\$	5,782,304	\$	5,538,304

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

Total loans and leases as of September 30, 2012 increased by \$244.0 million or 4% from December 31, 2011.

Commercial loans and leases as of September 30, 2012 increased by \$61.3 million or 3% from December 31, 2011. Commercial and industrial loans decreased by \$8.5 million or 1% from December 31, 2011 primarily due to corporate customers that remained cautious as they continued to paydown their loan balances. Commercial mortgage loans increased by \$101.3 million or 11% from December 31, 2011 primarily due to increased demand from new and existing customers. Construction loans increased by \$3.1 million or 3% from December 31, 2011. However, demand for new development activity generally remains weak. Lease financing decreased by \$34.6 million or 11% from December 31, 2011 primarily due to a \$16.6 million decrease in balances related to a lessee's decision to exercise its early buy-out option on two cargo ship leveraged leases in the first quarter of 2012. Also contributing to the decrease in lease financing balances was a \$6.1 million decrease related to the sale and termination of an aircraft lease in the first quarter of 2012.

Consumer loans and leases as of September 30, 2012 increased by \$182.7 million or 5% from December 31, 2011. Residential mortgage loans increased by \$177.0 million or 8% from December 31, 2011 primarily due to strong refinancing activity, the result of low interest rates, as well as our decision to retain additional conforming saleable loans in our portfolio. Home equity loans decreased by \$10.4 million or 1% from December 31, 2011 primarily due to continued paydowns and reduced line utilization. Automobile loans increased by \$8.3 million or 4% from December 31, 2011 primarily due to increased customer demand and changes in our underwriting practices. Other consumer loans as of September 30, 2012 increased by \$7.8 million or 4% from December 31, 2011 primarily due to the success of our installment loan product.

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Table 8 presents the composition of our loan and lease portfolio by geographic area and by major categories.

Geographic Distribution of Loan and Lease Portfolio**Table 8**

(dollars in thousands)	Hawaii	U.S. Mainland 1	Guam	Other Pacific Islands	Foreign 2	Total
September 30, 2012						
Commercial						
Commercial and Industrial	\$ 704,525	\$ 34,726	\$ 66,611	\$ 2,148	\$ 611	\$ 808,621
Commercial Mortgage	942,977	33,441	63,138	-	-	1,039,556
Construction	99,059	-	2,759	-	-	101,818
Lease Financing	30,733	207,292	16,008	-	23,295	277,328
Total Commercial	1,777,294	275,459	148,516	2,148	23,906	2,227,323
Consumer						
Residential Mortgage	2,246,673	-	141,573	4,625	-	2,392,871
Home Equity	740,307	8,477	19,518	1,982	-	770,284
Automobile	142,399	4,977	50,728	2,684	-	200,788
Other 3	137,111	-	20,838	33,085	4	191,038
Total Consumer	3,266,490	13,454	232,657	42,376	4	3,554,981
Total Loans and Leases	\$ 5,043,784	\$ 288,913	\$ 381,173	\$ 44,524	\$ 23,910	\$ 5,782,304
December 31, 2011						
Commercial						
Commercial and Industrial	\$ 700,570	\$ 42,296	\$ 67,870	\$ 3,325	\$ 3,109	\$ 817,170
Commercial Mortgage	849,551	23,965	64,711	3	20	938,250
Construction	98,669	-	-	-	-	98,669
Lease Financing	30,488	236,203	21,868	-	23,369	311,928
Total Commercial	1,679,278	302,464	154,449	3,328	26,498	2,166,017
Consumer						
Residential Mortgage	2,059,448	-	150,676	5,768	-	2,215,892
Home Equity	750,196	10,512	17,877	2,106	-	780,691
Automobile	140,111	9,073	41,113	2,209	-	192,506
Other 3	139,229	-	19,136	24,828	5	183,198
Total Consumer	3,088,984	19,585	228,802	34,911	5	3,372,287
Total Loans and Leases	\$ 4,768,262	\$ 322,049	\$ 383,251	\$ 38,239	\$ 26,503	\$ 5,538,304

1 For secured loans and leases, classification as U.S. Mainland is made based on where the collateral is located. For unsecured loans and leases, classification as U.S. Mainland is made based on the location where the majority of the borrower's business operations are conducted.

2 Loans classified as Foreign represent those which are recorded in the Company's international business units. Lease financing classified as Foreign represent those with air transportation carriers based outside the United States.

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

Our commercial and consumer lending activities are concentrated primarily in Hawaii and the Pacific Islands. Our commercial loan and lease portfolio to borrowers based on the U.S. Mainland includes leveraged lease financing and participation in Shared National Credits. Our consumer loan and lease portfolio includes limited lending activities on the U.S. Mainland.

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Other Assets

Table 9 presents the major components of other assets.

Other Assets	Table 9	
(dollars in thousands)	September 30, 2012	December 31, 2011
Bank-Owned Life Insurance	\$ 217,247	\$ 213,113
Federal Home Loan Bank and Federal Reserve Bank Stock	79,586	79,946
Low-Income Housing and Other Equity Investments	42,786	35,860
Derivative Financial Instruments	48,138	38,085
Prepaid Expenses	24,875	28,979
Accounts Receivable	13,482	13,607
Federal and State Tax Deposits	6,069	6,069
Other	50,392	26,113
Total Other Assets	\$ 482,575	\$ 441,772

Other assets increased by \$40.8 million or 9% from December 31, 2011. The increase in other assets from December 31, 2011 was primarily due to a \$19.3 million increase in receivables related to the settlement of investment securities that matured. Also contributing to the increase was a \$10.1 million increase in the fair value of our derivative financial instruments, a \$10.5 million increase in commitments to fund low-income housing investments, and a \$4.1 million increase in the value of our bank-owned life insurance. This was partially offset by a \$5.6 million decrease in prepaid FDIC assessments due to amortization recorded in the first nine months of 2012.

As of September 30, 2012, the carrying value of our Federal Home Loan Bank of Seattle (FHLB) stock was \$60.7 million and consisted of 607,461 shares valued at a par value of \$100 per share. Our investment in the FHLB is a condition of membership and, as such, is required to obtain credit and other services from the FHLB. As of June 30, 2012, the FHLB met all of its regulatory capital requirements, but remained classified as undercapitalized by its primary regulator, the Federal Housing Finance Agency (the Finance Agency), due to several factors including the possibility that further declines in the value of its private-label mortgage-backed securities could cause it to fall below its risk-based capital requirements. However, on September 7, 2012, the FHLB reported that its financial health has been steadily improving. As such, the Finance Agency upgraded the FHLB s classification to adequately capitalized, which will allow it, conditions permitting, to repurchase a small amount of excess capital stock for the first time since December 2008. In 2007, the Company requested the redemption of 361,645 shares. On September 24, 2012, the FHLB redeemed 5,463 shares at par value of \$100 per share for a total of \$546,300. This redemption reduced our holdings in FHLB stock from \$61.3 million to \$60.7 million.

We consider our investment in the FHLB as a long-term investment and we value the investment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. We understand that in addition to meeting all of its regulatory capital requirements, as of June 30, 2012, the FHLB met all minimum financial requirements stipulated under a Consent Order issued by the Finance Agency in October 2010. To our knowledge, the FHLB also continues to meet its debt obligations and if needed has an additional source of liquidity available to U.S. Government-Sponsored Enterprises through the U.S. Treasury. Based upon the foregoing, we have not recorded an impairment of the carrying value of our FHLB stock as of September 30, 2012.

Deposits

Table 10 presents the composition of our deposits by major customer categories.

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Deposits

	September 30,		Table 10	
(dollars in thousands)	2012		December 31,	
	2012		2011	
Consumer	\$	5,369,724	\$	5,241,827
Commercial		4,394,745		4,320,712
Public and Other		1,456,078		1,030,084
Total Deposits	\$	11,220,547	\$	10,592,623

Our strong brand continues to play a key role as we compete with other financial institutions for a share of the deposit market.

Customers continue to seek liquidity and safety in light of the slow pace of economic recovery both in Hawaii and on the U.S. Mainland. Deposit balances as of September 30, 2012 increased by \$627.9 million or 6% from December 31, 2011. The increase was primarily due to a \$486.0 million increase in public time deposits, mainly the result of local government entities transferring funds from repurchase agreements to time deposits. Consumer and commercial deposits also rose due to increases in demand and savings account balances, partially offset by a decrease in time deposits.

Table 11 presents the composition of our savings deposits.

Savings Deposits

	September 30,		Table 11	
(dollars in thousands)	2012		December 31,	
	2012		2011	
Money Market	\$	1,726,186	\$	1,732,999
Regular Savings		2,754,547		2,665,639
Total Savings Deposits	\$	4,480,733	\$	4,398,638

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Table 12 presents our quarterly average balance of time deposits of \$100,000 or more.

Average Time Deposits of \$100,000 or More

	Three Months Ended		Table 12
(dollars in thousands)	September 30,		December 31,
	2012		2011
Average Time Deposits	\$	1,477,636	\$ 769,024

Borrowings

Borrowings consisted of funds purchased as of September 30, 2012 and December 31, 2011. Borrowings were \$10.9 million as of September 30, 2012, relatively unchanged from December 31, 2011. We manage the level of our borrowings to ensure that we have adequate sources of liquidity. Due to our successful deposit gathering efforts and our strong capital levels, our level of borrowings as a source of funds has remained low.

Securities Sold Under Agreements to Repurchase

Table 13 presents the composition of our securities sold under agreements to repurchase.

Securities Sold Under Agreements to Repurchase

	September 30,		Table 13
(dollars in thousands)	2012		December 31,
	2012		2011
Government Entities	\$	218,080	\$ 1,325,998
Private Institutions		600,000	600,000
Total Securities Sold Under Agreements to Repurchase	\$	818,080	\$ 1,925,998

Securities sold under agreements to repurchase as of September 30, 2012 decreased by \$1.1 billion or 58% from December 31, 2011. The decrease was primarily due to local government entities transferring funds from repurchase agreements to time deposits. As of September 30, 2012, the weighted average maturity was 207 days for our securities sold under agreements to repurchase with government entities and 5.2 years for securities sold under agreements to repurchase with private institutions, subject to the private institutions' right to terminate agreements at earlier specified dates which could decrease the weighted average maturity to 2.6 years. As of September 30, 2012, all of our securities sold under agreements to repurchase were at fixed interest rates. As of September 30, 2012, the weighted average interest rate for outstanding agreements with government entities and private institutions was 0.11% and 4.63%, respectively. We have not entered into agreements in which the securities sold and the related liability were not recorded on the consolidated statements of condition.

Long-Term Debt

Long-term debt was \$28.1 million as of September 30, 2012, a \$2.6 million or 9% decrease from December 31, 2011. Due to our strong liquidity position, we have not needed additional long-term funding in recent years.

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Analysis of Business Segments

Our business segments are defined as Retail Banking, Commercial Banking, Investment Services, and Treasury and Other.

Table 14 summarizes net income from our business segments. Additional information about segment performance is presented in Note 8 to the Consolidated Financial Statements.

Business Segment Net Income (dollars in thousands)	Three Months Ended September 30,		Table 14 Nine Months Ended September 30,	
	2012	2011	2012	2011
Retail Banking	\$ 10,279	\$ 11,660	\$ 25,088	\$ 26,411
Commercial Banking	11,507	14,202	40,226	39,996
Investment Services	2,811	3,055	7,202	7,864
Total	24,597	28,917	72,516	74,271
Treasury and Other	16,635	14,389	53,273	46,543
Consolidated Total	\$ 41,232	\$ 43,306	\$ 125,789	\$ 120,814

Retail Banking

Net income decreased by \$1.4 million or 12% in the third quarter of 2012 compared to the same period in 2011 primarily due to a decrease in net interest income and an increase in noninterest expense, partially offset by a decrease in the Provision. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit and loan balances. The increase in noninterest expense was primarily due to start-up costs related to the launch of our new consumer credit card product. The decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment combined with improving credit trends and the underlying risk profile of the loan portfolio.

Net income decreased by \$1.3 million or 5% during the first nine months of 2012 compared to the same period in 2011 primarily due to decreases in net interest income and noninterest income, partially offset by decreases in the Provision and noninterest expense. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit and loan balances. The decrease in noninterest income was primarily due to lower debit card interchange income resulting from the pricing restrictions imposed by the Durbin Amendment, partially offset by higher mortgage banking income. The decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment combined with improving credit trends and the underlying risk profile of the loan portfolio. The decrease in noninterest expense was primarily due to lower allocated expenses related to the overdraft litigation settlement accrued in the second quarter of 2011.

Commercial Banking

Net income decreased by \$2.7 million or 19% in the third quarter of 2012 compared to the same period in 2011 primarily due to decreases in net interest income and noninterest income, partially offset by a decrease in noninterest expense. The decrease in net interest income was due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit balances. The decrease in noninterest income

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was due to lower account analysis, merchant, signature debit and business check card fee income. The decrease in noninterest expense was primarily due to lower other operating and allocated expenses.

Net income increased by \$0.2 million or 1% for the first nine months of 2012 compared to the same period in 2011 primarily due to decreases in the provision for income taxes and noninterest expense, coupled with an increase in noninterest income. These positive variances were partially offset by a decrease in net interest income. The decrease in the provision for income taxes and the increase in noninterest income were attributed to a gain recognized upon a lessee exercising its early buy-out option on two cargo ship leveraged leases. The decrease in noninterest expense was primarily due to lower other operating expense and lower allocated expenses related to the overdraft litigation settlement accrued in the second quarter of 2011. The decrease in net interest income was due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit balances.

Investment Services

Net income decreased by \$0.2 million or 8% in the third quarter of 2012 compared to the same period in 2011 primarily due to a decrease in noninterest income, partially offset by a decrease in the Provision. The decrease in noninterest income was primarily due to a contingent payment received in the third quarter of 2011 related to the 2010 sale of our proprietary mutual funds, partially offset by higher mortgage banking income. The decrease in the Provision reflects the improving credit trends and the underlying risk profile of the loan portfolio.

Net income decreased by \$0.7 million or 8% for the first nine months of 2012 compared to the same period in 2011 primarily due to decreases in noninterest income and net interest income, partially offset by a decrease in noninterest expense. The decrease in noninterest income was primarily due to lower annuity and life insurance fee income from the segment's full service brokerage, coupled with the aforementioned contingent payment received in the third quarter of 2011 related to the 2010 sale of our proprietary mutual funds. This decrease was partially offset by higher mortgage banking income. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio. The decrease in noninterest expense was primarily due to lower salaries and other operating expense.

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Treasury and Other

Net income increased by \$2.2 million or 16% in the third quarter of 2012 compared to the same period in 2011 primarily due to an increase in net interest income and noninterest income. The increase in net interest income was primarily due to lower deposit funding costs. The increase in noninterest income was primarily due to a reduction in net fair value write-downs of mortgage servicing rights.

Net income increased by \$6.7 million or 14% for the first nine months of 2012 compared to the same period in 2011 primarily due to an increase in net interest income coupled with a lower Provision. This was partially offset by a decrease in noninterest income. The increase in net interest income was primarily due to lower deposit funding costs. The decrease in the Provision represents a reduction in the Allowance due to improvements in credit quality. The decrease in noninterest income was primarily due to lower net investment securities gains and a reduction in net fair value write-downs of mortgage servicing rights.

Other organizational units (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) included in Treasury and Other provide a wide-range of support to the Company's other income earning segments. Expenses incurred by these support units are charged to the business segments through an internal cost allocation process.

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Corporate Risk Profile*Credit Risk*

As of September 30, 2012, our overall credit risk position reflects a generally improving Hawaii economy. However, we remain cautious because of the slow pace of economic recovery both in Hawaii and the U.S. Mainland. We also remain concerned about U.S. and global economic volatility.

Although asset quality has improved over the past several years, we remain vigilant in light of the uncertainties in the U.S. economy as well as concerns related to specific segments of our lending portfolio that present a higher risk profile. As of September 30, 2012, the higher risk segments within our loan and lease portfolio were concentrated in residential land loans, home equity loans, and air transportation leases. In addition, loans and leases based on Hawaiian Islands other than Oahu (the neighbor islands) may present a higher risk profile as the neighbor islands have continued to experience higher levels of unemployment and have shown signs of slower economic recovery when compared to Oahu.

We continue to monitor our loan and lease portfolio to identify higher risk segments. We also actively manage exposures with deteriorating asset quality to reduce levels of potential loss exposure and have systematically built our reserves and capital base to address both anticipated and unforeseen issues. Risk management activities have included curtailing activities in some higher risk segments. We have also conducted detailed analysis of portfolio segments and stress tested those segments to ensure that reserve and capital levels are appropriate. We are also performing frequent loan and lease-level risk monitoring and risk rating review which provides opportunities for early interventions to allow for credit exits or restructuring, loan and lease sales, and voluntary workouts and liquidations.

Table 15 presents balances in our loan and lease portfolio which demonstrate a higher risk profile.

Higher Risk Loans and Leases Outstanding		Table 15	
		September 30,	December 31,
(dollars in thousands)		2012	2011
Residential Land Loans	\$	16,513	\$ 18,163
Home Equity Loans		19,774	21,413
Air Transportation		27,765	36,144
Total	\$	64,052	\$ 75,720

As of September 30, 2012, our higher risk loans and leases outstanding decreased by \$11.7 million or 15% from December 31, 2011.

We previously reported a segment of our residential home building loans as representing a higher risk profile. However, as of September 30, 2012, this segment of our residential home building loans has significantly decreased and now represents an exposure of less than \$3.0 million due to paydowns and improved borrower financial performance. As such, we no longer consider this segment of our residential home building loans to be a reportable higher risk loan segment.

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Residential land loans in our residential mortgage portfolio consist of consumer loans secured by unimproved lots. These loans often represent higher risk due to the volatility in the value of the underlying collateral. Our residential land loan portfolio was \$16.5 million as of September 30, 2012, of which \$14.1 million was related to properties on the neighbor islands. The decrease in our higher risk exposure in this portfolio segment for the first nine months of 2012 was primarily due to \$1.4 million in paydowns and \$0.3 million in charge-offs. Residential land loans that have not been modified in a troubled debt restructuring (TDR) are collectively evaluated for impairment in connection with the evaluation of our residential mortgage portfolio. As of September 30, 2012, there was a nominal specific Allowance associated with the remaining balance of our residential land loans and there were no residential land loans that were past due 90 days or more as to principal or interest.

The higher risk segment within our Hawaii home equity lending portfolio was \$19.8 million or 3% of our total home equity loans outstanding as of September 30, 2012. The higher risk segment within our Hawaii home equity portfolio includes those loans originated in 2005 or later, with current monitoring credit scores below 600, and with original loan-to-value (LTV) ratios greater than 70%. Higher risk loans in our Hawaii home equity portfolio are collectively evaluated for impairment in connection with the evaluation of our entire home equity portfolio. As of September 30, 2012, there was no specific Allowance associated with the balance of our higher risk home equity loans. The higher risk home equity loans had a 90 day past due delinquency ratio of 2.9% and \$2.4 million in gross charge-offs were recorded during the first nine months of 2012.

We consider all of our air transportation leases to be of higher risk due to the volatile financial profile of the industry. Domestic air transportation carriers continue to demonstrate a higher risk profile due to fuel costs, pension plan obligations, consumer demand, and marginal pricing power. Carriers are migrating to newer generations of more fuel efficient fleets which is negatively impacting older generation aircraft valuations. We believe that volatile fuel costs, coupled with a slowly recovering economy, could place additional pressure on the financial health of air transportation carriers for the foreseeable future. As of September 30, 2012, our air

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transportation leasing portfolio was comprised of four leveraged leases on aircraft that were originated in the 1990 s and prior. In the first nine months of 2012, we sold one aircraft and terminated the lease and transferred one aircraft to equipment held for sale, a component of other assets, at the lease termination date. These two transactions decreased our higher risk air transportation exposure by \$8.6 million, which had a related Allowance of \$3.4 million. As of September 30, 2012, the Allowance associated with our air transportation leases was \$20.5 million. For the first nine months of 2012, there were no delinquencies in our air transportation lease portfolio and no charge-offs were recorded.

All of these higher risk loans and leases have been considered in our quarterly evaluation of the adequacy of the Allowance.

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Table 16 presents information on non-performing assets (NPA's) and accruing loans and leases past due 90 days or more.

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More	Table 16	
(dollars in thousands)	September 30,	December 31,
Non-Performing Assets	2012	2011
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial		
Commercial and Industrial	\$ 5,635	\$ 6,243
Commercial Mortgage	2,671	2,140
Construction	953	2,080
Lease Financing		5
Total Commercial	9,259	10,468
Consumer		
Residential Mortgage	25,456	25,256
Home Equity	2,502	2,024
Total Consumer	27,958	27,280
Total Non-Accrual Loans and Leases	37,217	37,748
Foreclosed Real Estate	3,067	3,042
Total Non-Performing Assets	\$ 40,284	\$ 40,790
Accruing Loans and Leases Past Due 90 Days or More		
Commercial		
Commercial and Industrial	\$	\$ 1
Total Commercial		1
Consumer		
Residential Mortgage	3,988	6,422
Home Equity	2,755	2,194
Automobile	154	170
Other 1	578	435
Total Consumer	7,475	9,221
Total Accruing Loans and Leases Past Due 90 Days or More	\$ 7,475	\$ 9,222
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	\$ 31,426	\$ 33,703
Total Loans and Leases	\$ 5,782,304	\$ 5,538,304
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.64%	0.68%
Ratio of Non-Performing Assets to Total Loans and Leases, and Foreclosed Real Estate	0.70%	0.74%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases, and Commercial Foreclosed Real Estate	0.46%	0.56%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.84%	0.85%
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases, and Foreclosed Real Estate	0.83%	0.90%
Changes in Non-Performing Assets		
Balance at December 31, 2011	\$ 40,790	
Additions	15,786	
Reductions		

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Payments		(7,874)
Return to Accrual Status		(3,703)
Sales of Foreclosed Real Estate		(3,720)
Charge-offs/Write-downs		(995)
Total Reductions		(16,292)
Balance at September 30, 2012	\$	40,284

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

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NPAs consist of non-accrual loans and leases, and foreclosed real estate. Changes in the level of non-accrual loans and leases typically represent increases for loans and leases that reach a specified past due status, offset by reductions for loans and leases that are charged-off, paid down, sold, transferred to foreclosed real estate, or are no longer classified as non-accrual because they have returned to accrual status.

Total NPAs were \$40.3 million as of September 30, 2012, a decrease of \$0.5 million or 1% from December 31, 2011. The ratio of our non-accrual loans and leases to total loans and leases was 0.64% as of September 30, 2012 and 0.68% as of December 31, 2011.

Commercial and industrial non-accrual loans decreased by \$0.6 million or 10% from December 31, 2011 due to paydowns. As of September 30, 2012, three commercial borrowers comprised 99% of the non-accrual balance in this category. We individually evaluated these loans for impairment and have previously recorded partial charge-offs of \$5.3 million on two of these loans.

Commercial mortgage non-accrual loans increased by \$0.5 million from December 31, 2011 due to the addition of one loan. We have individually evaluated all four of these loans for impairment and have previously recorded a partial charge-off of \$0.5 million on one of these loans.

There was one construction non-accrual loan as of September 30, 2012 and December 31, 2011. The \$1.1 million decrease from December 31, 2011 was due to a partial charge-off of \$0.3 million and paydowns of \$0.8 million.

Residential mortgage non-accrual loans increased by \$0.2 million or 1% from December 31, 2011 primarily due to \$8.5 million in additions with 15% representing Oahu owner-occupant properties. This increase was partially offset by \$7.9 million in repayments. Residential mortgage non-accrual loans remain at elevated levels due mainly to the lengthy judiciary foreclosure process. As of September 30, 2012, our residential mortgage non-accrual loans were comprised of 64 loans with a weighted average current LTV ratio of 82%.

Foreclosed real estate represents property acquired as the result of borrower defaults on loans. Foreclosed real estate is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market conditions and applicable regulations. Foreclosed real estate remained relatively unchanged from December 31, 2011. During the first nine months of 2012, the addition of several residential properties was offset by the sales of one commercial property and several residential properties.

Included in NPAs are loans that we consider impaired. Impaired loans are defined as loans for which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. Included in impaired loans are all classes of commercial non-accruing loans (except lease financing and small business loans), and all loans modified in a TDR. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment. Impaired loans were \$48.0 million as of September 30, 2012 and \$47.6 million as of December 31, 2011, and had a related Allowance of \$3.3 million as of September 30, 2012 and \$5.5 million as of December 31, 2011. As of September 30, 2012, we have recorded charge-offs of \$12.3 million related to our impaired loans. As of September 30, 2012, our impaired loans have been included in management's assessment of the overall adequacy of the Allowance.

Loans and Leases Past Due 90 Days or More and Still Accruing Interest

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were \$7.5 million as of

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September 30, 2012, a \$1.7 million or 19% decrease from December 31, 2011. The decrease was primarily in our neighbor island residential mortgage portfolio.

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Table 17 presents information on loans with terms that have been modified in a TDR.

Loans Modified in a Troubled Debt Restructuring

	September 30,	Table 17
	2012	December 31,
	2012	2011
(dollars in thousands)		
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	\$ 31,426	\$ 33,703
Restructured Loans Included in Non-Accrual Loans or Accruing Loans Past Due 90 Days or More	9,923	5,127
Total Restructured Loans	\$ 41,349	\$ 38,830

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Loans modified in a TDR increased by \$2.5 million or 6% from December 31, 2011. The majority of our TDRs are residential mortgage loans in which we lowered monthly payments to accommodate the borrowers' financial needs for a period of time. Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated

performance under the modified terms by making six consecutive payments. The increase in loans modified in a TDR from December 31, 2011 was primarily due to additional modifications of residential mortgage loans.

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Table 18 presents the activity in our reserve for credit losses.

Reserve for Credit Losses**Table 18**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(dollars in thousands)	2012	2011	2012	2011
Balance at Beginning of Period	\$ 137,862	\$ 150,395	\$ 144,025	\$ 152,777
Loans and Leases Charged-Off				
Commercial				
Commercial and Industrial	(519)	(4,215)	(3,028)	(7,379)
Construction	-	-	(330)	-
Consumer				
Residential Mortgage	(628)	(1,558)	(3,577)	(5,286)
Home Equity	(1,061)	(2,528)	(5,159)	(7,139)
Automobile	(472)	(715)	(1,436)	(2,541)
Other 1	(2,354)	(1,755)	(5,199)	(4,807)
Total Loans and Leases Charged-Off	(5,034)	(10,771)	(18,729)	(27,152)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial				
Commercial and Industrial	578	994	3,035	1,965
Commercial Mortgage	14	530	48	530
Construction	3	-	3	-
Lease Financing	83	3,405	166	3,499
Consumer				
Residential Mortgage	739	740	1,781	1,621
Home Equity	258	137	993	1,226
Automobile	433	650	1,453	1,951
Other 1	1,454	569	2,636	1,941
Total Recoveries on Loans and Leases Previously Charged-Off	3,562	7,025	10,115	12,733
Net Loans and Leases Charged-Off	(1,472)	(3,746)	(8,614)	(14,419)
Provision for Credit Losses	-	2,180	979	10,471
Balance at End of Period 2	\$ 136,390	\$ 148,829	\$ 136,390	\$ 148,829
Components				
Allowance for Loan and Lease Losses	\$ 130,971	\$ 143,410	\$ 130,971	\$ 143,410
Reserve for Unfunded Commitments	5,419	5,419	5,419	5,419
Total Reserve for Credit Losses	\$ 136,390	\$ 148,829	\$ 136,390	\$ 148,829
Average Loans and Leases Outstanding	\$ 5,716,421	\$ 5,340,406	\$ 5,640,733	\$ 5,326,209
Ratio of Net Loans and Leases Charged-Off to				
Average Loans and Leases Outstanding (annualized)	0.10%	0.28%	0.20%	0.36%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases				
Outstanding	2.27%	2.68%	2.27%	2.68%

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

2 Included in this analysis is activity related to the Company's reserve for unfunded commitments, which is separately recorded in other liabilities in the Consolidated statements of condition.

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We maintain a reserve for credit losses that consists of two components, the Allowance and a reserve for unfunded commitments (the Unfunded Reserve). The reserve for credit losses provides for the risk of credit losses inherent in the loan and lease portfolio and is based on loss estimates derived from a comprehensive quarterly evaluation. The evaluation reflects analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors. The level of the Allowance is adjusted by recording an expense or recovery through the Provision. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Allowance for Loan and Lease Losses

As of September 30, 2012, the Allowance was \$131.0 million or 2.27% of total loans and leases outstanding, compared with an Allowance of \$138.6 million or 2.50% of total loans and leases outstanding as of December 31, 2011. The decrease in the Allowance was commensurate with improvements in credit quality and a generally improving economy in Hawaii. With continued improvement in the Hawaii economy and in our credit quality, including reductions in our higher risk loan segments, we may require a lower level of the Allowance in future periods.

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The allocation of the Allowance between the commercial and consumer categories changed during the first nine months of 2012 based on management's ongoing assessment of the Allowance. Factors contributing to the change in the allocation of the Allowance included management's consideration of energy prices, economic uncertainty both domestically and globally, and the direct and indirect impact these items potentially have on Hawaii tourism, employment, and discretionary spending. We continue to see improvements in our credit quality, with most metrics showing positive trends through the first nine months of 2012.

Net charge-offs of loans and leases were \$1.5 million or 0.10% of total average loans and leases, on an annualized basis, in the third quarter of 2012 compared to \$3.7 million or 0.28% of total average loans and leases, on an annualized basis, in the third quarter of 2011. Net charge-offs of loans and leases were \$8.6 million or 0.20% of total average loans and leases, on an annualized basis, for the first nine months of 2012 compared to \$14.4 million or 0.36% of total average loans and leases, on an annualized basis, for the first nine months of 2011. All of our commercial portfolios were in net recovery positions for the third quarter of 2012. Net charge-offs in our commercial portfolios were \$0.1 million for the first nine months of 2012 compared with \$1.4 million for the same period in 2011. Net charge-offs of loans and leases in the third quarter of 2012 and for the first nine months of 2012 were lower in all of our consumer portfolios compared to the same periods in 2011. Net charge-offs of loans and leases in the third quarter of 2012 and for the first nine months of 2012 were primarily in our home equity and other consumer portfolios. The risk profile of our consumer loan portfolios continue to be negatively impacted by unemployment levels and neighbor island residential real estate prices.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of September 30, 2012, based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The Reserve for Unfunded Commitments

The Unfunded Reserve was \$5.4 million as of September 30, 2012, unchanged from December 31, 2011. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities or loan and lease equivalency factors.

Risks Related to Representation and Warranty Provisions

We sell residential mortgage loans in the secondary market primarily to Fannie Mae. We also pool Federal Housing Administration (FHA) insured and U.S. Department of Veterans Affairs (VA) guaranteed residential mortgage loans for sale to Ginnie Mae. These pools of FHA-insured and VA-guaranteed residential mortgage loans are securitized by Ginnie Mae. The agreements under which we sell residential mortgage loans to Fannie Mae or Ginnie Mae and the insurance or guaranty agreements with FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, and other matters.

As of September 30, 2012, the unpaid principal balance of our portfolio of residential mortgage loans sold was \$2.9 billion. The agreements under which we sell residential mortgage loans require us to deliver various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans where required documents are not delivered or are defective. Investors may require the immediate repurchase of a mortgage loan when an early payment default underwriting review reveals significant underwriting deficiencies, even if the mortgage loan has subsequently been brought current. Upon receipt of a repurchase request, we work with investors or insurers to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor or insurer and to determine if a contractually required repurchase event has occurred. We manage the risk associated with potential repurchases or other forms of settlement through our

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underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. For the first nine months of 2012, we repurchased five residential mortgage loans with an unpaid principal balance totaling \$1.9 million as a result of the representation and warranty provisions contained in these contracts. Three of these loans were delinquent as to principal and interest at the time of repurchase. However, no losses were incurred related to these repurchases. As of September 30, 2012, there were two pending repurchase requests totaling \$0.4 million related to representation and warranty provisions.

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Risks Relating to Residential Mortgage Loan Servicing Activities

In addition to servicing loans in our portfolio, substantially all of the loans we sell to investors are sold with servicing rights retained. The loans we service were originated by us or by other mortgage loan originators. As servicer, our primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales.

Each agreement under which we act as servicer generally specifies a standard of responsibility for actions taken by us in such capacity and provides protection against expenses and liabilities incurred by us when acting in compliance with the respective servicing agreements. However, if we commit a material breach of our obligations as servicer, we may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards vary by investor. These standards and remedies are determined by servicing guides issued by the investors as well as the contract provisions established between the investors and the Bank. Remedies could include repurchase of an affected loan. As of September 30, 2012, there were no pending repurchase requests related to loan servicing activities.

Although to date repurchase requests related to representation and warranty provisions, and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of September 30, 2012, we believe that this exposure is not material due to the historical level of repurchase requests and loss trends and thus have not established a liability for losses related to mortgage loan repurchases. As of September 30, 2012, 99% of our residential mortgage loans serviced for investors were current. We maintain ongoing communications with our investors and will continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in our investor portfolios.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates and prices. We are exposed to market risk as a consequence of the normal course of conducting our business activities. Our market risk management process involves measuring, monitoring, controlling, and mitigating risks that can significantly impact our statements of income and condition. In this management process, market risks are balanced with expected returns in an effort to enhance earnings performance, while limiting volatility.

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

The potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits

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and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments.

Our earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the U.S. and its agencies, particularly the Federal Reserve Bank (the FRB). The monetary policies of the FRB can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

In managing interest rate risk, we, through the Asset/Liability Management Committee (ALCO), measure short and long-term sensitivities to changes in interest rates. The ALCO, which is comprised of members of executive management, utilizes several techniques to manage interest rate risk, which include:

- adjusting balance sheet mix or altering the interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; or
- using derivative financial instruments.

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The use of derivative financial instruments, as detailed in Note 10 to the Consolidated Financial Statements, has generally been limited. This is due to natural on-balance sheet hedges arising out of offsetting interest rate exposures from loans and investment securities with deposits and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by the ALCO. We utilize natural and offsetting economic hedges in an effort to reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

A key element in our ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model. The model is used to estimate and measure the balance sheet sensitivity to changes in interest rates. These estimates are based on assumptions on the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. While such assumptions are inherently uncertain, we believe that these assumptions are reasonable. The model's analytics include the effects of standard prepayment options on mortgages and customer withdrawal options for deposits. As a result, the simulation model attempts to capture the dynamic nature of the balance sheet.

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 19 presents, for the twelve months subsequent to September 30, 2012 and December 31, 2011, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. Based on the net interest income simulation as of September 30, 2012, net interest income sensitivity to changes in interest rates as of September 30, 2012 was more sensitive compared to the sensitivity profile as of December 31, 2011. As a result of our strategy to maintain a relatively short investment portfolio duration, net interest income is expected to increase as interest rates rise. Economic conditions and government intervention continue to result in interest rates remaining relatively low.

Net Interest Income Sensitivity Profile

Table 19

Impact on Future Annual Net Interest Income

(dollars in thousands)	September 30, 2012		December 31, 2011	
Gradual Change in Interest Rates (basis points)				
+200	\$ 7,422	2.1%	\$ 2,934	0.8%
+100	4,383	1.3%	2,036	0.5%
-100	(8,775)	-2.5%	(7,900)	-2.0%
Immediate Change in Interest Rates (basis points)				
+200	\$ 21,506	6.2%	\$ 10,086	2.6%
+100	13,261	3.8%	7,226	1.9%
-100	(27,243)	-7.8%	(25,750)	-6.7%

To analyze the impact of changes in interest rates in a more realistic manner, non-parallel interest rate scenarios are also simulated. These non-parallel interest rate scenarios indicate that net interest income may decrease from the base case scenario should the yield curve flatten or become inverted for a period of time. Conversely, if the yield curve should steepen, net interest income may increase.

Other Market Risks

In addition to interest rate risk, we are exposed to other forms of market risk in our normal business transactions. Foreign currency and foreign exchange contracts expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our trust and asset management income are at risk to fluctuations in the market values of underlying assets, particularly debt and equity securities.

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Also, our share-based compensation expense is dependent on the fair value of the stock options and restricted stock at the date of grant. The fair value of both stock options and restricted stock is impacted by the market price of the Parent's common stock on the date of grant and is at risk to changes in equity markets, general economic conditions, and other factors.

Liquidity Risk Management

The objective of our liquidity risk management process is to manage cash flow and liquidity in an effort to provide continuous access to sufficient, reasonably priced funds. Funding requirements are impacted by loan originations and refinancings, deposit growth, liability issuances and settlements, and off-balance sheet funding commitments. We consider and comply with various regulatory guidelines regarding required liquidity levels and periodically monitor our liquidity position in light of the changing economic environment and customer activity. Based on periodic liquidity assessments, we may alter our asset, liability, and off-balance sheet positions. The ALCO monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. This process, combined with our ability to raise funds in money and capital markets and through private placements, provides flexibility in managing the exposure to liquidity risk.

In an effort to satisfy our liquidity needs, we actively manage our assets and liabilities. We have immediate liquid resources in cash and noninterest-bearing deposits and funds sold. The potential sources of short-term liquidity include interest-bearing deposits as well as the ability to sell certain assets including available-for-sale investment securities. Short-term liquidity is further enhanced by our ability to sell loans in the secondary market and to secure borrowings from the FRB and FHLB. Short-term liquidity is also generated from securities sold under agreements to repurchase, funds purchased, and short-term borrowings. Deposits have historically provided us with a long-term source of stable and relatively lower cost source of funding. Additional funding is available through the issuance of long-term debt. In recent years, we have retired some long-term debt due to our strong liquidity position.

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We continued to maintain a strong liquidity position throughout the third quarter of 2012. As of September 30, 2012, cash and cash equivalents were \$409.9 million, available-for-sale investment securities were \$3.1 billion, and total deposits were \$11.2 billion. As of September 30, 2012, we continued to maintain our excess liquidity primarily in mortgage-backed securities issued by Ginnie Mae, state and municipal securities, and in U.S. Treasury Notes. As of September 30, 2012, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of less than three years.

Capital Management

In our ongoing efforts to maximize shareholder value over time, we regularly review our capital management activities including the amount of earnings we retain in excess of cash dividends paid and the amount and pace of common stock repurchases. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory well-capitalized thresholds by an amount commensurate with our risk profile. Periodically, we may respond to market conditions by implementing changes to our overall balance sheet positioning to manage our capital position.

The Company and the Bank are each subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can cause certain mandatory and discretionary actions by regulators that, if undertaken, could have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation to ensure capital adequacy. As of September 30, 2012, the Company and the Bank were well capitalized under this regulatory framework. The Company's regulatory capital ratios are presented in Table 20 below. There have been no conditions or events since September 30, 2012 that management believes have changed either the Company's or the Bank's capital classifications.

As of September 30, 2012, shareholders' equity was \$1.0 billion, an increase of \$21.9 million from December 31, 2011. Earnings for the first nine months of 2012 of \$125.8 million, common stock issuances of \$11.0 million, and a net increase in unrealized gains related to available-for-sale and held-to-maturity investment securities of \$6.7 million were partially offset by cash dividends paid of \$61.5 million. In the first nine months of 2012, we also repurchased 1.4 million shares of our common stock under our share repurchase program at an average cost per share of \$46.87 and a total cost of \$64.5 million. In the third quarter of 2012, we reduced our share repurchases to \$14.5 million, compared to \$20.0 million in the second quarter of 2012 and \$30.0 million in the first quarter of 2012. This combined with a lower level of total assets, compared to the second quarter of 2012, produced a higher Tier 1 Leverage Ratio of 6.78% compared to 6.57% in the second quarter of 2012. From the beginning of our share repurchase program in July 2001 through September 30, 2012, we repurchased a total of 49.9 million shares of common stock and returned a total of \$1.8 billion to our shareholders at an average cost of \$36.28 per share. As of September 30, 2012, remaining buyback authority under our share repurchase program was \$84.5 million of the total \$1.9 billion repurchase amount authorized by our Board of Directors.

From October 1, 2012 through October 15, 2012, the Parent repurchased an additional 57,500 shares of common stock at an average cost of \$45.33 per share for a total of \$2.6 million. Remaining buyback authority was \$81.9 million as of October 15, 2012. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

In October 2012, the Parent's Board of Directors declared a quarterly cash dividend of \$0.45 per share on the Parent's outstanding shares. The dividend will be payable on December 14, 2012 to shareholders of record at the close of business on November 30, 2012.

We continue to evaluate the potential impact that regulatory proposals may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act, as they continue to progress through the final rule-making process. See the Regulatory Initiatives Related to Liquidity, Capital, and Stress Testing section in MD&A for more information on the potential impact that these regulatory proposals may have on our liquidity and capital requirements.

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Table 20 presents our regulatory capital and ratios as of September 30, 2012 and December 31, 2011.

Regulatory Capital and Ratios

		September 30, 2012	Table 20 December 31, 2011
(dollars in thousands)			
Regulatory Capital			
Shareholders Equity		\$ 1,024,562	\$ 1,002,667
Less:	Goodwill	31,517	31,517
	Postretirement Benefit Liability Adjustments	2,668	2,815
	Net Unrealized Gains on Investment Securities	69,635	62,932
	Other	2,200	2,230
Tier 1 Capital		918,542	903,173
Allowable Reserve for Credit Losses		72,024	68,624
Total Regulatory Capital		\$ 990,566	\$ 971,797
Risk-Weighted Assets		\$ 5,697,581	\$ 5,414,481
Key Regulatory Capital Ratios			
Tier 1 Capital Ratio		16.12%	16.68%
Total Capital Ratio		17.39	17.95
Tier 1 Leverage Ratio		6.78	6.73

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Regulatory Initiatives Related to Liquidity, Capital, and Stress Testing

Basel III

On December 16, 2010, the Basel Committee on Banking Supervision (the BCBS) released the final text of the Basel III package on capital, leverage, and liquidity reforms. Under Basel III, financial institutions are required to have more capital and a higher quality of capital. Accordingly, Basel III increases the minimum regulatory capital ratios, narrows the definition of capital, and requires capital buffers. In addition, Basel III imposes a leverage ratio requirement and liquidity standards.

On June 7, 2012, the Office of the Comptroller of the Currency (the OCC), the FRB, and the FDIC published notices of proposed rulemakings that would revise and replace the agencies' current capital requirements to make them consistent with the above Basel III capital standards.

The new minimum capital requirements will be phased in between January 1, 2013 and January 1, 2015 as follows: (1) the minimum requirement for common equity to total risk-weighted assets will be increased from the current 2.0% to 4.5%; (2) the minimum requirement for the Tier 1 Capital Ratio to be considered adequately capitalized will be increased from the current 4.0% to 6.0%; (3) an additional 2.5% of common equity to total risk-weighted assets will be phased in between January 1, 2016 and January 1, 2019; and (4) a minimum Tier 1 Leverage Ratio of 3.0% will be tested under a stress scenario starting January 1, 2013.

The BCBS quantitative liquidity requirements are not part of the published notices of proposed rulemakings by the OCC, the FRB, and the FDIC. The liquidity proposals under Basel III include: (1) a liquidity coverage ratio (to become effective January 1, 2015); (2) a net stable funding ratio (to become effective January 1, 2018); and (3) a set of monitoring tools to establish minimum reporting requirements of financial institutions to their regulatory supervisors. The liquidity coverage ratio is intended to ensure that banks have sufficient high-quality liquid assets to sustain a significant liquidity stress scenario lasting 30 days. The net stable funding ratio, which has a one year time horizon, is intended to promote the use of more stable sources of funding on an ongoing basis. As of the date of this filing, final regulations have not been issued.

Stress Testing

The Dodd-Frank Act also requires federal banking agencies to issue regulations that require banks with total consolidated assets of more than \$10.0 billion to conduct and publish self-administered annual stress tests to assess the potential impact of different scenarios on the consolidated earnings and capital of each bank and certain related items over a nine-quarter forward-looking planning horizon, taking into account all relevant exposures and activities. On October 9, 2012, the FRB published final rules implementing the Dodd-Frank Act stress testing requirements for banks with total consolidated assets of more than \$10.0 billion. These banks, including the Company, will be required to perform their company-run stress tests after September 30, 2013, submit the required regulatory report to the FRB by March 31, 2014, but they will not be required to publicly disclose the results of this first stress test until June 2015.

Operational Risk

Operational risk represents the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, errors relating to transaction processing and technology, failure to adhere to compliance requirements, business continuation and disaster recovery, and the risk of cyber security attacks. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to

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perform operational functions necessary to our business. The risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity.

The Operating Risk Committee (the ORC) provides oversight and assesses the most significant operational risks facing the Company. We have developed a framework that provides for a centralized operating risk management function through the ORC, supplemented by business unit responsibility for managing operational risks specific to their business units.

We continuously strive to strengthen our system of internal controls to improve the oversight of operational risk. While we believe that internal controls have been designed to minimize operational risks, there is no assurance that business disruption or operational losses will not occur. On an ongoing basis, management reassesses operational risks, implements appropriate process changes, and invests in enhancements to its systems of internal controls. For example, we actively and continuously monitor cyber-attacks such as attempts related to fraud and loss of sensitive customer data. We evaluate internal systems, processes and controls to mitigate loss from cyber-attacks and, to date, have not experienced any material losses.

European Debt Crisis

We continue to monitor the debt crisis in Europe and the potential direct and indirect impact it may have on us. As of September 30, 2012, we had no direct exposure to sovereign European governments and our non-sovereign European exposures posed a low risk of loss to the Company. However, the U.S. and Hawaii economies and our customers may be adversely affected by future developments arising from the debt crisis in Europe.

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Off-Balance Sheet Arrangements, Credit Commitments, and Contractual Obligations

Off-Balance Sheet Arrangements

We hold interests in several unconsolidated variable interest entities (VIEs). These unconsolidated VIEs are primarily low-income housing partnerships. Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value.

The primary beneficiary consolidates the VIE. We have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs.

Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations have not changed materially since previously reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section of MD&A.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of September 30, 2012. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents**Part II - Other Information****Item 1A. Risk Factors**

There are no material changes from the risk factors set forth under Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Parent's repurchases of its common stock during the third quarter of 2012 were as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced	Approximate Dollar Value of Shares that May Yet Be Purchased Under the
			Plans or Programs	Plans or Programs 2
July 1 - 31, 2012	100,697	\$ 46.17	100,000	\$ 94,426,196
August 1 - 31, 2012	118,277	46.72	117,400	88,940,240
September 1 - 30, 2012	95,500	46.94	95,500	84,457,061
Total	314,474	\$ 46.61	312,900	

1 During the third quarter of 2012, 1,574 shares were purchased for a deferred compensation plan. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

2 The share repurchase program was first announced in July 2001. As of September 30, 2012, \$84.5 million remained of the total \$1.9 billion total repurchase amount authorized by the Parent's Board of Directors under the share repurchase program. The program has no set expiration or termination date.

Item 6. Exhibits

A list of exhibits to this Form 10-Q is set forth on the Exhibit Index and is incorporated herein by reference.

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Signatures

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 thereunto duly authorized.

Date: October 22, 2012

Bank of Hawaii Corporation

By: /s/ Peter S. Ho
Peter S. Ho
Chairman of the Board,
Chief Executive Officer, and
President

By: /s/ Kent T. Lucien
Kent T. Lucien
Chief Financial Officer

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Exhibit Index

Exhibit Number

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data File
