

BANK OF HAWAII CORP  
Form 10-Q  
October 28, 2013  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 1-6887

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

Delaware  
(State of incorporation)

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

130 Merchant Street, Honolulu, Hawaii  
(Address of principal executive offices)  
1-888-643-3888

96813  
(Zip Code)

(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

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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 22, 2013, there were 44,522,350 shares of common stock outstanding.

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

(dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Interest Income				
Interest and Fees on Loans and Leases	\$63,918	\$64,668	\$189,467	\$193,269
Income on Investment Securities				
Available-for-Sale	12,038	15,922	42,962	50,623
Held-to-Maturity	24,137	23,232	63,180	74,699
Deposits	3	3	7	6
Funds Sold	177	105	310	353
Other	301	283	870	844
Total Interest Income	100,574	104,213	296,796	319,794
Interest Expense				
Deposits	2,500	2,931	7,725	9,623
Securities Sold Under Agreements to Repurchase	6,551	7,185	20,307	21,739
Funds Purchased	4	7	36	17
Long-Term Debt	632	458	1,941	1,454
Total Interest Expense	9,687	10,581	30,009	32,833
Net Interest Income	90,887	93,632	266,787	286,961
Provision for Credit Losses	—	—	—	979
Net Interest Income After Provision for Credit Losses	90,887	93,632	266,787	285,982
Noninterest Income				
Trust and Asset Management	11,717	11,050	35,692	33,163
Mortgage Banking	4,132	11,745	16,363	24,376
Service Charges on Deposit Accounts	9,385	9,346	27,798	28,162
Fees, Exchange, and Other Service Charges	12,732	11,907	37,799	36,632
Investment Securities Gains (Losses), Net	—	13	—	(77
Insurance	2,177	2,326	6,895	7,003
Bank-Owned Life Insurance	1,365	2,028	3,997	5,248
Other	3,618	3,959	12,401	12,797
Total Noninterest Income	45,126	52,374	140,945	147,304
Noninterest Expense				
Salaries and Benefits	46,552	47,231	140,568	138,292
Net Occupancy	9,847	10,524	29,143	31,098
Net Equipment	4,572	4,523	13,529	15,018
Data Processing	3,697	3,397	10,013	10,144
Professional Fees	2,119	2,494	6,736	7,012
FDIC Insurance	1,913	1,822	5,811	5,981
Other	14,277	14,887	42,745	43,287
Total Noninterest Expense	82,977	84,878	248,545	250,832
Income Before Provision for Income Taxes	53,036	61,128	159,187	182,454
Provision for Income Taxes	15,332	19,896	47,740	56,665
Net Income	\$37,704	\$41,232	\$111,447	\$125,789
Basic Earnings Per Share	\$0.85	\$0.92	\$2.51	\$2.78
Diluted Earnings Per Share	\$0.85	\$0.92	\$2.50	\$2.77
Dividends Declared Per Share	\$0.45	\$0.45	\$1.35	\$1.35
Basic Weighted Average Shares	44,267,356	44,913,348	44,433,967	45,280,541
Diluted Weighted Average Shares	44,479,472	45,050,638	44,588,777	45,421,624

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)

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net Income	\$37,704	\$41,232	\$111,447	\$125,789
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	(6,986 )	9,770	(63,199 )	6,703
Defined Benefit Plans	202	152	481	458
Total Other Comprehensive Income (Loss)	(6,784 )	9,922	(62,718 )	7,161
Comprehensive Income	\$30,920	\$51,154	\$48,729	\$132,950

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

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

(dollars in thousands)	September 30, 2013	December 31, 2012
<b>Assets</b>		
Interest-Bearing Deposits	\$3,048	\$3,393
Funds Sold	254,940	185,682
Investment Securities		
Available-for-Sale	2,277,136	3,367,557
Held to Maturity (Fair Value of \$4,621,491 and \$3,687,676)	4,633,399	3,595,065
Loans Held for Sale	18,795	21,374
Loans and Leases	6,006,642	5,854,521
Allowance for Loan and Lease Losses	(123,680)	(128,857)
Net Loans and Leases	5,882,962	5,725,664
Total Earning Assets	13,070,280	12,898,735
Cash and Noninterest-Bearing Deposits	131,228	163,786
Premises and Equipment	105,181	105,005
Accrued Interest Receivable	46,047	43,077
Foreclosed Real Estate	3,036	3,887
Mortgage Servicing Rights	28,015	25,240
Goodwill	31,517	31,517
Other Assets	433,567	457,125
Total Assets	\$13,848,871	\$13,728,372
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-Bearing Demand	\$3,524,638	\$3,367,185
Interest-Bearing Demand	2,320,452	2,163,473
Savings	4,503,963	4,399,316
Time	1,259,081	1,599,508
Total Deposits	11,608,134	11,529,482
Funds Purchased	9,983	11,296
Securities Sold Under Agreements to Repurchase	847,239	758,947
Long-Term Debt	174,717	128,055
Retirement Benefits Payable	47,338	47,658
Accrued Interest Payable	6,040	4,776
Taxes Payable and Deferred Taxes	40,364	88,014
Other Liabilities	122,370	138,479
Total Liabilities	12,856,185	12,706,707
<b>Shareholders' Equity</b>		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2013 - 57,487,855 / 44,539,247 and December 31, 2012 - 57,319,352 / 44,754,835)	572	571
Capital Surplus	520,510	515,619
Accumulated Other Comprehensive Income (Loss)	(33,510)	29,208
Retained Earnings	1,132,996	1,084,477
Treasury Stock, at Cost (Shares: September 30, 2013 - 12,948,608 and December 31, 2012 - 12,564,517)	(627,882)	(608,210)
Total Shareholders' Equity	992,686	1,021,665
Total Liabilities and Shareholders' Equity	\$13,848,871	\$13,728,372

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 Shareholders' Equity (Unaudited)

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre- hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2012	44,754,835	\$571	\$515,619	\$29,208	\$1,084,477	\$(608,210)	\$1,021,665
Net Income	—	—	—	—	111,447	—	111,447
Other Comprehensive Loss	—	—	—	(62,718 )	—	—	(62,718 )
Share-Based Compensation	—	—	4,226	—	—	—	4,226
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	444,951	1	665	—	(2,458 )	13,521	11,729
Common Stock Repurchased	(660,539 )	—	—	—	—	(33,193 )	(33,193 )
Cash Dividends Paid (\$1.35 per share)	—	—	—	—	(60,470 )	—	(60,470 )
Balance as of September 30, 2013	44,539,247	\$572	\$520,510	\$(33,510)	\$1,132,996	\$(627,882)	\$992,686
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

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 Cash Flows (Unaudited)

(dollars in thousands)	Nine Months Ended September 30,	
	2013	2012
<b>Operating Activities</b>		
Net Income	\$ 111,447	\$ 125,789
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	—	979
Depreciation and Amortization	9,068	10,339
Amortization of Deferred Loan and Lease Fees	(2,756 )	(2,493 )
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	45,609	42,633
Share-Based Compensation	4,226	5,687
Benefit Plan Contributions	(949 )	(5,888 )
Deferred Income Taxes	(8,762 )	(16,793 )
Net Gains on Sales of Loans and Leases	(17,604 )	(11,645 )
Net Losses on Investment Securities	—	77
Proceeds from Sales of Loans Held for Sale	594,735	369,481
Originations of Loans Held for Sale	(577,055 )	(367,965 )
Tax Benefits from Share-Based Compensation	(592 )	(712 )
Net Change in Other Assets and Other Liabilities	11,700	(24,094 )
Net Cash Provided by Operating Activities	169,067	125,395
<b>Investing Activities</b>		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	794,899	737,377
Proceeds from Sales	—	44,844
Purchases	(403,373 )	(452,430 )
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	804,440	689,246
Purchases	(1,293,784 )	(540,472 )
Net Change in Loans and Leases	(159,403 )	(253,521 )
Premises and Equipment, Net	(9,244 )	(13,933 )
Net Cash Provided by (Used in) Investing Activities	(266,465 )	211,111
<b>Financing Activities</b>		
Net Change in Deposits	78,652	627,924
Net Change in Short-Term Borrowings	86,979	(1,107,767 )
Proceeds from Long-Term Debt	50,000	—
Tax Benefits from Share-Based Compensation	592	712
Proceeds from Issuance of Common Stock	11,193	10,356
Repurchase of Common Stock	(33,193 )	(66,245 )
Cash Dividends Paid	(60,470 )	(61,459 )
Net Cash Provided by (Used in) Financing Activities	133,753	(596,479 )
Net Change in Cash and Cash Equivalents	36,355	(259,973 )
Cash and Cash Equivalents at Beginning of Period	352,861	669,909
Cash and Cash Equivalents at End of Period	\$ 389,216	\$ 409,936
<b>Supplemental Information</b>		
Cash Paid for Interest	\$ 28,163	\$ 31,483

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Cash Paid for Income Taxes	54,644	58,625
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	579,888	—
Transfer from Loans to Foreclosed Real Estate	3,829	3,230

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 (collectively, 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, 2012. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Use of Estimates in the Preparation of Financial Statements

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

Investment Securities

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

Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, "Clarifying

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

#### Reclassifications Out of Accumulated Other Comprehensive Income

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

#### Future Application of Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. ASU No. 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 is not expected to have a material 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, 2013 and December 31, 2012 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$449,001	\$7,011	\$(191 )	\$455,821
Debt Securities Issued by States and Political Subdivisions	589,108	9,469	(11,338 )	587,239
Debt Securities Issued by Corporations	280,305	1,347	(6,396 )	275,256
Mortgage-Backed Securities:				
Residential - Government Agencies	702,921	15,571	(1,018 )	717,474
Residential - U.S. Government-Sponsored Enterprises	23,829	1,434	—	25,263
Commercial - Government Agencies	224,711	—	(8,628 )	216,083
Total Mortgage-Backed Securities	951,461	17,005	(9,646 )	958,820
Total	\$2,269,875	\$34,832	\$(27,571 )	\$2,277,136
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$414,558	\$4,082	\$(1,947 )	\$416,693
Debt Securities Issued by States and Political Subdivisions	253,893	2,556	(22 )	256,427
Debt Securities Issued by Corporations	194,094	177	(3,731 )	190,540
Mortgage-Backed Securities:				
Residential - Government Agencies	3,422,851	41,365	(53,289 )	3,410,927
Residential - U.S. Government-Sponsored Enterprises	23,375	1,450	—	24,825
Commercial - Government Agencies	324,628	239	(2,788 )	322,079
Total Mortgage-Backed Securities	3,770,854	43,054	(56,077 )	3,757,831
Total	\$4,633,399	\$49,869	\$(61,777 )	\$4,621,491
December 31, 2012				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$855,070	\$14,936	\$(17 )	\$869,989
Debt Securities Issued by States and Political Subdivisions	753,207	30,159	(955 )	782,411
Debt Securities Issued by Corporations	82,450	1,984	—	84,434
Mortgage-Backed Securities:				
Residential - Government Agencies	1,041,669	27,283	(292 )	1,068,660
Residential - U.S. Government-Sponsored Enterprises	35,234	2,064	—	37,298
Commercial - Government Agencies	524,055	1,907	(1,197 )	524,765
Total Mortgage-Backed Securities	1,600,958	31,254	(1,489 )	1,630,723
Total	\$3,291,685	\$78,333	\$(2,461 )	\$3,367,557
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$190,168	\$5,198	\$—	\$195,366
Debt Securities Issued by Corporations	24,000	4	—	24,004
Mortgage-Backed Securities:				
Residential - Government Agencies	3,349,403	86,673	(1,366 )	3,434,710

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

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

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	\$74,862	\$75,212
Due After One Year Through Five Years	254,924	259,762
Due After Five Years Through Ten Years	644,469	635,390
Due After Ten Years	344,159	347,952
	1,318,414	1,318,316
Mortgage-Backed Securities:		
Residential - Government Agencies	702,921	717,474
Residential - U.S. Government-Sponsored Enterprises	23,829	25,263
Commercial - Government Agencies	224,711	216,083
Total Mortgage-Backed Securities	951,461	958,820
Total	\$2,269,875	\$2,277,136
Held-to-Maturity:		
Due in One Year or Less	\$80,251	\$80,591
Due After One Year Through Five Years	334,307	336,102
Due After Five Years Through Ten Years	99,806	100,778
Due After Ten Years	348,181	346,189
	862,545	863,660
Mortgage-Backed Securities:		
Residential - Government Agencies	3,422,851	3,410,927
Residential - U.S. Government-Sponsored Enterprises	23,375	24,825
Commercial - Government Agencies	324,628	322,079
Total Mortgage-Backed Securities	3,770,854	3,757,831
Total	\$4,633,399	\$4,621,491

Investment securities with carrying values of \$2.6 billion and \$2.9 billion as of September 30, 2013 and December 31, 2012, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

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

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

(dollars in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2013						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$18,693	\$(181 )	\$2,149	\$(10 )	\$20,842	\$(191 )
Debt Securities Issued by States and Political Subdivisions	340,491	(11,337 )	114	(1 )	340,605	(11,338 )
Debt Securities Issued by Corporations	201,817	(6,396 )	—	—	201,817	(6,396 )
Mortgage-Backed Securities:						
Residential - Government Agencies	54,834	(382 )	9,417	(636 )	64,251	(1,018 )
Commercial - Government Agencies	216,083	(8,628 )	—	—	216,083	(8,628 )
Total Mortgage-Backed Securities	270,917	(9,010 )	9,417	(636 )	280,334	(9,646 )
Total	\$831,918	\$(26,924 )	\$11,680	\$(647 )	\$843,598	\$(27,571 )
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$183,850	\$(1,947 )	\$—	\$—	\$183,850	\$(1,947 )
Debt Securities Issued by States and Political Subdivisions	8,105	(22 )	—	—	8,105	(22 )
Debt Securities Issued by Corporations	151,775	(3,731 )	—	—	151,775	(3,731 )
Mortgage-Backed Securities:						
Residential - Government Agencies	1,577,637	(53,289 )	—	—	1,577,637	(53,289 )
Commercial - Government Agencies	239,960	(2,498 )	19,891	(290 )	259,851	(2,788 )
Total Mortgage-Backed Securities	1,817,597	(55,787 )	19,891	(290 )	1,837,488	(56,077 )
Total	\$2,161,327	\$(61,487 )	\$19,891	\$(290 )	\$2,181,218	\$(61,777 )
December 31, 2012						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$2,295	\$(14 )	\$564	\$(3 )	\$2,859	\$(17 )
Debt Securities Issued by States and Political Subdivisions	72,400	(955 )	—	—	72,400	(955 )
Mortgage-Backed Securities:						
Residential - Government Agencies	7,325	(57 )	22,389	(235 )	29,714	(292 )
Commercial - Government Agencies	261,883	(1,197 )	—	—	261,883	(1,197 )
Total Mortgage-Backed Securities	269,208	(1,254 )	22,389	(235 )	291,597	(1,489 )
Total	\$343,903	\$(2,223 )	\$22,953	\$(238 )	\$366,856	\$(2,461 )
Held-to-Maturity:						
Mortgage-Backed Securities:						
Residential - Government Agencies	\$351,762	\$(1,366 )	\$—	\$—	\$351,762	\$(1,366 )
Total	\$351,762	\$(1,366 )	\$—	\$—	\$351,762	\$(1,366 )

The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2013, which was comprised of 243 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of September 30, 2013 and December 31, 2012, the gross unrealized losses reported for mortgage-backed securities were related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of September 30, 2013, included in the Company's investment securities at fair value were securities issued by political subdivisions within the State of Hawaii of \$567.5 million, representing 67% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 76% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of September 30, 2013, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 5% of the total fair value of the Company's municipal debt securities.

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

(dollars in thousands)	September 30, 2013	December 31, 2012
Federal Home Loan Bank Stock	\$58,564	\$ 60,200
Federal Reserve Bank Stock	19,055	18,952
Total	\$77,619	\$ 79,152

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

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

#### Loans and Leases

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

(dollars in thousands)	September 30, 2013	December 31, 2012
Commercial		
Commercial and Industrial	\$ 895,040	\$ 829,512
Commercial Mortgage	1,203,670	1,097,425
Construction	124,230	113,987
Lease Financing	255,550	274,969
Total Commercial	2,478,490	2,315,893
Consumer		
Residential Mortgage	2,282,305	2,349,916
Home Equity	765,841	770,376
Automobile	246,704	209,832
Other <sup>1</sup>	233,302	208,504
Total Consumer	3,528,152	3,538,628
Total Loans and Leases	\$ 6,006,642	\$ 5,854,521

<sup>1</sup> Comprised of other revolving credit, installment, and lease financing.

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income, were \$3.0 million and \$3.8 million for the three months ended September 30, 2013 and 2012, respectively, and \$15.4 million and \$8.5 million for the nine months ended September 30, 2013 and 2012, respectively.

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

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

(dollars in thousands)	Commercial	Consumer	Total
<b>Three Months Ended September 30, 2013</b>			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$70,197	\$54,378	\$124,575
Loans and Leases Charged-Off	(623 )	(4,051 )	(4,674 )
Recoveries on Loans and Leases Previously Charged-Off	1,039	2,740	3,779
Net Loans and Leases Charged-Off	416	(1,311 )	(895 )
Provision for Credit Losses	4,393	(4,393 )	—
Balance at End of Period	\$75,006	\$48,674	\$123,680
<b>Nine Months Ended September 30, 2013</b>			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$72,704	\$56,153	\$128,857
Loans and Leases Charged-Off	(1,271 )	(13,406 )	(14,677 )
Recoveries on Loans and Leases Previously Charged-Off	2,306	7,194	9,500
Net Loans and Leases Charged-Off	1,035	(6,212 )	(5,177 )
Provision for Credit Losses	1,267	(1,267 )	—
Balance at End of Period	\$75,006	\$48,674	\$123,680
<b>As of September 30, 2013</b>			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$8,029	\$3,472	\$11,501
Collectively Evaluated for Impairment	66,977	45,202	112,179
Total	\$75,006	\$48,674	\$123,680
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$35,149	\$36,557	\$71,706
Collectively Evaluated for Impairment	2,443,341	3,491,595	5,934,936
Total	\$2,478,490	\$3,528,152	\$6,006,642
<b>Three Months Ended September 30, 2012</b>			
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
<b>Nine Months Ended September 30, 2012</b>			
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

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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

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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, 2013 and December 31, 2012.

September 30, 2013					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$843,056	\$1,139,051	\$121,226	\$254,766	\$2,358,099
Special Mention	5,076	19,355	—	34	24,465
Classified	46,908	45,264	3,004	750	95,926
Total	\$895,040	\$1,203,670	\$124,230	\$255,550	\$2,478,490
December 31, 2012					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$779,654	\$1,018,128	\$96,058	\$247,401	\$2,141,241
Special Mention	22,759	23,848	15,839	26,540	88,986
Classified	27,099	55,449	2,090	1,028	85,666
Total	\$829,512	\$1,097,425	\$113,987	\$274,969	\$2,315,893
September 30, 2013					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other <sup>1</sup>	Total Consumer
Pass	\$2,258,983	\$761,179	\$246,511	\$232,470	\$3,499,143
Classified	23,322	4,662	193	832	29,009
Total	\$2,282,305	\$765,841	\$246,704	\$233,302	\$3,528,152
Total Recorded Investment in Loans and Leases					\$6,006,642
December 31, 2012					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other <sup>1</sup>	Total Consumer
Pass	\$2,326,216	\$766,912	\$209,646	\$207,917	\$3,510,691
Classified	23,700	3,464	186	587	27,937
Total	\$2,349,916	\$770,376	\$209,832	\$208,504	\$3,538,628
Total Recorded Investment in Loans and Leases					\$5,854,521

<sup>1</sup> Comprised of other revolving credit, installment, and lease financing.

## Aging Analysis

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

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current <sup>2</sup>
As of September 30, 2013								
Commercial								
Commercial and Industrial	\$779	\$11,111	\$8	\$5,295	\$17,193	\$877,847	\$895,040	\$3,696
Commercial Mortgage	573	—	—	2,355	2,928	1,200,742	1,203,670	783
Construction	—	—	—	—	—	124,230	124,230	—
Lease Financing	—	—	—	—	—	255,550	255,550	—
Total Commercial	1,352	11,111	8	7,650	20,121	2,458,369	2,478,490	4,479
Consumer								
Residential Mortgage	7,014	2,508	7,460	20,637	37,619	2,244,686	2,282,305	5,611
Home Equity	3,546	4,518	2,896	2,509	13,469	752,372	765,841	657
Automobile	3,811	614	193	—	4,618	242,086	246,704	—
Other <sup>1</sup>	2,861	1,273	841	—	4,975	228,327	233,302	—
Total Consumer	17,232	8,913	11,390	23,146	60,681	3,467,471	3,528,152	6,268
Total	\$18,584	\$20,024	\$11,398	\$30,796	\$80,802	\$5,925,840	\$6,006,642	\$10,747
As of December 31, 2012								
Commercial								
Commercial and Industrial	\$806	\$10,382	\$27	\$5,534	\$16,749	\$812,763	\$829,512	\$4,963
Commercial Mortgage	188	542	—	3,030	3,760	1,093,665	1,097,425	1,810
Construction	—	—	—	833	833	113,154	113,987	833
Lease Financing	—	—	—	—	—	274,969	274,969	—
Total Commercial	994	10,924	27	9,397	21,342	2,294,551	2,315,893	7,606
Consumer								
Residential Mortgage	6,891	5,433	6,908	21,725	40,957	2,308,959	2,349,916	4,941
Home Equity	6,768	3,267	2,701	2,074	14,810	755,566	770,376	191
Automobile	3,758	586	186	—	4,530	205,302	209,832	—
Other <sup>1</sup>	2,144	1,093	587	—	3,824	204,680	208,504	—
Total Consumer	19,561	10,379	10,382	23,799	64,121	3,474,507	3,538,628	5,132
Total	\$20,555	\$21,303	\$10,409	\$33,196				