BANK OF HAWAII CORP
Form 10-K
February 29, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark
One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2015
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	for the transition period from _________ to __________

Commission File Number 1-6887
BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	99-0148992
(State of incorporation)	(I.R.S. Employer Identification No.)
130 Merchant Street, Honolulu, Hawaii	96813
(Address of principal executive offices)	(Zip Code)

1-888-643-3888
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x
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 x No o
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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of $66.68, was approximately $2,840,055,498. There was no non-voting common equity of the registrant outstanding on that date.

As of February 17, 2016, there were 43,104,770 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2016 Annual Meeting of Shareholders to be held on April 29, 2016, are incorporated by reference into Part III of this Report.

Bank of Hawaii Corporation
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Part I
Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii. The Parent's principal operating subsidiary, Bank of Hawaii (the "Bank"), was organized on December 17, 1897 and is chartered by the State of Hawaii. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") and the Bank is a member of the Federal Reserve System.

The Bank, directly and through its subsidiaries, provides a broad range of financial products and services primarily to customers in Hawaii, Guam, and other Pacific Islands. References to "we," "our," "us," or "the Company" refer to the Parent and its subsidiaries and are consolidated for financial reporting purposes. The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., and Pacific Century Life Insurance Corporation. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage, investment advisory services, and providing credit insurance.

We are organized into four business segments for management reporting purposes: Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 13 to the Consolidated Financial Statements for more information.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at www.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit and Risk Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website at www.boh.com. Printed copies of this information may be obtained, without charge, by written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813.

Competition

The Company operates in a highly competitive environment subject to intense competition from traditional financial service providers including banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services including financial service subsidiaries of commercial and manufacturing companies. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the Internet, may be based outside of the markets that we serve. By emphasizing our extensive branch network, exceptional service levels, and knowledge of local trends and conditions, we believe the Company has developed an effective competitive advantage in its market.

Supervision and Regulation

Our operations are subject to extensive regulation by federal and state governmental authorities. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system and capital markets.

The following information describes some of the more significant laws and regulations applicable to us. The descriptions are qualified in their entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

The Parent

The Parent is registered as a BHC under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is subject to the supervision of and to examination by the Board of Governors of the Federal Reserve Bank (the "FRB"). The Parent is also registered as a financial institution holding company under the Hawaii Code of Financial Institutions (the "Code") and is subject to the registration, reporting, and examination requirements of the Code.

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The BHC Act prohibits, with certain exceptions, a BHC from acquiring beneficial ownership or control of more than 5% of the voting shares of any company, including a bank, without the FRB's prior approval. The Act also prohibits a BHC from engaging in any activity other than banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or furnishing services to or performing services for its subsidiaries.

Under FRB policy, a BHC is expected to serve as a source of financial and management strength to its subsidiary bank. A BHC is also expected to commit resources to support its subsidiary bank in circumstances where it might not do so absent such a policy. Under this policy, a BHC is expected to stand ready to provide adequate capital funds to its subsidiary bank during periods of financial adversity and to maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act, banks and bank holding companies from any state are permitted to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. The Bank also has the ability, subject to certain restrictions, to acquire branches outside its home state by acquisition or merger. The establishment of new interstate branches is also possible in those states with laws that expressly permit de novo branching. Because the Code permits de novo branching by out-of-state banks, those banks may establish new branches in Hawaii. Interstate branches are subject to certain laws of the states in which they are located.

Bank of Hawaii

The Bank is subject to supervision and examination by the FRB of San Francisco and the State of Hawaii Department of Commerce and Consumer Affairs' ("DCCA") Division of Financial Institutions. The Bank is subject to extensive federal and state regulations that significantly affect its business and activities. These regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that may represent unsafe or unsound banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, and executive compensation. These regulatory bodies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties, the issuance of cease-and-desist orders, and other actions.

Bankoh Investment Services, Inc., the broker-dealer and investment advisor subsidiary of the Bank, is incorporated in Hawaii and is regulated by the SEC, the Financial Industry Regulatory Authority, and the DCCA's Business Registration Division. Pacific Century Life Insurance Corporation is incorporated in Arizona and is regulated by the State of Arizona Department of Insurance.

The Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has broadly affected the financial services industry and significantly restructured the financial regulatory regime since its passage in July 2010. The Dodd-Frank Act and its regulations have implemented sweeping changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services sector by requiring ongoing stress testing of banks' capital, mandating higher capital and liquidity requirements, establishing new standards for mortgage lenders, increasing regulation of executive and incentive-based compensation and numerous other provisions. Additional provisions in the Dodd-Frank Act also limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds. All of these new rules and regulations are expected to result in increased compliance and other costs, increased legal risk and decreased product offerings.

As is discussed throughout the following sections, many aspects of the Dodd-Frank Act are subject to further rulemaking which will take effect over several years. These new rules and regulations will continue to significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions, including the Company and the Bank. Although we have already experienced some decrease in revenue as a result of the rules implemented under the Dodd-Frank Act, it remains difficult to anticipate or predict the overall financial impact the Dodd-Frank Act will continue to have on the Company, our customers, our financial condition and results of operations, or the financial industry in general.

Capital Requirements

In December 2010, the oversight body of the Basel Committee on Banking Supervision finalized a set of international guidelines for determining regulatory capital known as “Basel III,” which includes reforms regarding capital, leverage, and liquidity. In July 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC") and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The final rules became effective for the Company on January 1, 2015. The final rules also include a new capital conservation buffer, which will be phased in beginning January 1, 2016 and will increase annually until fully phased-in by January 1, 2019. See the “Regulatory Initiatives Affecting the Banking Industry” section in MD&A for more information on Basel III.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Under regulations established by the federal banking agencies, upon implementing the Basel III capital guidelines, a "well capitalized" institution must have a Common Equity Tier 1 Capital Ratio of at least 6.5%, a Tier 1 Capital Ratio of at least 8%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2015, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of that financial institution. See Note 11 to the Consolidated Financial Statements for more information.

As part of implementing the provisions of the Dodd-Frank Act, in October 2012, the FRB published final rules requiring banks with total consolidated assets of more than $10.0 billion to conduct and publish annual stress tests. In March 2014, the FRB, OCC, and FDIC issued final supervisory guidance for these stress tests. Compliance with these requirements began in October 2013. See the “Regulatory Initiatives Affecting the Banking Industry” section in MD&A for more information on stress testing.

Dividend Restrictions

The Parent is a legal entity separate and distinct from the Bank. The Parent's principal source of funds to pay dividends on its common stock and to service its debt is dividends from the Bank. Various federal and state laws and regulations limit the amount of dividends the Bank may pay to the Parent without regulatory approval. The FRB is authorized to determine the circumstances when the payment of dividends would be an unsafe or unsound practice and to prohibit such payments. The right of the Parent, its shareholders, and creditors, to participate in any distribution of the assets or earnings of its subsidiaries is also subject to the prior claims of creditors of those subsidiaries. For information regarding the limitations on the Bank's ability to pay dividends to the Parent, see Note 11 to the Consolidated Financial Statements.

Transactions with Affiliates and Insiders

Under federal law, the Bank is subject to restrictions that limit the transfer of funds or other items of value to the Parent, and any other non-bank affiliates in so-called "covered transactions." In general, covered transactions include loans, leases, other extensions of credit, investments and asset purchases, as well as other transactions involving the transfer of value from the Bank to an affiliate or for the benefit of an affiliate. The Dodd-Frank Act broadened the definition of affiliate, and the definition of covered transaction to include securities borrowing/lending, repurchase/reverse repurchase agreements, and derivative transactions that the Bank may have with an affiliate. The Dodd-Frank Act also strengthened the collateral requirements and limited FRB exemptive authority.

Unless an exemption applies, covered transactions by the Bank with a single affiliate are limited to 10% of the Bank's capital and surplus, and with respect to all covered transactions with affiliates in the aggregate, they are limited to 20% of the Bank's capital and surplus.

The Federal Reserve Act also requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other non-affiliated persons. The FRB has issued Regulation W which codifies the above restrictions on transactions with affiliates.

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The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to as "insiders") contained in the Federal Reserve Act and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus. The definition of "extension of credit" for transactions with executive officers, directors, and principal shareholders was also expanded under the Dodd-Frank Act to include credit exposure arising from derivative transactions, repurchase or reverse repurchase agreements, and securities lending or borrowing transactions.

Volcker Rule

On December 10, 2013, the final “Volcker Rule” under the Dodd-Frank Act was approved by the FRB, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission. The Volcker Rule prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The final rule may limit or restrict the Company’s activities related to proprietary trading and private equity investing. In connection with the issuance of the regulations, the FRB exercised its authority to extend the conformance period for compliance with the Volcker Rule by one year from July 21, 2014 to July 21, 2015. During the remaining conformance period, each banking entity is expected to engage in good faith efforts that will result in conformance of all its activities and investments with the requirements of the Volcker Rule by July 21, 2015. On December 18, 2014, the FRB issued an order extending, for an additional year to July 21, 2016, the Volcker Rule conformance period for banking entities to conform their investments in and relationships with covered funds subject to the Volcker Rule that were in place prior to December 31, 2013. No extension was granted for the conformance period for proprietary trading which expired on July 21, 2015. The Company does not anticipate that the Volcker Rule will have a material impact on the Company’s Consolidated Financial Statements, but continues to evaluate its application to our current and future operations.

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund (the "DIF"), which the FDIC maintains by assessing depository institutions an insurance premium. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased permanently from $100,000 to $250,000, per depositor, for each account ownership category. The Company pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC.
Our FDIC insurance assessment was $8.7 million in 2015, $7.9 million in 2014, and $7.8 million in 2013.

Effective January 1, 2015, the FDIC modified certain elements of its deposit insurance assessment system for insured depository institutions. The FDIC revised its methodology for determining insurance assessment rates, and the ratios and ratio thresholds for “well-capitalized,” “adequately capitalized,” and “undercapitalized" evaluation categories used in its risk-based deposit insurance assessment system to conform to the prompt corrective action capital ratio thresholds adopted as part of the U.S, Basel III capital rules.

Other Safety and Soundness Regulations

As required by FDICIA, the federal banking agencies' prompt corrective action powers impose progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. These actions can include: requiring an insured depository institution to adopt a capital restoration plan guaranteed by the institution's parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distributions without prior regulatory approval; and, ultimately, appointing a receiver for the institution.

The federal banking agencies also have adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation and benefits. The federal regulatory agencies may take action against a financial institution that does not meet such standards.

Depositor Preference

The FDIC provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for

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administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the Community Reinvestment Act (the "CRA"). In addition, federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated third parties.

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods.
Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received an "outstanding" rating in its most recent CRA evaluation.

The Company is subject to a number of federal and state consumer protection laws that extensively govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Company's ability to raise interest rates and subject the Company to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state attorney general and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for transactions the Company may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the "CFPB") as an agency responsible for promulgating regulations designed to protect consumers including implementing, examining and enforcing compliance with federal consumer financial laws. The Dodd-Frank Act adds prohibitions on unfair, deceptive and abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. The CFPB, along with other prudential regulators and the Department of Justice, have also expanded the focus of their regulatory examinations and investigations to include "fair and responsible banking." Fair and responsible banking strives to provide equal credit opportunities to all applicants of a community, to prohibit discrimination by lenders on the basis of certain borrower characteristics, and to ensure that a bank's practices are not deceptive, unfair, or take unreasonable advantage of consumers or businesses when offering retail financial services. The focus also has been expanded to encompass the entire loan life cycle, including post-closing activities such as collections and servicing, and pre-application activities such as marketing and loan solicitation and origination. Fair and responsible banking is intended to ensure that banks provide fair and equitable access to the entire spectrum of financial products and services, including credit cards, student and auto lending, to all consumers and businesses in the marketplaces they serve, and strive to be clear and transparent in all communications with customers, treating them fairly in all circumstances.

Some of the rules and regulations under the Dodd-Frank Act have not yet been implemented. Accordingly, it remains difficult to predict the ultimate impact the Dodd-Frank Act will have on our financial condition or results of operations.

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Bank Secrecy Act / Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. The USA PATRIOT Act substantially broadened the scope of U.S. anti-money laundering laws and regulations by creating new laws, regulations, and penalties, imposing significant new compliance and due diligence obligations, and expanding the application of those laws outside the U.S. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report potential money laundering and terrorist financing and to verify the identity of its customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions.

Employees

As of December 31, 2015, we had approximately 2,200 employees.

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Executive Officers of the Registrant

Listed below are executive officers of the Parent as of December 31, 2015.

Peter S. Ho, 50
Chairman and Chief Executive Officer since July 2010 and President since April 2008; Vice Chairman and Chief Banking Officer from January 2006 to April 2008.

Kent T. Lucien, 62
Vice Chairman and Chief Financial Officer since April 2008; Trustee, C. Brewer & Co., Ltd. from April 2006 to December 2007.

Peter M. Biggs, 64
Vice Chairman since February 2011 and Chief Retail Officer since April 2012; Senior Executive Vice President, Consumer Products Division from March 2006 to February 2011.

Sharon M. Crofts, 50
Vice Chairman of Operations and Technology since October 2012; Senior Executive Vice President of Operations from May 2008 to October 2012; Executive Vice President and Chief Compliance Officer from December 2005 to May 2008.

Wayne Y. Hamano, 61
Vice Chairman since December 2008 and Chief Commercial Officer since September 2007 and oversees the Commercial Banking and Investment Services Groups; Senior Executive Vice President, Hawaii Commercial Banking Division from July 2006 to September 2007.

Mark A. Rossi, 66
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell PC from July 2004 to January 2007.

Mary E. Sellers, 59
Vice Chairman and Chief Risk Officer since July 2005.

Donna A. Tanoue, 61
Vice Chairman, Client Relations and Community Activities since February 2007; President of the Bank of Hawaii Foundation since April 2006.

Derek J. Norris, 66
Vice Chairman, Residential and Consumer Lending, since August 2014; Senior Executive Vice President and Controller since December 2009; Executive Vice President and Controller since December 2008; Executive Vice President and General Auditor from January 2002 to December 2008.

Dean Y. Shigemura, 52
Senior Executive Vice President and Controller since August 2014; Senior Executive Vice President and Treasurer since May 2008.

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Item 1A. Risk Factors

There are a number of risks and uncertainties that could negatively affect our business, financial condition or results of operations. We are subject to various risks resulting from changing economic, environmental, political, industry, business, financial and regulatory conditions. The risks and uncertainties described below are some of the important inherent risk factors that could affect our business and operations, although they are not the only risks that may have a material adverse effect on the Company.

Changes in business and economic conditions, in particular those of Hawaii, Guam and other Pacific Islands, could lead to lower revenue, lower asset quality, and lower earnings.

Unlike larger national or other regional banks that are more geographically diversified, our business and earnings are closely tied to the economies of Hawaii and the Pacific Islands. These local economies rely heavily on tourism, the U.S. military, real estate, construction, government, and other service-based industries. Lower visitor arrivals or spending, real or threatened acts of war or terrorism, increases in energy costs, the availability of affordable air transportation, climate change, natural disasters and adverse weather, public health issues including Asian air pollution, and Federal, State of Hawaii and County budget issues may impact consumer and corporate spending. As a result, such events may contribute to a significant deterioration in general economic conditions in our markets which could adversely impact us and our customers' operations.

General economic conditions in Hawaii remained healthy in 2015, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. However, deterioration of economic conditions, either locally or nationally, could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings. The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be negatively impacted by a decline in the value of collateral.

Changes in defense spending by the federal government as a result of congressional budget cuts could adversely impact the economy in Hawaii and the Pacific Islands.

The U.S. military has a major presence in Hawaii and the Pacific Islands. As a result, the U.S. military is an important aspect of the economies in which we operate. The funding of the U.S. military is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events, macroeconomic conditions, and the ability and willingness of the U.S. Government to enact legislation. U.S. Government appropriations have been and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. Cuts in defense and other security spending could have an adverse impact on the economies in which we operate, which could adversely affect our business, financial condition, and results of operations.

Changes in interest rates could adversely impact our results of operations and capital.

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in response to general economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads, any of which could adversely affect our financial condition or results of operations.

Credit losses could increase if economic conditions stagnate or deteriorate.

Although economic conditions are currently healthy nationally and in Hawaii, increased credit losses for us could result if economic conditions stagnate or deteriorate. The risk of nonpayment on loans and leases is inherent in all lending activities. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan, lease, and commitment portfolios as of the balance sheet date. Management makes various assumptions and judgments about the loan and lease portfolio in determining the level of the reserve for credit losses. Many of these assumptions are based on current economic conditions.

Should economic conditions stagnate or deteriorate nationally or in Hawaii, we may experience higher credit losses in future periods.

Inability of our borrowers to make timely repayments on their loans, or decreases in real estate collateral values may result in increased delinquencies, foreclosures, and customer bankruptcies, any of which could have a material adverse effect on our financial condition or results of operations.

Legislation and regulatory initiatives affecting the financial services industry, including new restrictions and requirements, could detrimentally affect the Company's business.

In light of the financial crisis which began in 2008, regulators have increased their focus on the regulation of financial institutions. Laws and regulations, and in particular banking and securities laws, are under intense scrutiny. The Dodd-Frank Act, enacted in July 2010, triggered sweeping reforms to the financial services industry. Although many of the rules and regulations implementing the Dodd-Frank Act have already gone into effect, some of the rules required to be implemented under the Dodd-Frank Act have yet to be implemented and will require further interpretation and rulemaking by federal regulators. We are closely monitoring all relevant sections of the Dodd-Frank Act in our efforts to comply with these new laws and regulations. While the ultimate effect of the Dodd-Frank Act on us cannot currently be determined, the law and its implementing rules and regulations have resulted and are likely to continue to result in increased compliance costs and fees, along with possible restrictions on our operations, any of which may have a material adverse effect on our operating results and financial condition.

The CFPB has begun to exercise its broad rule-making, supervisory, and examination authority of consumer financial products, as well as expanded data collection and enforcement powers, over depository institutions with more than $10.0 billion in assets. The CFPB has recently focused its rulemaking in several areas, particularly in the area of mortgage reform involving the Real Estate Settlement Procedures Act (Reg X), the Truth-in-Lending Act (Reg Z), the Equal Credit Opportunity Act (Reg B), and the Fair Debt Collection Practices Act. On January 10, 2014, the CFPB issued a number of new rules impacting residential mortgage lending practices. As a result of greater regulatory scrutiny of consumer financial products, the Company has become subject to more and expanded regulatory examinations and/or investigations, which also could result in increased costs and harm to our reputation in the event of a failure to comply with the increased regulatory requirements. All of these rules have created challenges for product and service offerings, operations and compliance programs for the Company.

Regulation of overall safety and soundness, the CRA, federal housing and flood insurance, as they pertain to consumer financial products and services, remain with the FRB. Many of the rules and regulations of the CFPB have not been implemented, and therefore, the scope and impact of the CFPB's actions cannot be determined at this time. This creates significant uncertainty for us and for the financial services industry in general.

These new laws, regulations, and changes may continue to increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability. The future impact of the many provisions of the Dodd-Frank Act and other legislative and regulatory initiatives on the Company's business and results of operations will depend upon regulatory interpretation and rulemaking that still must be undertaken. As a result, we are unable to predict the ultimate impact of the Dodd-Frank Act or of other future legislation or regulation, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition, and results of operations.

Changes in the capital, leverage, liquidity requirements and the introduction of stress testing requirements for financial institutions could materially affect future requirements of the Company.

Under Basel III, financial institutions are required to have more capital and a higher quality of capital. Under the final rules issued by the banking regulators, minimum requirements increased for both the quantity and quality of capital held by the Company. The phase-in period for the final rules began for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule.

On October 9, 2012, the FRB published final rules implementing the stress testing requirements for banks, such as the Company, with total consolidated assets of more than $10.0 billion but less than $50.0 billion. The final stress testing rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

Compliance with Basel III and the results of our stress testing may result in increased capital, liquidity, and disclosure requirements. See the "Regulatory Initiatives Affecting the Banking Industry" section in MD&A for more information.

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Consumer protection initiatives related to the foreclosure process could affect our remedies as a creditor.

Proposed consumer protection initiatives related to the foreclosure process, including voluntary and/or mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure, could increase our credit losses or increase our expense in pursuing our remedies as a creditor.

In recent years, Hawaii overhauled its rules for nonjudicial, or out-of-court, foreclosures. Previously, nonjudicial foreclosures were how most lenders handled foreclosures in Hawaii, as the process was quicker and less expensive than going through court. The revised rules had the unintended effect of many lenders forgoing nonjudicial foreclosures entirely and filing all foreclosures in court, creating a backlog that has slowed the judicial foreclosure process. Although some of the backlog has been cleared, many lenders continue to use the judicial foreclosure process exclusively, making the foreclosure process very lengthy. There is discussion about further changes to the foreclosure laws in Hawaii, with the potential to create further delays for new and existing cases. In addition, the joint federal-state settlement with several mortgage servicers over foreclosure practice abuses creates additional uncertainty for the Company and the mortgage servicing industry in general as it relates to the implementation of mortgage loan modifications and loss mitigation practices in the future. The manner in which these issues are ultimately resolved could impact our foreclosure procedures, which in turn could affect our financial condition or results of operations.

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services, including financial service subsidiaries of commercial and manufacturing companies, all of which may be based in or outside of Hawaii and the Pacific Islands. We expect competitive conditions to intensify as consolidation in the financial services industry continues. The financial services industry is also likely to become more competitive as further technological advances enable more companies, including non-depository institutions, to provide financial services. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through alternative delivery channels such as the Internet, may be based outside of the markets that we serve. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act, banks and bank holding companies from any state are permitted to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. Because the Code permits de novo branching by out-of-state banks, those banks may establish new branches in Hawaii. Interstate branches are subject to certain laws of the states in which they are located. Failure to effectively compete, innovate, and to make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

The Parent's liquidity is dependent on dividends from the Bank.

The Parent is a separate and distinct legal entity from the Bank. The Parent receives substantially all of its cash in the form of dividends from the Bank. These dividends are the principal source of funds to pay, for example, dividends on the Parent's common stock or to repurchase common stock under the Parent's share repurchase program. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Parent. If the amount of dividends paid by the Bank is further limited, the Parent's ability to meet its obligations, pay dividends to shareholders, or repurchase stock, may be further limited as well.

A failure in or breach of our operational systems, information systems, or infrastructure, or those of our third party vendors and other service providers, may result in financial losses, loss of customers, or damage to our reputation.

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. These third parties with which we do business or that facilitate our business activities, including exchanges, clearing firms, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including breakdowns or failures of their own systems or capacity constraints. Although we have safeguards and business continuity plans in place, our business operations may be adversely affected by significant and

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widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses, loss of customers, or damage to our reputation.

An interruption or breach in security of our information systems or those related to merchants and third party vendors, including as a result of cyber attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, or result in financial losses.

Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. These cybersecurity threats and attacks may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may result from human error, fraud or malice on the part of external or internal parties, or from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including credit card numbers and other personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. As customer, public, legislative and regulatory expectations regarding operational and information security have increased, our operations systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, credit card numbers, bank account information or other personal information or to introduce viruses or other malware through "trojan horse" programs to our customers' computers. These communications may appear to be legitimate messages sent by the Bank or other businesses, but direct recipients to fake websites operated by the sender of the e-mail or request that the recipient send a password or other confidential information via e-mail or download a program. Despite our efforts to mitigate these threats through product improvements, use of encryption and authentication technology to secure online transmission of confidential consumer information, and customer and employee education, such attempted frauds against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber crime are complex and continue to evolve. In light of several recent high-profile retail data breaches involving customer personal and financial information, we believe the potential impact on the Company and any exposure to consumer losses and the cost of technology investments to improve security could cause customer and/or Bank losses, damage to our brand, and increase our costs.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well-protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected.

Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption could: 1) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; 2) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers, including account numbers and other financial information; 3) result in a violation of applicable privacy, data breach and other laws, subjecting the Bank to additional regulatory scrutiny and exposing the Bank to civil litigation, governmental fines and possible financial liability; 4) require significant management attention and resources to remedy the damages that result; or 5) harm our reputation or cause a decrease in the number of customers that choose to do business with us or reduce the level of business that our customers do with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our results of operations, financial condition, and cash flows as well as damage our brand and reputation.

Negative public opinion could damage our reputation and adversely impact our earnings and liquidity.

Reputational risk, or the risk to our business, earnings, liquidity, and capital from negative public opinion could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues, or inadequate protection of customer information. We expend significant resources to comply with regulatory requirements. Failure to comply could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers, and adversely impact our earnings and liquidity.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are, from time to time, involved in various legal proceedings arising from our normal business activities. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of these cases is uncertain. Substantial legal liability or significant regulatory action against us could have material financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could materially affect our results of operations and financial condition. Based on information currently available, we believe that the eventual outcome of known actions against us will not be materially in excess of such amounts accrued by us. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may be material to our financial results for any particular period.

Changes in income tax laws or interpretations or in accounting standards could materially affect our financial condition or results of operations.

Changes in income tax laws could be enacted, or interpretations of existing income tax laws could change, causing an adverse effect on our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are issued or existing standards are revised, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our financial condition and results of operations.

Our performance depends on attracting and retaining key employees and skilled personnel to operate our business effectively.

Our success is dependent on our ability to recruit qualified and skilled personnel to operate our business effectively. Competition for these qualified and skilled people is intense. There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Failure to retain our key employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to compete.

The soundness of other financial institutions, as counterparties, may adversely impact our financial condition or results of operations.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, lending, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions or the financial services industry in general have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We have exposure to many different industries and counterparties, and we routinely execute transactions with brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Such losses could materially affect our financial condition or results of operations.

Changes in the capital markets could materially affect the level of assets under management and the demand for our other fee-based services.

Changes in the capital markets could affect the volume of income from and demand for our fee-based services. Our investment management revenues depend in large part on the level of assets under management. Market volatility that leads customers to liquidate investments, move investments to other institutions or asset classes, as well as lower asset values can reduce our level of assets under management and thereby decrease our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our derivative financial instruments and mortgage servicing rights. Mortgage banking income may also be impacted by changes in our strategy to manage our residential mortgage portfolio. For example, we may occasionally decide to add more conforming saleable loans to our portfolio (as opposed to selling the loans in the secondary market) which would reduce our gains on sales of residential mortgage loans. These variables could adversely affect mortgage banking income.

The requirement to record certain assets and liabilities at fair value may adversely affect our financial results.

We report certain assets, including available-for-sale investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we record these assets at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. The level of interest rates can impact the estimated fair value of investment securities. Disruptions in the capital markets may require us to recognize other-than-temporary impairments in future periods with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

There can be no assurance that the Parent will continue to declare cash dividends or repurchase stock.

During 2015, the Parent repurchased 802,255 shares of common stock at a total cost of $50.2 million under its share repurchase program. The Parent also paid cash dividends of $78.4 million during 2015. In January 2016, the Parent's Board of Directors declared a quarterly cash dividend of $0.45 per share on the Parent's outstanding shares. In addition, from January 1, 2016 through February 17, 2016, the Parent repurchased an additional 149,500 shares of common stock at an average cost of $59.50 per share and a total cost of $8.9 million.

Whether we continue, and the amount and timing of, such dividends and/or stock repurchases is subject to capital availability and periodic determinations by our Board of Directors that cash dividends and/or stock repurchases are in the best interest of our shareholders. 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. The actual amount and timing of future dividends and share repurchases, if any, will depend on market and economic conditions, applicable SEC rules, federal and state regulatory restrictions, and various other factors. In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from repurchasing shares. Our dividend payments and/or stock repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends and/or repurchase stock in any particular amounts or at all. A reduction in or elimination of our dividend payments and/or stock repurchases could have a negative effect on our stock price.

Natural disasters and adverse weather could negatively affect real estate property and bank operations.
Real estate and real estate property values play an important role for the Bank in several ways. The Bank owns many real estate properties, primarily located in Hawaii. Real estate is also utilized as collateral for many of our loans. A

natural disaster could cause property values to fall, which could require the Bank to record an impairment on its financial statements. A natural disaster could also impact collateral values, which would increase our exposure to loan defaults. Our business operations could also suffer to the extent the Bank cannot utilize its branch network due to weather-related damage.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. We own and lease other branch offices and operating facilities located throughout Hawaii and the Pacific Islands. Additional information with respect to premises and equipment is presented in Notes 6 and 20 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

We are from time to time subject to lawsuits, investigations and claims arising out of the conduct of our business. Management believes that the ultimate resolution of these matters is not likely to materially affect our financial position and results of operations. For additional information, see Note 20 to the Consolidated Financial Statements, under the discussion related to Contingencies.

Item 4. Mine Safety Disclosures

Not Applicable.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Shareholders, and Dividends

Information regarding the historical market prices of the Parent's common stock, book value, and dividends declared on that stock are shown below.

Market Prices, Book Values, and Common Stock Dividends Per Share

	Market Price Range			Book Value	Dividends
Year/Period	High	Low	Close		Declared
2015	$70.07	$53.90	$62.90	$25.79	$1.80
First Quarter	62.58	53.90	61.21		0.45
Second Quarter	68.10	58.70	66.68		0.45
Third Quarter	69.00	58.53	63.49		0.45
Fourth Quarter	70.07	60.55	62.90		0.45
2014	$61.73	$52.70	$59.31	$24.13	$1.80
First Quarter	61.36	54.16	60.61		0.45
Second Quarter	61.73	53.45	58.69		0.45
Third Quarter	60.75	55.55	56.81		0.45
Fourth Quarter	61.00	52.70	59.31		0.45

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 17, 2016, there were 6,271 common shareholders of record.

The Parent's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders and the level and feasibility of repurchasing shares of the Parent's common stock. Under the Parent's historical practice, dividends declared are paid within the quarter. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 11 to the Consolidated Financial Statements for more information.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1 - 31, 2015	79,473	$64.77	79,000	$31,830,801
November 1 - 30, 2015	46,377	67.64	45,000	28,785,315
December 1 - 31, 2015	90,000	64.05	90,000	23,020,820
Total	215,850	$65.09	214,000	

[1] During the fourth quarter of 2015, 1,850 shares were purchased from employees and/or directors in connection with income tax withholdings related to the vesting of restricted stock and shares 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. The program has no set expiration or termination date.

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Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that $100 was invested on December 31, 2010 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

	2010	2011	2012	2013	2014	2015
Bank of Hawaii Corporation	$100	$98	$101	$140	$145	$159
S&P 500 Index	$100	$102	$118	$157	$178	$181
S&P Banks Index	$100	$74	$102	$138	$157	$158

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2015	2014	2013	2012	2011
Year Ended December 31,					
Operating Results					
Net Interest Income	$394.1	$379.7	$358.9	$377.3	$390.2
Provision for Credit Losses	1.0	(4.9)	—	1.0	12.7
Total Noninterest Income	186.2	180.0	186.2	200.3	197.7
Total Noninterest Expense	348.1	326.9	331.0	334.3	348.2
Net Income	160.7	163.0	150.5	166.1	160.0
Basic Earnings Per Share	3.72	3.71	3.39	3.68	3.40
Diluted Earnings Per Share	3.70	3.69	3.38	3.67	3.39
Dividends Declared Per Share	1.80	1.80	1.80	1.80	1.80
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.06 %	1.14 %	1.10 %	1.22 %	1.22 %
Net Income to Average Shareholders' Equity (ROE)	14.82	15.50	14.78	16.23	15.69
Efficiency Ratio [1]	59.99	58.41	60.71	57.88	59.23
Net Interest Margin [2]	2.81	2.85	2.81	2.97	3.13
Dividend Payout Ratio [3]	48.39	48.52	53.10	48.91	52.94
Average Shareholders' Equity to Average Assets	7.16	7.35	7.44	7.52	7.78
Average Balances					
Average Loans and Leases	$7,423.6	$6,405.4	$5,883.7	$5,680.3	$5,349.9
Average Assets	15,136.5	14,317.5	13,692.1	13,609.2	13,105.0
Average Deposits	12,925.2	12,122.1	11,396.8	10,935.0	9,924.7
Average Shareholders' Equity	1,084.1	1,052.2	1,018.3	1,023.3	1,020.1
Weighted Average Shares Outstanding					
Basic Weighted Average Shares	43,217,818	43,899,208	44,380,948	45,115,441	47,064,925
Diluted Weighted Average Shares	43,454,877	44,125,456	44,572,725	45,249,300	47,224,981
As of December 31,					
Balance Sheet Totals					
Loans and Leases	$7,879.0	$6,897.6	$6,095.4	$5,854.5	$5,538.3
Total Assets	15,455.0	14,787.2	14,084.3	13,728.4	13,846.4
Total Deposits	13,251.1	12,633.1	11,914.7	11,529.5	10,592.6
Other Debt	245.8	173.9	174.7	128.1	30.7
Total Shareholders' Equity	1,116.3	1,055.1	1,012.0	1,021.7	1,002.7
Asset Quality					
Allowance for Loan and Lease Losses	$102.9	$108.7	$115.5	$128.9	$138.6
Non-Performing Assets	28.8	30.1	39.7	37.1	40.8
Financial Ratios					

Allowance to Loans and Leases Outstanding	1.31 %	1.58 %	1.89 %	2.20 %	2.50 %
Tier 1 Capital Ratio [4]	13.97	14.69	16.05	17.18	17.90
Total Capital Ratio [4]	15.22	15.94	17.31	18.45	19.17
Tier 1 Leverage Ratio [4]	7.26	7.13	7.24	7.25	7.20
Total Shareholders' Equity to Total Assets	7.22	7.14	7.19	7.44	7.24
Tangible Common Equity to Tangible Assets [5]	7.03	6.94	6.98	7.23	7.03
Tangible Common Equity to Risk-Weighted Assets [4, 5]	13.62	14.46	15.67	17.46	18.17
Non-Financial Data					
Full-Time Equivalent Employees	2,164	2,161	2,196	2,276	2,370
Branches and Offices	70	74	74	76	81
ATMs	456	459	466	494	506
Common Shareholders of Record	6,279	6,421	6,564	6,775	6,977

1 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and 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 December 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

5 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.

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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. The following table provides a reconciliation of these Non-GAAP financial measures with their most closely related GAAP measures.

GAAP to Non-GAAP Reconciliation

	December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Total Shareholders' Equity	$1,116,260	$1,055,086	$1,011,976	$1,021,665	$1,002,667
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Intangible Assets	—	—	—	33	83
Tangible Common Equity	$1,084,743	$1,023,569	$980,459	$990,115	$971,067
Total Assets	$15,455,016	$14,787,208	$14,084,280	$13,728,372	$13,846,391
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Intangible Assets	—	—	—	33	83
Tangible Assets	$15,423,499	$14,755,691	$14,052,763	$13,696,822	$13,814,791
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements [1]	$7,962,484	$7,077,035	$6,258,143	$5,671,774	$5,345,740
Total Shareholders' Equity to Total Assets	7.22 %	7.14 %	7.19 %	7.44 %	7.24 %
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.03 %	6.94 %	6.98 %	7.23 %	7.03 %
Tier 1 Capital Ratio [1]	13.97 %	14.69 %	16.05 %	17.18 %	17.90 %
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP) [1]	13.62 %	14.46 %	15.67 %	17.46 %	18.17 %

[1] December 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include statements concerning, among other things, the anticipated economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods, our future results of operations and financial position, our business strategy and plans and our objectives and future operations. We also may make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission. In addition, our senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. 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) competitive pressures in the markets for financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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 failure in or breach of our operational systems, information systems or infrastructure, or those of our merchants, third party vendors and other service providers; 14) any interruption or breach of security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 15) changes to the amount and timing of proposed common stock repurchases; and 16) natural disasters, public unrest or adverse weather, public health, and other conditions impacting us and our customers' operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. 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 is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances, except as may be required by law.

Critical Accounting Policies

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1 to the Consolidated Financial Statements. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the Consolidated Financial Statements. These factors include among other things, whether the policy requires management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The accounting policies which we believe to be most critical in preparing our Consolidated Financial Statements are those that are related to the determination of the reserve for credit losses, fair value estimates, leased asset residual values, and income taxes.

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan and lease losses (the "Allowance") and a reserve for unfunded commitments (the "Unfunded Reserve"). The Allowance provides for probable and estimable losses

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inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio. The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Management's evaluation of the adequacy of the reserve for credit losses is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires significant reliance on the accuracy of credit risk ratings on individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows on impaired loans, significant reliance on estimated loss rates on homogenous portfolios, and consideration of our quantitative and qualitative evaluation of economic factors and trends. While our methodology in establishing the reserve for credit losses attributes portions of the Allowance and Unfunded Reserve to the commercial and consumer portfolio segments, the entire Allowance and Unfunded Reserve is available to absorb credit losses inherent in the total loan and lease portfolio and total amount of unfunded credit commitments, respectively.

The reserve for credit losses related to our commercial portfolio segment is generally most sensitive to the accuracy of credit risk ratings assigned to each borrower. Commercial loan risk ratings are evaluated based on each situation by experienced senior credit officers and are subject to periodic review by an independent internal team of credit specialists. The reserve for credit losses related to our consumer portfolio segment is generally most sensitive to economic assumptions and delinquency trends. The reserve for credit losses attributable to each portfolio segment also includes an amount for inherent risks not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of criticized and classified loans.

See Note 4 to the Consolidated Financial Statements and the "Corporate Risk Profile – Credit Risk" section in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for more information on the Allowance and the Unfunded Reserve.

Fair Value Measurements

Fair value is 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. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 valuations as those based on quoted prices, unadjusted, for identical instruments traded in active markets. Level 2 valuations are those based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in the market. Level 3 valuations are based on model-based techniques that use at least one significant assumption not observable in the market, or significant management judgment or estimation, some of which may be internally developed.

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2015 and 2014, $2.3 billion or 15% and $2.3 billion or 16%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in either Levels 1 or 2 of the fair value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2015 and 2014, $13.6 million and $16.8 million, respectively, or less than 1% of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2015 and 2014, Level 3 financial assets recorded at fair value on a recurring basis were $15.8 million and $19.0 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2015 and 2014, Level 3 financial liabilities recorded at fair value on a recurring basis were $13.6 million and $16.3 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

Our third-party pricing service makes no representations or warranties that the pricing data provided to us is complete or free from errors, omissions, or defects. As a result, we have processes in place to monitor and periodically review the information provided to us by our third-party pricing service such as: 1) Our third-party pricing service provides us with documentation by asset class of inputs and methodologies used to value securities. We review this documentation to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy. This documentation is periodically updated by our third-party pricing service. Accordingly, transfers of securities within the fair value hierarchy are made if deemed necessary. 2) On a quarterly basis, management reviews the pricing information received from our 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 our third-party pricing service. We also identify 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 historic levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2015 and 2014, management did not make adjustments to prices provided by our third-party pricing service as a result of illiquid or inactive markets. 3) On a quarterly basis, management also selects a sample of securities priced by the Company's third-party pricing service and reviews the significant assumptions and valuation methodologies used by the pricing service with respect to those securities. 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. 4) On an annual basis, to the extent available, we obtain and review independent auditor's reports from our third-party pricing service related to controls placed in operation and tests of operating effectiveness. We did not note any significant control deficiencies in our review of the independent auditor's reports related to services rendered by our third-party pricing service. 5) Our 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. Our third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. Our third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Based on the composition of our investment securities portfolio, we believe that we have developed appropriate internal controls and performed appropriate due diligence procedures to prevent or detect material misstatements. See Note 21 to the Consolidated Financial Statements for more information on our fair value measurements.

Leased Asset Residual Values

Lease financing receivables include a residual value component, which represents the estimated value of leased assets upon lease expiration. Our determination of residual value is derived from a variety of sources, including equipment valuation services, appraisals, and publicly available market data on recent sales transactions for similar equipment. The length of time until lease termination, the cyclical nature of equipment values, and the limited marketplace for re-sale of certain leased assets, are important variables considered in making this determination. We update our valuation analysis on an annual basis, or more frequently as warranted by events or circumstances. When we determine that the fair value is lower than the expected residual value at lease expiration, the difference is recognized as an asset impairment in the period in which the analysis is completed.

Income Taxes

We determine our liabilities for income taxes based on current tax regulation and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in seven federal, state and local domestic jurisdictions, and four foreign jurisdictions. In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial, and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted through the provision for income taxes. Changes in the estimate of income taxes payable or receivable occur periodically due to changes in tax rates, interpretations of tax law, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impact the relative merits and risks of each tax position. These changes, when they occur, may affect the provision for income taxes as well as current and deferred income taxes, and may be significant to our statements of income and condition.

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. As of December 31, 2015 and 2014, we carried a valuation

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allowance of $3.9 million and $4.7 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

We are also required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2015 and 2014, our liabilities for UTBs were $11.6 million and $12.2 million, respectively. See Note 16 to the Consolidated Financial Statements for more information on income taxes.

In 2015, the Company recognized federal and State of Hawaii investment tax credits from energy investments. The Company uses the deferral method of accounting for its investment tax credit with the benefit recognized in the provision for income taxes. These credits reduced the Company's provision for income taxes by $3.5 million in 2015.

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Overview

We are a regional financial services company serving businesses, consumers, and governments in Hawaii, Guam, and other Pacific Islands. Our principal operating subsidiary, the Bank, was founded in 1897 and is the largest independent financial institution in Hawaii.

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders. Our business plan is balanced between growth and risk management while maintaining flexibility to adjust to economic changes. We will continue to focus on providing customers with best in class service and an innovative mix of products and services. We will also remain focused on continuing to deliver strong financial results while maintaining prudent risk and capital management strategies as well as our commitment to support our local communities.

Hawaii Economy

General economic conditions in Hawaii remained healthy during 2015, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Total visitor arrivals increased 4.1% and visitor spending increased 2.3% during 2015 compared to 2014. The statewide seasonally-adjusted unemployment rate was 3.2% in December 2015 compared to 5.0% nationally. The volume of single-family home sales on Oahu increased 5.2% in 2015 compared to 2014, while the volume of condominium sales on Oahu increased 4.5% in 2015 compared to 2014. The median price of single-family home sales and condominium sales on Oahu increased 3.7% and 2.9%, respectively, in 2015 compared to 2014. As of December 31, 2015, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 2.6 months and 2.9 months, respectively.

Oahu's industrial property vacancy rate reached a new historic low of 1.7% at year-end 2015 compared to 2.1% a year earlier. Industrial space listings concurrently fell to their lowest level in nine years at 163 versus 199 a year ago. Oahu's retail vacancy rate increased to 5.1% in 2015 from 4.1% in 2014 primarily due to a major expansion of a Honolulu shopping center which contributed approximately 650,000 square feet in additional space to the market in late 2015, of which approximately 400,000 square feet was leased in 2015. Oahu's office market vacancy rate declined to 12.7% at year-end 2015 compared to 13.2% a year earlier reflecting net absorption of 37,935 square feet of office space.

Earnings Summary

Net income for 2015 was $160.7 million, a decrease of $2.3 million or 1% compared to 2014. Diluted earnings per share were $3.70 in 2015, an increase of $0.01 or less than 1% compared to 2014. Our return on average assets was 1.06% in 2015, a decrease of 8 basis points from 2014, and our return on average shareholders' equity was 14.82% in 2015, a decrease of 68 basis points from 2014.

Our lower net income in 2015 was primarily due to the following:

- Other noninterest expense was $71.0 million in 2015, an increase of $15.6 million or 28% compared to 2014. This increase was primarily due to a $9.5 million impairment charge recorded in the third quarter of 2015 on six aircraft which were previously on lease agreements. Insurance expense increased by $2.2 million primarily due to a reserve reduction in the fourth quarter of 2014. In addition, we increased our investment in solar energy tax credit partnerships, which caused the related amortization expense to increase from $1.2 million in 2014 to $2.4 million in 2015. However, the federal and state tax benefits related to these partnership investments totaled $3.3 million in 2015, resulting in a $0.9 million net benefit to overall net income. The tax benefits are recorded as a reduction to income tax expense.

- Salaries and benefits expense was $192.0 million in 2015, an increase of $8.9 million or 5% compared to 2014 due in part to a $2.9 million increase in separation expense. Commission expense increased by $1.7 million primarily due to an increase in both loan origination and refinance activity. In addition, share-based compensation and incentive compensation increased by $1.6 million and $1.2 million, respectively.

- We recorded a $1.0 million provision for credit losses in 2015 compared to a $4.9 million negative provision recorded in 2014. The negative provision in 2014 reflected the strength of our credit risk profile, several large commercial loan recoveries in 2014, combined with a reduction in the specific reserve related to one commercial client during the third quarter of 2014.

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These items were partially offset by the following:

- Net interest income was $394.1 million in 2015, an increase of $14.4 million or 4% compared to 2014. This increase was primarily due to a higher level of earning assets. Average earning assets increased by $771.0 million in 2015 compared to 2014. Earning assets increased primarily due to increased deposits. Deposits grew by $618.0 million in 2015 compared to 2014. Our net interest margin was 2.81% in 2015, a decrease of 4 basis points compared to 2014. The lower margin in 2015 was primarily due to lower yields in our investment securities and loans, reflective of the continued low interest rate environment.

- Net occupancy expense was $30.2 million in 2015, a decrease of $7.1 million or 19% compared to 2014. This decrease was primarily due to a $4.1 million gain on the sale of a Honolulu branch property in the fourth quarter of 2015 and a $1.7 million gain on the sale of two real estate properties in Guam in the third quarter of 2015.

- Mortgage banking income was $11.6 million in 2015, an increase of $4.0 million or 53% compared to 2014. This increase was primarily due to our decision to sell more conforming saleable loans from current production and our mortgage loan portfolio, which generated gains on sales of residential mortgage loans.

- Net gains on sales of investment securities totaled $10.2 million in 2015 primarily due to a $10.1 million gain on the sale of 95,000 Visa Class B restricted shares during the first quarter of 2015. Net gains on sales of investment securities totaled $8.1 million in 2014 primarily due to a $7.9 million gain on the sale of 90,500 Visa Class B restricted shares. We also contributed to the Bank of Hawaii Foundation 13,800 and 21,600 Visa Class B shares during 2015 and 2014, respectively. These contributions had no impact on noninterest expense; however, these contributions favorably impacted our effective tax rate.

We maintained a strong balance sheet throughout 2015, with adequate reserves for credit losses, and high levels of liquidity and capital.

- Total loans and leases were $7.9 billion as of December 31, 2015, an increase of $981.4 million or 14% from December 31, 2014 primarily due to growth in both our commercial and consumer lending portfolios.

- The allowance for loan and lease losses (the "Allowance") was $102.9 million as of December 31, 2015, a decrease of $5.8 million or 5% from December 31, 2014. The ratio of our Allowance to total loans and leases outstanding decreased to 1.31% as of December 31, 2015, compared to 1.58% as of December 31, 2014. This decrease was commensurate with the Company's credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

- The total carrying value of our investment securities portfolio was $6.2 billion as of December 31, 2015, a decrease of $516.3 million or 8% from December 31, 2014. In 2015, we continued to reduce our positions in mortgage-backed securities issued by Ginnie Mae. We re-invested these proceeds primarily into higher-yielding loan products. In addition, we increased our holdings in Fannie Mae and Freddie Mac mortgage-backed securities as well as Small Business Administration debt securities.

- Total deposits were $13.3 billion as of December 31, 2015, an increase of $618.0 million or 5% from December 31, 2014 primarily due to higher commercial and consumer core deposits.

- Total shareholders' equity was $1.1 billion as of December 31, 2015, an increase of $61.2 million or 6% from December 31, 2014. We continued to return capital to our shareholders in the form of share repurchases and dividends. During 2015, we repurchased 843,959 shares of common stock at a total cost of $53.0 million under our share repurchase program and from employees and/or directors in connection with income tax withholdings related to the vesting of restricted stock, shares purchased for a deferred compensation plan, and stock swaps, less shares distributed from the deferred compensation plan. We also paid cash dividends of $78.4 million during 2015.

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Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 1. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 2.

Average Balances and Interest Rates – Taxable-Equivalent Basis — Table 1

(dollars in millions)	2015 Average Balance	2015 Income/ Expense	2015 Yield/ Rate		2014 Average Balance	2014 Income/ Expense	2014 Yield/ Rate		2013 Average Balance	2013 Income/ Expense	2013 Yield/ Rate	
Earning Assets												
Interest-Bearing Deposits in Other Banks	$3.4	$—	0.22	%	$4.3	$—	0.21	%	$4.0	$—	0.26	%
Funds Sold	483.1	1.1	0.23		316.2	0.7	0.21		221.2	0.4	0.19	
Investment Securities												
Available-for-Sale												
Taxable	1,554.2	26.6	1.71		1,536.5	27.7	1.80		2,138.3	38.7	1.81	
Non-Taxable	721.7	22.9	3.18		699.6	22.7	3.24		684.2	22.9	3.35	
Held-to-Maturity												
Taxable	3,981.2	83.3	2.09		4,412.5	99.4	2.25		3,955.8	86.7	2.19	
Non-Taxable	247.8	9.8	3.93		251.3	10.0	3.95		130.8	5.1	3.94	
Total Investment Securities	6,504.9	142.6	2.19		6,899.9	159.8	2.32		6,909.1	153.4	2.22	
Loans Held for Sale	8.7	0.3	3.83		3.2	0.1	4.31		16.4	0.7	4.18	
Loans and Leases [1]												
Commercial and Industrial	1,152.3	36.6	3.18		970.3	33.3	3.43		865.8	30.9	3.57	
Commercial Mortgage	1,543.5	58.5	3.79		1,331.5	52.5	3.94		1,152.9	46.9	4.06	
Construction	123.9	5.9	4.79		109.4	4.8	4.40		114.6	5.4	4.75	
Commercial Lease Financing	217.8	7.5	3.46		237.6	7.0	2.96		261.6	6.0	2.31	
Residential Mortgage	2,774.7	113.9	4.10		2,377.9	101.6	4.27		2,275.8	101.7	4.47	
Home Equity	944.0	34.2	3.63		815.6	31.9	3.91		761.5	31.4	4.12	
Automobile	352.3	18.4	5.21		288.8	15.4	5.32		232.3	12.7	5.48	
Other [2]	315.1	23.7	7.51		274.3	20.8	7.58		219.2	18.0	8.21	
Total Loans and Leases	7,423.6	298.7	4.02		6,405.4	267.3	4.17		5,883.7	253.0	4.30	
Other	49.0	1.3	2.67		72.7	1.2	1.66		78.3	1.2	1.50	
Total Earning Assets [3]	14,472.7	444.0	3.07		13,701.7	429.1	3.13		13,112.7	408.7	3.12	
Cash and Due from Banks	130.0				143.4				138.9			
Other Assets	533.8				472.4				440.5			
Total Assets	$15,136.5				$14,317.5				$13,692.1			
Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$2,616.4	$0.8	0.03	%	$2,390.8	$0.7	0.03	%	$2,140.5	$0.6	0.03	%
Savings	5,015.6	4.4	0.09		4,592.6	3.9	0.09		4,461.4	3.9	0.09	
Time	1,252.9	4.4	0.35		1,450.3	4.9	0.34		1,406.2	5.6	0.40	

Total Interest-Bearing Deposits	8,884.9	9.6	0.11		8,433.7	9.5	0.11		8,008.1	10.1	0.13	
Short-Term Borrowings	8.4	—	0.15		9.3	—	0.14		31.7	—	0.15	
Securities Sold Under Agreements to Repurchase	655.9	25.4	3.87		747.9	25.9	3.46		809.4	26.9	3.32	
Other Debt	219.7	3.0	1.37		174.4	2.6	1.45		171.0	2.6	1.50	
Total Interest-Bearing Liabilities	9,768.9	38.0	0.39		9,365.3	38.0	0.41		9,020.2	39.6	0.44	
Net Interest Income		$ 406.0				$ 391.1				$ 369.1		
Interest Rate Spread			2.68	%			2.72	%			2.68	%
Net Interest Margin			2.81	%			2.85	%			2.81	%
Noninterest-Bearing Demand Deposits	4,040.3				3,688.4				3,388.7			
Other Liabilities	243.2				211.6				264.9			
Shareholders' Equity	1,084.1				1,052.2				1,018.3			
Total Liabilities and Shareholders' Equity	$ 15,136.5				$ 14,317.5				$ 13,692.1			

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 $ 11.9 million for 2015, $11.5 million for 2014, and $10.2 million for 2013.

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Analysis of Change in Net Interest Income – Taxable-Equivalent Basis — Table 2

	Year Ended December 31, 2015 Compared to 2014			Year Ended December 31, 2014 Compared to 2013		
(dollars in millions)	Volume [1]	Rate [1]	Total	Volume [1]	Rate [1]	Total
Change in Interest Income:						
Funds Sold	$0.3	$0.1	$0.4	$0.2	$0.1	$0.3
Investment Securities						
Available-for-Sale						
Taxable	0.3	(1.4)	(1.1)	(10.9)	(0.1)	(11.0)
Non-Taxable	0.7	(0.5)	0.2	0.6	(0.8)	(0.2)
Held-to-Maturity						
Taxable	(9.3)	(6.8)	(16.1)	10.2	2.5	12.7
Non-Taxable	(0.1)	(0.1)	(0.2)	4.9	—	4.9
Total Investment Securities	(8.4)	(8.8)	(17.2)	4.8	1.6	6.4
Loans Held for Sale	0.2	—	0.2	(0.6)	—	(0.6)
Loans and Leases						
Commercial and Industrial	5.9	(2.6)	3.3	3.6	(1.2)	2.4
Commercial Mortgage	8.1	(2.1)	6.0	7.0	(1.4)	5.6
Construction	0.7	0.4	1.1	(0.2)	(0.4)	(0.6)
Commercial Lease Financing	(0.6)	1.1	0.5	(0.6)	1.6	1.0
Residential Mortgage	16.5	(4.2)	12.3	4.4	(4.5)	(0.1)
Home Equity	4.7	(2.4)	2.3	2.2	(1.7)	0.5
Automobile	3.3	(0.3)	3.0	3.0	(0.3)	2.7
Other [2]	3.1	(0.2)	2.9	4.3	(1.5)	2.8
Total Loans and Leases	41.7	(10.3)	31.4	23.7	(9.4)	14.3
Other	(0.5)	0.6	0.1	(0.1)	0.1	—
Total Change in Interest Income	33.3	(18.4)	14.9	28.0	(7.6)	20.4
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	0.1	—	0.1	0.1	—	0.1
Savings	0.4	0.1	0.5	0.1	(0.1)	—
Time	(0.7)	0.2	(0.5)	0.2	(0.9)	(0.7)
Total Interest-Bearing Deposits	(0.2)	0.3	0.1	0.4	(1.0)	(0.6)
Securities Sold Under Agreements to Repurchase	(3.3)	2.8	(0.5)	(2.1)	1.1	(1.0)
Other Debt	0.5	(0.1)	0.4	0.1	(0.1)	—
Total Change in Interest Expense	(3.0)	3.0	—	(1.6)	—	(1.6)
Change in Net Interest Income	$36.3	$(21.4)	$14.9	$29.6	$(7.6)	$22.0

[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.

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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 $394.1 million in 2015, an increase of $14.4 million or 4% compared to 2014. On a taxable-equivalent basis, net interest income was $406.0 million in 2015, an increase of $14.9 million or 4% compared to 2014. The increase in our net interest income was primarily due to a higher level of earning assets. Average earning assets increased by $771.0 million in 2015 compared to 2014. Earning assets increased primarily due to increased deposits. Deposits grew by $618.0 million in 2015 compared to 2014. Net interest margin was 2.81% in 2015, a four basis points decrease from 2014, primarily due to lower yields in our investment securities and loans, reflective of the continued low interest rate environment.

Yields on our earning assets decreased by six basis points in 2015 compared to 2014. Yields on our investment securities portfolio decreased by 13 basis points in 2015 compared to 2014 primarily due to reinvestment in lower yielding securities due to the low interest rate environment, partially offset by lower premium amortization. Yields on our loans and leases decreased by 15 basis points, with lower yields in nearly every loan category in 2015 compared to 2014 as a result of the low interest rate environment. Yields on our commercial and industrial portfolio declined by 25 basis points due in part to a large interest income recovery in the third quarter of 2014. Yields on our commercial mortgage portfolio declined by 15 basis points. Yields on our residential mortgage portfolio decreased by 17 basis points due to continued payoff activity of higher-rate mortgage loans and the addition to our portfolio of lower-rate mortgage loans. Partially offsetting the lower yields on our earning assets in 2015 compared to 2014 were slightly lower funding costs. The lower funding costs were offset by the higher rates paid on our securities sold under agreements to repurchase. Rates paid on our securities sold under agreements to repurchase increased by 41 basis points due to a decrease in repurchase agreements with local government entities which have relatively shorter terms at lower interest rates. The remaining balance in our repurchase agreements consists mainly of those with private entities which have relatively longer terms at higher interest rates.

Average balances of our earning assets increased by $771.0 million or 6% in 2015 compared to 2014 primarily due to an increase in deposits. Average balances of our loan and lease portfolio increased by $1.0 billion primarily due to higher average balances in our commercial and industrial, commercial mortgage, and residential mortgage portfolios. The average balance of our commercial and industrial loan portfolio increased by $182.0 million due to an increase in corporate demand for funding. The average balance of our commercial mortgage portfolio increased by $212.0 million due to increased demand from new and existing customers as the real estate market in Hawaii continued to improve. The average balance of our residential mortgage portfolio increased by $396.8 million primarily due to an increase in loan origination and refinance activity. Partially offsetting the increase in the average balances of our loan and lease portfolio was a $395.0 million decrease in the average balance of our total investment securities portfolio in 2015 compared to 2014 primarily due to the shift in the mix of our earning assets from investment securities to loans. In 2015, we continued to reduce our positions in mortgage-backed securities issued by Ginnie Mae and we increased our holdings in Fannie Mae and Freddie Mac mortgage-backed securities as well as Small Business Administration debt securities. However, Ginnie Mae mortgage-backed securities remained our largest investment type.

Average balances of our interest-bearing liabilities increased by $403.6 million or 4% in 2015 compared to 2014 primarily due to continued growth in our relationship checking and savings deposit products as well as growth in our business savings product, partially offset by decreases in our time deposits and repurchase agreements.

Net interest income was $379.7 million in 2014, an increase of $20.7 million or 6% compared to 2013. On a taxable-equivalent basis, net interest income was $391.1 million in 2014, an increase of $22.0 million or 6% compared to 2013. The increase in our net interest income was primarily due to growth in both our commercial and consumer lending portfolios. Net interest margin was 2.85% in 2014, a four basis points increase from 2013. The higher margin in 2014 was primarily due to our loans and leases, which generally have higher yields than investment securities, comprising a larger percentage of our earning assets compared to 2013. In addition, the yields on investment securities improved due in part to lower premium amortization.

Yields on our earning assets increased by one basis point in 2014 compared to 2013. Yields on our investment securities portfolio increased by 10 basis points in 2014 compared to 2013, due in part to lower premium amortization. The increase in the yields on our investment securities portfolio was partially offset by the lower yields in nearly every category of our loan and lease portfolio. Yields on our residential mortgage portfolio decreased by 20 basis points in 2014 compared to 2013 primarily due to continued payoff activity of higher rate mortgage loans and the addition to our portfolio of lower rate mortgage loans. Also contributing to the increase in our net interest margin in 2014 compared to 2013 were slightly lower funding costs due to marginally lower rates paid on our time deposits, partially offset by higher rates paid on our securities sold under agreements to repurchase. Rates of our securities sold under agreements to repurchase increased by 14 basis points primarily due to local

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government entities transferring much of their funds previously invested in short-term (and therefore low-yielding) repurchase agreements into public time deposits, leaving the balance in our repurchase agreements consisting mainly of those with private entities. These agreements with private entities have longer terms at relatively higher interest rates.

Average balances of our earning assets increased by $589.1 million or 4% in 2014 compared to 2013 primarily due to an increase in the average balances of our loan and lease portfolio. Average balances of our loans and leases increased by $521.7 million in 2014 compared to 2013 primarily due to growth in our commercial mortgage, commercial and industrial, and residential mortgage loan portfolios. The average balance of our commercial mortgage portfolio increased by $178.6 million primarily due to increased demand from new and existing customers as both investors and owner occupants looked to refinance and/or acquire new real estate assets, reflective of the strong Hawaii real estate market. The average balance of our commercial and industrial loan portfolio increased by $104.6 million due to an increase in corporate demand for funding from new and existing customers. The average balance of our residential mortgage loan portfolio increased by $102.0 million primarily due to our decision to add more conforming saleable loans to our portfolio and a decrease in payoffs resulting from lower refinancing activity. The average balance of our total investment securities portfolio remained relatively unchanged in 2014 compared to 2013. However, the composition of our portfolio changed slightly in 2014 as we reduced our positions in mortgage-backed securities issued by Ginnie Mae and re-invested these proceeds, in part, into mortgage-backed securities issued by Fannie Mae. However, Ginnie Mae mortgage-backed securities remained our largest investment type.

Average balances of our interest-bearing liabilities increased by $345.0 million or 4% in 2014 compared to 2013 primarily due to our efforts to grow our relationship checking and savings deposit products. Average time deposit balances also increased during the year, however this increase was primarily the result of local government entities transferring funds previously held in securities sold under agreements to repurchase.

Provision for Credit Losses

The 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 our 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 our credit quality. We recorded a Provision of $1.0 million in 2015, a negative Provision of $4.9 million in 2014, and no Provision in 2013. For further discussion on the Allowance, see the "Corporate Risk Profile – Credit Risk" section in MD&A.

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Noninterest Income

Table 3 presents the major components of noninterest income for 2015, 2014, and 2013.

Noninterest Income Table 3

	Year Ended December 31,			Dollar Change		Percent Change	
(dollars in thousands)	2015	2014	2013	2015 to 2014	2014 to 2013	2015 to 2014	2014 to 2013
Trust and Asset Management	$47,685	$47,798	$47,932	$(113)	$(134)	— %	— %
Mortgage Banking	11,583	7,571	19,186	4,012	(11,615)	53	(61)
Service Charges on Deposit Accounts	34,072	35,669	37,124	(1,597)	(1,455)	(4)	(4)
Fees, Exchange, and Other Service Charges	53,353	53,401	50,469	(48)	2,932	—	6
Investment Securities Gains, Net	10,160	8,063	—	2,097	8,063	26	n.m.
Annuity and Insurance	7,664	8,065	9,190	(401)	(1,125)	(5)	(12)
Bank-Owned Life Insurance	7,039	6,639	5,892	400	747	6	13
Other	14,663	12,811	16,430	1,852	(3,619)	14	(22)
Total Noninterest Income	$186,219	$180,017	$186,223	$6,202	$(6,206)	3 %	(3)%

n.m. - not meaningful.

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 $8.6 billion, $10.2 billion, and $10.4 billion as of December 31, 2015, 2014, and 2013, respectively. Trust and asset management income remained relatively unchanged in 2015 compared to 2014 as decreases in employee benefit trust fees ($1.0 million), agency fees ($0.5 million), and IRA fees ($0.4 million) were largely offset by a $0.9 million increase in special service fees, primarily termination fees. In addition, revocable and irrevocable trust fees increased by $0.9 million due to additional accounts. Trust and asset management income remained relatively unchanged in 2014 compared to 2013. Special service fees decreased by $0.7 million mainly due to two large trust termination fees recorded in 2013. This was partially offset by a $0.5 million increase in agency fees in 2014 primarily due to higher market values of assets under management.

Mortgage banking income is highly influenced by mortgage interest rates, the housing market, and the amount of saleable loans we sell from current production and from our portfolio. Mortgage banking income increased by $4.0 million or 53% in 2015 compared to 2014. This increase was primarily due to our decision to sell more conforming saleable loans from current production and our mortgage loan portfolio which generated gains on sales of residential mortgage loans. Also contributing to the increase was higher mortgage application and production volume as refinancing activity increased. Mortgage banking income decreased by $11.6 million or 61% in 2014 compared to 2013. This decrease was primarily due to lower mortgage application and production volume as refinancing activity declined. Also contributing to the decrease was our decision to add more conforming saleable loans to our portfolio in 2014, which reduced our gains on sales of residential mortgage loans.

Service charges on deposit accounts decreased by $1.6 million or 4% in 2015 compared to 2014. This decrease was primarily due to a $1.4 million decrease in overdraft fees due in part to higher customer deposit balances and a decrease in customers opting in for debit card overdraft coverage. Service charges on deposit accounts decreased by $1.5 million or 4% in 2014 compared to 2013. This decrease was primarily due to a $0.8 million decrease in overdraft fees resulting mainly from Company policy changes as well as higher customer deposit balances. In addition, account analysis fees decreased by $0.5 million due to higher investable balances resulting in larger earnings credit rates granted to our customers.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges remained relatively unchanged in 2015 compared to 2014 as decreases in other loan fees ($1.0 million), merchant income ($0.5 million), and ATM fees ($0.4 million) were largely offset by a $1.8 million increase in commissions and fees related to growth in our credit card business. Fees, exchange, and other service charges increased by $2.9 million or 6% in 2014 compared to 2013. This increase was primarily due to a $3.5 million increase in commissions and fees related to growth in our credit card business. This increase was partially offset by a $0.5 million decrease in merchant income, particularly in Guam and American Samoa.

Net gains on sales of investment securities totaled $10.2 million in 2015 primarily due to a $10.1 million gain on the sale of 95,000 Visa Class B restricted shares during the first quarter of 2015. Net gains on sales of investment securities totaled $8.1 million in 2014 primarily due to a $7.9 million gain on the sale of 90,500 Visa Class B restricted shares. We received these Class

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B shares in 2008 as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with the sale of these Visa Class B shares, we entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 288,714 Visa Class B shares (475,887 Class A equivalent shares) that we own are carried at a zero cost basis. We also contributed to the Bank of Hawaii Foundation 13,800 and 21,600 Visa Class B shares during 2015 and 2014, respectively.

Annuity and insurance income decreased by $0.4 million or 5% in 2015 compared to 2014 primarily due to a $0.2 million decrease in sales of our annuity products. Annuity and insurance income decreased by $1.1 million or 12% in 2014 compared to 2013 primarily due to lower sales of our annuity products.

Bank-owned life insurance increased by $0.4 million or 6% in 2015 compared to 2014 primarily due to a death benefit received in the second quarter of 2015. Bank-owned life insurance increased by $0.7 million or 13% in 2014 compared to 2013. This increase was primarily due to new policies in 2014.

Other noninterest income increased by $1.9 million or 14% in 2015 compared to 2014. This increase was primarily due to an additional $1.1 million in fees related to our customer interest rate swap derivative program, coupled with a $1.0 million distribution received from a low-income housing partnership. In addition, we recorded $0.7 million in fee revenue from our new investment advisory services product launched in September 2014. We also received a $0.5 million referral fee in 2015 related to the transition of various services provided to some institutional 401k plans. These increases were partially offset by a $1.0 million loss on the sale of an aircraft lease. Other noninterest income decreased by $3.6 million or 22% in 2014 compared to 2013. This decrease was primarily due to a $2.6 million decrease in gains on sales of leased assets resulting mainly from sales of equipment leases in 2013. In addition, mutual fund commissions decreased by $0.4 million due to reduced sales volume. We also recognized an additional $0.2 million in fees during 2013 related to our customer interest rate swap derivative program.

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Noninterest Expense

Table 4 presents the major components of noninterest expense for 2015, 2014, and 2013.

Noninterest Expense — Table 4

(dollars in thousands)	Year Ended December 31, 2015	2014	2013	Dollar Change 2015 to 2014	Dollar Change 2014 to 2013	Percent Change 2015 to 2014	Percent Change 2014 to 2013
Salaries and Benefits:							
Salaries	$114,389	$114,199	$115,389	$190	$(1,190)	— %	(1)%
Incentive Compensation	18,667	17,471	16,568	1,196	903	7	5
Share-Based Compensation	10,390	8,808	4,932	1,582	3,876	18	79
Commission Expense	6,533	4,831	6,874	1,702	(2,043)	35	(30)
Retirement and Other Benefits	16,968	16,800	15,289	168	1,511	1	10
Payroll Taxes	10,095	9,916	11,242	179	(1,326)	2	(12)
Medical, Dental, and Life Insurance	11,580	10,555	9,431	1,025	1,124	10	12
Separation Expense	3,341	448	4,486	2,893	(4,038)	646	(90)
Total Salaries and Benefits	191,963	183,028	184,211	8,935	(1,183)	5	(1)
Net Occupancy	30,217	37,296	38,745	(7,079)	(1,449)	(19)	(4)
Net Equipment	20,162	18,479	18,366	1,683	113	9	1
Data Processing	16,472	14,979	13,840	1,493	1,139	10	8
Professional Fees	9,660	9,794	9,405	(134)	389	(1)	4
FDIC Insurance	8,669	7,936	7,765	733	171	9	2
Other Expense:							
Delivery and Postage Services	9,025	8,764	8,423	261	341	3	4
Mileage Program Travel	4,753	5,615	6,190	(862)	(575)	(15)	(9)
Merchant Transaction and Card Processing Fees	4,608	4,372	4,569	236	(197)	5	(4)
Advertising	5,344	5,273	5,021	71	252	1	5
Amortization - Solar Energy Partnership Investments	2,370	1,209	4	1,161	1,205	96	n.m.
Other	44,861	30,154	34,430	14,707	(4,276)	49	(12)
Total Other Expense	70,961	55,387	58,637	15,574	(3,250)	28	(6)
Total Noninterest Expense	$348,104	$326,899	$330,969	$21,205	$(4,070)	6 %	(1)%

n.m. - not meaningful.

Total salaries and benefits increased by $8.9 million or 5% in 2015 compared to 2014 due in part to a $2.9 million increase in separation expense. Commission expense increased by $1.7 million primarily due to an increase in both loan origination and refinance activity. Share-based compensation increased by $1.6 million due to additional restricted stock units being amortized and the value of restricted stock units increasing as a result of the Company's higher share price. In addition, incentive compensation increased by $1.2 million and medical, dental, and life insurance increased by $1.0 million primarily due to higher medical claims in our self-insured plan. Total salaries and benefits decreased $1.2 million or 1% in 2014 compared to 2013. This decrease was primarily due to a $4.0 million decrease in separation expense. Commission expense decreased by $2.0 million primarily due to a reduction in mortgage banking production volume as refinancing activity declined. These decreases were partially offset by a $3.9 million increase in share-based compensation primarily due to an increase in the amortization expense related to restricted stock and an increase in restricted stock and restricted stock unit grants.

Net occupancy decreased by $7.1 million or 19% in 2015 compared to 2014. This decrease was primarily due to a $4.1 million gain on the sale of a Honolulu branch property in the fourth quarter of 2015 and a $1.7 million gain on the sale of two real estate properties in Guam in the third quarter of 2015. In addition, electricity rates declined due in part to lower oil prices. Net occupancy decreased by $1.4 million or 4% in 2014 compared to 2013. This decrease was primarily due to higher sublease revenue combined with lower rental expense.

Net equipment expense increased by $1.7 million or 9% in 2015 compared to 2014 primarily due to a $0.7 million increase in software license fees and maintenance. In addition, we incurred a $0.3 million loss on disposal of fixed assets primarily related to the closure of the aforementioned Honolulu branch. Depreciation expense also increased slightly during 2015. Net equipment expense remained relatively unchanged in 2014 compared to 2013.

Data processing expense increased by $1.5 million or 10% in 2015 compared to 2014 primarily due to the roll-out of EMV chip-enabled debit cards. Data processing expense increased by $1.1 million or 8% in 2014 compared to 2013 primarily due to fees related to additional services, including services for security enhancements related to our online banking service.

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Professional fees remained relatively unchanged in 2015 compared to 2014. Professional fees increased by $0.4 million or 4% in 2014 compared to 2013 primarily due to an increase in outside consulting services related mainly to compliance matters.

FDIC insurance increased by $0.7 million or 9% in 2015 compared to 2014 due in part to a credit adjustment received in the third quarter of 2014 and an increase in the assessment base. FDIC insurance remained relatively unchanged in 2014 compared to 2013.

Other noninterest expense increased by $15.6 million or 28% in 2015 compared to 2014. This increase was primarily due to a $9.5 million impairment charge recorded in the third quarter of 2015 on six aircraft. In 1997 and 1999, the Company became the lessor of these aircraft, the leases of which have now expired. The Company is in the process of disposing of these aircraft. Based on recent appraisals, market conditions, and management judgment, we determined that the net realizable value of these aircraft had been impaired. As we intend to sell these aircraft, the impairment charge reduced the carrying value of these aircraft to estimated fair value less cost to sell. Insurance expense increased by $2.2 million primarily due to a reserve reduction in the fourth quarter of 2014. In addition, we increased our investment in solar energy tax credit partnerships, which caused the related amortization expense to increase from $1.2 million in 2014 to $2.4 million in 2015. However, the federal and state tax benefits related to these partnership investments totaled $3.3 million in 2015, resulting in a $0.9 million net benefit to overall net income. The tax benefits are recorded as a reduction to income tax expense. Other noninterest expense decreased by $3.3 million or 6% in 2014 compared to 2013. Insurance expense decreased by $1.8 million primarily due to the aforementioned reserve reduction in the fourth quarter of 2014. Directors' fees decreased by $1.4 million as a result of fair value changes in their deferred compensation plan. Operating losses, which include losses as a result of bank error, fraud, items processing, or theft, decreased by $1.3 million. These decreases were partially offset by a $1.2 million increase in amortization expense related to our solar energy tax credit partnership investments.

Income Taxes

Table 5 presents our provision for income taxes and effective tax rates for 2015, 2014, and 2013:

Provision for Income Taxes and Effective Tax Rates		Table 5	
(dollars in thousands)	Provision for Income Taxes	Effective Tax Rates	
2015	$70,498	30.49	%
2014	74,596	31.39	%
2013	63,659	29.73	%

The provision for income taxes was $70.5 million in 2015, a decrease of $4.1 million or 5% compared to 2014. The lower effective tax rate in 2015 compared to 2014 was primarily due to a $1.2 million release of a valuation allowance for the expected utilization of capital losses due to the sale of two low-income housing investments, $0.9 million in additional tax credits, and a $0.4 million release of reserve from uncertain tax positions.

The provision for income taxes was $74.6 million in 2014, an increase of $10.9 million or 17% compared to 2013. The higher effective tax rate in 2014 compared to 2013 was primarily due to higher pretax income compared to a fixed amount of tax credits and a higher level of reserve releases in 2013.

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Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. Table 6 summarizes net income from our business segments for 2015, 2014, and 2013. Additional information about segment performance is presented in Note 13 to the Consolidated Financial Statements.

Business Segment Net Income Table 6

	Year Ended December 31,		
(dollars in thousands)	2015	2014	2013
Retail Banking	$49,715	$35,926	$25,079
Commercial Banking	58,565	51,947	38,237
Investment Services	12,298	11,704	11,721
Total	120,578	99,577	75,037
Treasury and Other	40,126	63,465	75,465
Consolidated Total	$160,704	$163,042	$150,502

Retail Banking

Net income increased by $13.8 million or 38% in 2015 compared to 2014 primarily due to increases in net interest income and noninterest income. This was partially offset by increases in the Provision and noninterest expense. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios and partially due to the higher earnings credits on the segment's deposit portfolio. The increase in noninterest income was primarily due to higher mortgage banking income due to our decision to sell more conforming saleable loans from current mortgage production and our mortgage portfolio which generated gains on sales of residential mortgage loans. Also contributing to the increase in mortgage banking income was higher mortgage application and production volume as refinancing activity increased. The increase in noninterest income was also due to higher commissions and fees income related to growth in our credit card business, partly offset by a decrease in overdraft fees due in part to higher customer deposit balances and a decrease in customers opting in for debit card overdraft coverage. The increase in the Provision was primarily due to higher net recoveries in 2014 of loans and leases previously charged-off and higher net charge-offs in our indirect auto and credit card portfolios. The increase in noninterest expense was primarily due to higher allocated expenses, higher commissions expense due to an increase in mortgage loan origination and refinance activity, higher data processing expense related to the roll-out of EMV chip-enabled debit cards, and an increase in operational losses.

Net income increased by $10.8 million or 43% in 2014 compared to 2013 primarily due to an increase in net interest income, as well as decreases in the Provision and noninterest expense. This was partially offset by a decrease in noninterest income. The increase in net interest income was primarily due to higher volume and higher margins in both the lending and deposit portfolios. 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 commission expense primarily due to a reduction in mortgage banking production volume as refinancing activity declined. This decrease was partially offset by higher expense related to our credit card business. The decrease in noninterest income was primarily due to lower mortgage banking income which was also due to lower mortgage application and production volume, as well as our decision to add more conforming saleable loans to our portfolio in 2014 which reduced our gains on sales of residential mortgage loans. This decrease was partially offset by higher commissions and fees income related to our credit card business.

Commercial Banking

Net income increased by $6.6 million or 13% in 2015 compared to 2014 primarily due to an increase in net interest income, partially offset by increases to the Provision and noninterest expense and a decrease in noninterest income. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment's deposit portfolio. The increase in the Provision was due to lower net recoveries of loans and leases in the current period. The increase in noninterest expense was primarily due to a $9.5 million impairment charge recorded in the third quarter of 2015 on six aircraft which were previously on lease agreements. The increase in noninterest expense was also due to higher allocated expenses. The decrease in noninterest income was primarily attributable to a $1.0 million loss on the sale of an aircraft lease and to lower merchant income.

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Net income increased by $13.7 million or 36% in 2014 compared to 2013 primarily due to an increase in net interest income and a decrease in the Provision, partially offset by a decrease in noninterest income and an increase in noninterest expense. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment’s deposit portfolio. The decrease in the Provision was due to higher net recovery of loans and leases in 2014. The decrease in noninterest income was primarily due to lower nonrecurring loan fees and net gains on the sale of leased assets. The increase in noninterest expense was primarily due to higher allocated expenses.

Investment Services

Net income increased by $0.6 million or 5% in 2015 compared to 2014 primarily due to increases in net interest income and noninterest income, partially offset by increases in the Provision and noninterest expense. The increase in net interest income was due to higher loan and deposit volume combined with higher earnings credits on the segment’s deposit portfolio. The increase in noninterest income was primarily due to higher investment advisory fees and to a $0.5 million referral fee related to the transition of various services provided to some institutional 401k plans. The increase in the Provision was due to lower net recovery of loans in the current period. The increase in noninterest expense was primarily due to higher salaries and allocated expenses.

Net income remained relatively unchanged in 2014 compared to 2013. The increase in net interest income combined with the decreases in the Provision and noninterest expense were offset by a decrease in noninterest income. The increase in net interest income was due to growth in deposit volume and to higher earnings credits on the segment’s deposit portfolio. The decrease in the Provision was due to higher net recovery of loans in 2014. The decrease in noninterest expense was due to lower salaries and other operating expense, partially offset by an increase in allocated expense. The decrease in noninterest income was primarily due to lower annuity, mutual fund, and securities income in the segment’s full service brokerage.

Treasury and Other

Net income decreased by $23.3 million or 37% in 2015 compared to 2014 primarily due to a decrease in net interest income and an increase in noninterest expense partially offset by an increase in noninterest income and a decrease in the provision for income taxes. The decrease in net interest income was primarily due to higher deposit funding costs and lower interest income from the investment securities portfolio, resulting from lower volume and yields, partially offset by an increase in interest income related to lending activities. The increase in noninterest expenses was due to an increase in separation expense. The increase in noninterest income was primarily due to a $10.1 million gain on the sale of 95,000 Visa Class B restricted shares during 2015, compared to a $7.9 million gain on the sale of 90,500 Visa Class B restricted shares in 2014. The decrease in the provision for income taxes was primarily due to a lower corporate effective tax rate.

Net income decreased $12.0 million or 16% in 2014 compared to 2013 primarily due to a decrease in net interest income and a decrease in the negative Provision, partially offset by an increase in noninterest income and a decrease in noninterest expense. The decrease in net interest income was primarily due to higher deposit funding costs. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The negative provision recorded in both 2014 and 2013 is commensurate with the Company's stable credit risk profile. The increase in noninterest income was due to the aforementioned $7.9 million gain on the sale of 90,500 Visa Class B restricted shares. The decrease in noninterest expense was due to higher separation expense in 2013.

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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Analysis of Statements of Condition

Investment Securities

Table 7 presents the maturity distribution at amortized cost, weighted-average yield to maturity, and fair value of our investment securities.

Maturities and Average Yield on Securities

(dollars in millions)	1 Year or Less	Weighted Average Yield		After 1 Year-5 Years	Weighted Average Yield		After 5 Years-10 Years	Weighted Average Yield		Over 10 Years	Weighted Average Yield		Total	Tab We Av Yie
As of December 31, 2015														
Available-for-Sale														
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$0.6	0.6	%	$114.8	1.9	%	$240.9	1.4	%	$—	—	%	$356.3	1.5
Debt Securities Issued by States and Political Subdivisions [1]	29.3	1.9		276.4	2.7		333.3	3.7		70.7	5.9		709.7	3.5
Debt Securities Issued by Corporations	40.0	1.9		198.1	1.1		75.0	2.2		—	—		313.1	1.5
Mortgage-Backed Securities [2]														
Residential - Government Agencies	52.2	3.0		242.8	1.8		16.0	5.2		—	—		311.0	2.2
Residential - U.S. Government-Sponsored Enterprises	—	—		407.0	2.2		35.8	2.5		—	—		442.8	2.2
Commercial - Government Agencies	—	—		—	—		103.2	1.7		—	—		103.2	2.0
Total Mortgage-Backed Securities	52.2	3.0		649.8	2.1		155.0	2.3		—	—		857.0	2.1
Total	$122.1	2.4	%	$1,239.1	2.0	%	$804.2	2.5	%	$70.7	5.9	%	$2,236.1	2.3
Held-to-Maturity														
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$—	—	%	$489.7	1.2	%	$—	—	%	$—	—	%	$489.7	1.2
Debt Securities Issued by States and Political Subdivisions [1]	—	—		32.7	3.3		141.7	4.7		71.6	6.0		246.0	4.9
Debt Securities Issued by Corporations	—	—		—	—		151.3	2.1		—	—		151.3	2.1
Mortgage-Backed Securities [2]														
Residential - Government Agencies	44.2	1.7		1,691.1	2.2		455.8	3.2		—	—		2,191.1	2.4

Residential - U.S. Government-Sponsored Enterprises	—	—		504.1	2.1		143.7	2.4		—	—		647.8	2.2
Commercial - Government Agencies	—	—		94.4	2.8		141.9	2.6		20.5	3.4		256.8	2.7
Total Mortgage-Backed Securities	44.2	1.7		2,289.6	2.2		741.4	2.9		20.5	3.4		3,095.7	2.4
Total	$44.2	1.7	%	$2,812.0	2.0	%	$1,034.4	3.0	%	$92.1	5.3	%	$3,982.7	2.4
Total Investment Securities														
As of December 31, 2015	$166.3			$4,051.1			$1,838.6			$162.8			$6,218.8	
As of December 31, 2014	$303.6			$4,544.6			$1,595.4			$285.8			$6,729.4	

1 Weighted-average yields on obligations of states and political subdivisions are generally tax-exempt and are computed on a taxable-equivalent basis using a federal statutory tax rate of 35%.

2 Maturities for Small Business Administration debt securities and mortgage-backed securities anticipate future prepayments.

The carrying value of our investment securities portfolio was $6.2 billion as of December 31, 2015, a decrease of $516.3 million or 8% compared to December 31, 2014. As of December 31, 2015, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.4 years.

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.

In 2015, we continued to reduce our positions in mortgage-backed securities issued by Ginnie Mae. We re-invested these proceeds primarily into higher-yielding loan products. In addition, we increased our holdings in Fannie Mae and Freddie Mac mortgage-backed securities as well as Small Business Administration debt securities. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio. As of December 31, 2015, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of December 31, 2015, the credit ratings of these mortgage-backed securities were all AAA-rated, with a low probability of a change in ratings in the near future. As of

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December 31, 2015, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.7 years.

Gross unrealized gains in our investment securities portfolio were $84.9 million as of December 31, 2015 and $108.5 million as of December 31, 2014. Gross unrealized losses on our temporarily impaired investment securities were $40.5 million as of December 31, 2015 and $44.3 million as of December 31, 2014. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae. See Note 3 to the Consolidated Financial Statements for more information.

As of December 31, 2015, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $575.7 million, representing 58% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 91% were credit-rated Aa2 or better by Moody's while most of the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 77% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of December 31, 2015, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

The Company's corporate bond holdings as of December 31, 2015 had a fair value of $458.5 million. Of this total, $149.6 million or 33% was fully guaranteed by the Export-Import Bank of the United States, an agency of the U.S. government. Of the remaining $308.9 million of corporate bonds, 71% were credit-rated A or better by Standard & Poor's while most of the remaining corporate bonds were credit-rated A- or better by at least one nationally recognized statistical rating organization.

Loans and Leases

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

Loans and Leases					Table 8
	December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Commercial					
Commercial and Industrial	$1,115,168	$1,055,243	$911,367	$829,512	$817,170
Commercial Mortgage	1,677,147	1,437,513	1,247,510	1,097,425	938,250
Construction	156,660	109,183	107,349	113,987	98,669
Lease Financing	204,877	226,189	262,207	274,969	311,928
Total Commercial	3,153,852	2,828,128	2,528,433	2,315,893	2,166,017
Consumer					
Residential Mortgage	2,925,605	2,571,090	2,282,894	2,349,916	2,215,892
Home Equity	1,069,400	866,688	773,385	770,376	780,691
Automobile	381,735	323,848	255,986	209,832	192,506
Other [1]	348,393	307,835	254,689	208,504	183,198
Total Consumer	4,725,133	4,069,461	3,566,954	3,538,628	3,372,287
Total Loans and Leases	$7,878,985	$6,897,589	$6,095,387	$5,854,521	$5,538,304

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

Total loans and leases were $7.9 billion as of December 31, 2015. This represents a $981.4 million or 14% increase from December 31, 2014.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in Hawaii. Commercial mortgages are secured by first mortgages on commercial real estate at loan-to-value ratios generally not exceeding 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties, and to a lesser extent, specialized properties such as hotels. The primary source of repayment for investor property is cash flow from the property and for owner-occupied property is the operating cash flow from the business. Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. We classify loans as construction until the completion of the construction phase. Following construction, if a loan is retained, the loan is reclassified to the commercial mortgage category. Lease financing consists of direct financing leases and leveraged leases and are used by commercial customers to finance capital purchases. Although our primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the U.S. Mainland, including some Shared National Credits.

Commercial loans and leases were $3.2 billion as of December 31, 2015, an increase of $325.7 million or 12% from December 31, 2014. Commercial and industrial loans increased by $59.9 million or 6% from December 31, 2014 due to an increase in corporate demand for funding. Commercial mortgage loans increased by $239.6 million or 17% from December 31, 2014 primarily due to increased demand from new and existing customers as both investors and owner occupants looked to refinance and/or acquire new real estate assets, reflective of the strong Hawaii real estate market. Construction loans increased by $47.5 million or 43% from December 31, 2014 primarily due to increased activity in construction projects such as condominiums and low-income housing. Lease financing decreased by $21.3 million or 9% from December 31, 2014 primarily due to aircraft leveraged leases which matured in the third quarter of 2015 and the sale of one aircraft lease in the fourth quarter of 2015.

The consumer loan and lease portfolio is comprised of residential mortgage loans, home equity lines and loans, indirect auto loans and leases, and other consumer loans including personal credit lines, direct installment loans, and rewards-based consumer credit cards. These products are generally offered in the geographic markets we serve. Although we offer a variety of products, our residential mortgage loan portfolio is primarily comprised of fixed-rate loans concentrated in Hawaii. We also offer a variety of home equity lines and loans, usually secured by second mortgages on residential property of the borrower. Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships. Direct installment loans are generally unsecured and are often used for personal expenses or for debt consolidation.

Consumer loans and leases were $4.7 billion as of December 31, 2015, an increase of $655.7 million or 16% from December 31, 2014. Residential mortgage loans increased by $354.5 million or 14% from December 31, 2014 primarily due to an increase in loan origination and refinance activity. Home equity loans increased by $202.7 million or 23% from December 31, 2014 as a result of successful campaigns to drive new production and upfront line draws. Automobile loans increased by $57.9 million or 18% from December 31, 2014 primarily due to increased customer demand combined with market share gains. Other consumer loans increased by $40.6 million or 13% from December 31, 2014 primarily due to our successful installment loan campaign in 2015 as well as growth in our consumer credit card business.

See Note 4 to the Consolidated Financial Statements and the "Corporate Risk Profile – Credit Risk" section of MD&A for more information on our loan and lease portfolio.

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Table 9 presents the geographic distribution of our loan and lease portfolio.

Geographic Distribution of Loan and Lease Portfolio Table 9

	December 31, 2015					
(dollars in thousands)	Hawaii	U.S. Mainland [1]	Guam	Other Pacific Islands	Foreign [2]	Total
Commercial						
Commercial and Industrial	$1,007,987	$43,794	$62,555	$612	$220	$1,115,168
Commercial Mortgage	1,539,462	36,038	101,647	—	—	1,677,147
Construction	156,660	—	—	—	—	156,660
Lease Financing	44,758	154,236	1,816	—	4,067	204,877
Total Commercial	2,748,867	234,068	166,018	612	4,287	3,153,852
Consumer						
Residential Mortgage	2,821,299	—	101,672	2,634	—	2,925,605
Home Equity	1,033,920	2,562	31,383	1,535	—	1,069,400
Automobile	299,627	63	77,187	4,858	—	381,735
Other [3]	265,694	—	40,936	41,761	2	348,393
Total Consumer	4,420,540	2,625	251,178	50,788	2	4,725,133
Total Loans and Leases	$7,169,407	$236,693	$417,196	$51,400	$4,289	$7,878,985
Percentage of Total Loans and Leases	91 %	3 %	5 %	1 %	0 %	100 %

[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.

[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.

Our Hawaii loan and lease portfolio increased by $988.2 million or 14% from December 31, 2014, reflective of a healthy Hawaii economy.

Table 10 presents a maturity distribution for selected loan categories.

Maturities for Selected Loan Categories [1] Table 10

	December 31, 2015			
(dollars in thousands)	Due in One Year or Less	Due After One to Five Years [2]	Due After Five Years [2]	Total
Commercial and Industrial	$247,385	$390,876	$476,907	$1,115,168
Construction	17,751	75,150	63,759	156,660
Total	$265,136	$466,026	$540,666	$1,271,828

[1] Based on contractual maturities.

[2] As of December 31, 2015, loans maturing after one year consisted of $671.7 million in variable rate loans and $335.0 million in fixed rate loans.

Goodwill

Goodwill was $31.5 million as of December 31, 2015 and 2014. As of December 31, 2015, based on our qualitative assessment, there were no reporting units where we believed that it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

Other Assets

Other assets were $199.4 million as of December 31, 2015, a decrease of $26.5 million or 12% from December 31, 2014. This decrease was primarily due to a $28.5 million redemption of excess FHLB stock upon the merger of FHLB Des Moines and FHLB Seattle (see Note 3 to the Consolidated Financial Statements for more information), partially offset by a $3.0 million net purchase of additional FHLB stock during the year. This additional stock purchase was required in order to borrow an additional

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net $75.0 million from the FHLB (see the "Other Debt" section in MD&A). See Note 7 to the Consolidated Financial Statements for more information on the composition of our other assets.

Deposits

Table 11 presents the components of our deposits by major customer categories as of December 31, 2015 and 2014.

Deposits	Table 11	
	December 31,	
(dollars in thousands)	2015	2014
Consumer	$6,445,510	$6,092,929
Commercial	5,502,739	5,163,352
Public and Other	1,302,854	1,376,808
Total Deposits	$13,251,103	$12,633,089

Total deposits were $13.3 billion as of December 31, 2015, a $618.0 million or 5% increase from December 31, 2014. This increase was primarily due to a $352.6 million increase in consumer deposits, mainly due to continued growth in our relationship checking and savings deposits products. In addition, commercial deposits increased by $339.4 million, mainly reflecting core deposit growth.

Table 12 presents the components of our savings deposits as of December 31, 2015 and 2014.

Savings Deposits	Table 12	
	December 31,	
(dollars in thousands)	2015	2014
Money Market	$1,794,742	$1,766,173
Regular Savings	3,230,449	3,040,402
Total Savings Deposits	$5,025,191	$4,806,575

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		Table 13
	December 31,	
(dollars in thousands)	2015	2014
Government Entities	$53,857	$88,601
Private Institutions	575,000	600,000
Total Securities Sold Under Agreements to Repurchase	$628,857	$688,601

Securities sold under agreements to repurchase were $628.9 million as of December 31, 2015, a decrease of $59.7 million or 9% from December 31, 2014. This decrease was primarily due to the maturing of one private institution repurchase agreement and two government entity repurchase agreements. As of December 31, 2015, the weighted-average maturity was 56 days for our repurchase agreements with government entities and 3.6 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted-average maturity for our repurchase agreements with private institutions would decrease to 1.5 years. As of December 31, 2015 and 2014, the weighted-average interest rate for repurchase agreements with government entities was 0.37% and 0.31%, respectively, while the weighted-average interest rate for repurchase agreements with private institutions as of December 31, 2015 and 2014 was 4.22% and 4.21%, respectively, with all rates being fixed. Each of our repurchase agreements is accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. See Note 9 and 19 to the Consolidated Financial Statements for more information.

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Other Debt

Other debt was $245.8 million as of December 31, 2015, an increase of $71.9 million or 41% from December 31, 2014. This increase was primarily due to an additional seven FHLB advances totaling $175.0 million borrowed, offset by a $100.0 million advance that matured during 2015. As of December 31, 2015, our eight FHLB advances totaled $225.0 million with a weighted-average interest rate of 1.15% and maturity dates ranging from 2016 to 2018. These advances were primarily for asset/liability management purposes. As of December 31, 2015, our remaining line of credit with the FHLB was $1.1 billion.

Pension and Postretirement Plan Obligations

Retirement benefits payable were $47.4 million as of December 31, 2015, an $8.1 million or 15% decrease from December 31, 2014. Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on a number of key assumptions, including the discount rate, the expected return on plan assets, and the health-care cost trend rate. The accounting for pension and postretirement benefit plans reflect the long-term nature of the obligations and the investment horizon of the plan assets. The decrease in retirement benefits payable was primarily due to utilizing a higher discount rate.

The discount rate is used to determine the present value of future benefit obligations and the net periodic benefit cost. The discount rate used to value the present value of future benefit obligations as of each year-end is the rate used to estimate the net periodic benefit cost for the following year. Table 14 presents a sensitivity analysis of a 25 basis point change in discount rates to the pension and postretirement benefit plan's net periodic benefit cost and benefit obligations:

Discount Rate Sensitivity Analysis Table 14

	Base Discount Rate		Impact of Discount Rate 25 Basis Point Increase		Discount Rate 25 Basis Point Decrease	
(dollars in thousands)	Pension Benefit	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
2015 Net Periodic Benefit Cost	4.25 %	4.28 %	$25	$(70)	$(34)	$ 70
Benefit Plan Obligations as of December 31, 2015	4.70 %	4.74 %	(2,974)	(917)	3,060	952
Estimated 2016 Net Periodic Benefit Cost	4.70 %	4.74 %	8	(95)	(16)	97

See Note 14 to the Consolidated Financial Statements for more information on our pension and postretirement benefit plans.

Foreign Activities

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2015, 2014 and 2013, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets.

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Corporate Risk Profile

Managing risk is an essential part of successfully operating our business. Management believes that the most prominent risk exposures for the Company are credit risk, market risk, liquidity risk management, capital management, and operational risk.

Credit Risk

Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms. We manage and control credit risk in the loan and lease portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Written credit policies document underwriting standards, approval levels, exposure limits, and other limits or standards deemed necessary and prudent. Portfolio diversification at the obligor, industry, product, and/or geographic location levels is actively managed to mitigate concentration risk. In addition, credit risk management also includes an independent credit review process that assesses compliance with commercial and consumer credit policies, risk ratings, and other critical credit information. In addition to implementing risk management practices that are based upon established and sound lending practices, we adhere to sound credit principles. We understand and evaluate our customers' borrowing needs and capacity to repay, in conjunction with their character and history.

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and leveraged leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant's ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant's financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant's credit history supplement the analysis of the applicant's creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, builders, and owner-occupants primarily domiciled in Hawaii. These loans are secured by first mortgages on real estate at loan-to-value ("LTV") ratios deemed appropriate based on the property type, location, overall quality, and sponsorship. Generally, these LTV ratios do not exceed 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties such as hotels. Substantially our entire commercial mortgage loans are secured by properties located in our primary market area.

In the underwriting of our commercial mortgage loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic fundamentals of the property and the creditworthiness of the borrower. In evaluating a proposed commercial mortgage loan, we primarily emphasize the ratio of the property's projected net cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deducting for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is sometimes required from the principal(s) of the borrower. We typically require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required. Owner-occupant commercial mortgage loans are underwritten based upon the cash flow of the business provided that the real estate asset is utilized in the operation of the business. Real estate is evaluated independently as a secondary source of repayment. As noted above, LTV ratios generally do not exceed 75%.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

We offer a variety of first mortgage and junior lien loans to consumers within our markets with residential home mortgages comprising our largest loan category. These loans are generally secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks and financial capacity and repayment ability of the consumer. Decisions are primarily based on LTV ratios, debt-to-income ("DTI") ratios, liquidity, and credit scores. LTV ratios generally do not exceed 80%, although higher levels are permitted with mortgage insurance. We offer variable rate mortgage loans with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on the London Interbank Offered Rate ("LIBOR"). Variable rate mortgage loans are underwritten at fully-indexed interest rates. We do not offer

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payment-option facilities, sub-prime or Alt-A loans, or any product with negative amortization. We will selectively offer interest-only mortgage loans through our Private Banking channel.

Home equity loans are secured by both first and second liens on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 80% of the value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed interest rates. Our procedures for underwriting home equity loans include an assessment of an applicant's overall financial capacity and repayment ability. Decisions are primarily based on LTV ratios, DTI ratios, and credit scores. We do not offer home equity loan products with reduced documentation.

Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships in Hawaii, Guam and Saipan. Our procedures for underwriting automobile loans include an assessment of an applicant's overall financial capacity and repayment ability, credit history, and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount. We require borrowers to maintain full coverage automobile insurance on automobile loans and leases, with the Bank listed as either the loss payee or additional insured.

General economic conditions in Hawaii remained healthy during 2015, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Our overall credit risk position reflects these positive economic trends and our loan portfolio growth and composition.

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Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More

Table 15 presents a five-year history of non-performing assets 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 15

	December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$5,829	$9,088	$11,929	$5,534	$6,243
Commercial Mortgage	3,469	745	2,512	3,030	2,140
Construction	—	—	—	833	2,080
Lease Financing	—	—	—	—	5
Total Commercial	9,298	9,833	14,441	9,397	10,468
Consumer					
Residential Mortgage	14,598	14,841	20,264	21,725	25,256
Home Equity	4,081	3,097	1,740	2,074	2,024
Total Consumer	18,679	17,938	22,004	23,799	27,280
Total Non-Accrual Loans and Leases	27,977	27,771	36,445	33,196	37,748
Foreclosed Real Estate	824	2,311	3,205	3,887	3,042
Total Non-Performing Assets	$28,801	$30,082	$39,650	$37,083	$40,790
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$—	$2	$1,173	$27	$1
Total Commercial	—	2	1,173	27	1
Consumer					
Residential Mortgage	4,453	4,506	4,564	6,908	6,422
Home Equity	1,710	2,596	3,009	2,701	2,194
Automobile	315	616	322	186	170
Other [1]	1,096	941	790	587	435
Total Consumer	7,574	8,659	8,685	10,382	9,221
Total Accruing Loans and Leases Past Due 90 Days or More	$7,574	$8,661	$9,858	$10,409	$9,222
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$49,430	$45,474	$51,123	$31,844	$33,703
Total Loans and Leases	$7,878,985	$6,897,589	$6,095,387	$5,854,521	$5,538,304
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.36 %	0.40 %	0.60 %	0.57 %	0.68 %
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.37 %	0.44 %	0.65 %	0.63 %	0.74 %
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.29 %	0.38 %	0.61 %	0.45 %	0.56 %

Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.41 %	0.47 %	0.68 %	0.75 %	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	0.46 %	0.56 %	0.81 %	0.81 %	0.90 %

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

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Table 16 presents the activity in Non-Performing Assets ("NPAs") for 2015:

Non-Performing Assets (dollars in thousands)	Table 16
Balance at Beginning of Year	$30,082
Additions	9,310
Reductions	
Payments	(6,111)
Return to Accrual Status	(1,959)
Sales of Foreclosed Real Estate	(1,878)
Charge-offs/Write-downs	(643)
Total Reductions	(10,591)
Balance at End of Year	$28,801

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 $28.8 million as of December 31, 2015, a decrease of $1.3 million or 4% from December 31, 2014. The decrease was primarily due to a $1.5 million decrease in foreclosed real estate. The ratio of our NPAs to total loans and leases, and foreclosed real estate was 0.37% as of December 31, 2015 and 0.44% as of December 31, 2014.

Commercial and industrial non-accrual loans decreased by $3.3 million or 36% from December 31, 2014 due to paydowns and the reclassification of one loan to the commercial mortgage loan category. As of December 31, 2015, one commercial borrower comprised 74% of the non-accrual balance in this category. We have individually evaluated all of our commercial and industrial non-accrual loans for impairment and have recorded partial charge-offs totaling $8.4 million.

Commercial mortgage non-accrual loans increased by $2.7 million or 366% from December 31, 2014 primarily due to the reclassification of one loan from the commercial and industrial loan category. We have individually evaluated the four remaining commercial mortgage non-accrual loans for impairment and have recorded charge-offs totaling $3.5 million.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $0.2 million or 2% from December 31, 2014. Residential mortgage non-accrual loans remain at elevated levels due to the level of residential mortgage modifications extended to assist homeowners, as well as the lengthy judiciary foreclosure process. As of December 31, 2015, our residential mortgage non-accrual loans were comprised of 37 loans with a weighted average current LTV ratio of 64%.

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 decreased by $1.5 million or 64% from December 31, 2014 primarily due to the sale of one commercial property.

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 $7.6 million as of December 31, 2015, a $1.1 million or 13% decrease from December 31,

2014. This decrease was primarily in our home equity portfolio.

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Impaired Loans

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), all loans modified in a TDR (including accruing TDRs), and other loans where we believe that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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 $66.7 million as of December 31, 2015 and $64.7 million as of December 31, 2014, and had a related Allowance of $3.6 million as of December 31, 2015 and $5.9 million as of December 31, 2014. The increase in impaired loans was primarily due to four commercial loan modifications, partially offset by paydowns. The reduction of the Allowance related to impaired loans was primarily due to a $2.1 reduction to the Allowance related to one commercial borrower. As of December 31, 2015, we recorded cumulative charge-offs of $22.8 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of December 31, 2015 had been accrued under the original terms, approximately $2.6 million in total interest income would have been recorded in 2015, compared to $0.1 million actually recorded as interest income on those loans.

Loans Modified in a Troubled Debt Restructuring

Table 17 presents information on loans whose terms have been modified in a TDR:

Loans Modified in a Troubled Debt Restructuring		Table 17
	December 31,	
(dollars in thousands)	2015	2014
Commercial		
Commercial and Industrial	$14,860	$13,176
Commercial Mortgage	9,827	5,734
Construction	1,604	1,689
Total Commercial	26,291	20,599
Consumer		
Residential Mortgage	28,981	32,331
Home Equity	1,089	1,012
Automobile	7,012	5,375
Other [1]	1,665	913
Total Consumer	38,747	39,631
Total	$65,038	$60,230

[1] Comprised of other revolving credit and installment financing.

Loans modified in a TDR increased by $4.8 million or 8% from December 31, 2014. This increase was due in part to the modification of one commercial and industrial loan during the third quarter and one commercial mortgage loan during the fourth quarter. Residential mortgage loans modified in a TDR are loans in which we lowered monthly payments to accommodate the borrowers' financial needs for a period of time. As of December 31, 2015, $49.4 million or 76% of loans modified in a TDR were performing in accordance with their modified contractual terms and were on accrual status.

Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated performance under the modified terms by making at least six consecutive payments. See Note 4 to the Consolidated Financial

Statements for a description of the modification programs that we currently offer to our customers.

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Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the "Unfunded Reserve"). Table 18 presents the activity in the Company's reserve for credit losses for the years ended December 31:

Reserve for Credit Losses					Table 18
(dollars in thousands)	2015	2014	2013	2012	2011
Balance at Beginning of Period	$114,575	$121,521	$134,276	$144,025	$152,777
Loans and Leases Charged-Off					
Commercial					
Commercial and Industrial	(954)	(2,002)	(8,083)	(3,617)	(8,112)
Construction	—	—	—	(330)	—
Lease Financing	—	(66)	(16)	—	—
Consumer					
Residential Mortgage	(613)	(771)	(2,013)	(4,408)	(8,174)
Home Equity	(1,330)	(1,672)	(5,220)	(6,717)	(10,853)
Automobile	(5,860)	(3,961)	(2,131)	(2,082)	(3,229)
Other [1]	(7,682)	(6,967)	(7,657)	(7,005)	(6,392)
Total Loans and Leases Charged-Off	(16,439)	(15,439)	(25,120)	(24,159)	(36,760)
Recoveries on Loans and Leases Previously Charged-Off					
Commercial					
Commercial and Industrial	1,948	4,625	1,681	3,939	2,434
Commercial Mortgage	61	57	557	67	538
Construction	32	29	365	8	—
Lease Financing	132	10	41	177	3,528
Consumer					
Residential Mortgage	1,297	3,448	3,540	2,820	2,152
Home Equity	2,489	1,637	1,943	1,335	1,695
Automobile	1,917	1,577	1,628	1,931	2,479
Other [1]	1,755	2,154	1,962	3,154	2,492
Total Recoveries on Loans and Leases Previously Charged-Off	9,631	13,537	11,717	13,431	15,318
Net Loans and Leases Charged-Off	(6,808)	(1,902)	(13,403)	(10,728)	(21,442)
Provision for Credit Losses	1,000	(4,864)	—	979	12,690
Provision for Unfunded Commitments	185	(180)	648	—	—
Balance at End of Period [2]	$108,952	$114,575	$121,521	$134,276	$144,025
Components					
Allowance for Loan and Lease Losses	$102,880	$108,688	$115,454	$128,857	$138,606
Reserve for Unfunded Commitments	6,072	5,887	6,067	5,419	5,419
Total Reserve for Credit Losses	$108,952	$114,575	$121,521	$134,276	$144,025
Average Loans and Leases Outstanding	$7,423,572	$6,405,431	$5,883,686	$5,680,279	$5,349,938
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding	0.09%	0.03%	0.23%	0.19%	0.40%
Ratio of Allowance for Loan and Lease Losses to	1.31%	1.58%	1.89%	2.20%	2.50%

Loans and Leases Outstanding

[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 statements of condition.

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Allowance for Loan and Lease Losses

Table 19 presents the allocation of the Allowance by loan and lease category.

Allocation of Allowance for Loan and Lease Losses Table 19

(dollars in thousands)	December 31, 2015	2014	2013	2012	2011
Commercial					
Commercial and Industrial	$22,052	$26,822	$31,942	$20,724	$23,865
Commercial Mortgage	31,889	31,118	29,495	33,182	25,900
Construction	5,541	4,927	5,588	3,592	5,326
Lease Financing	1,232	1,684	4,421	15,206	25,471
Total Commercial	60,714	64,551	71,446	72,704	80,562
Consumer					
Residential Mortgage	11,151	14,069	14,631	18,063	18,758
Home Equity	13,118	14,798	13,072	24,261	27,232
Automobile	8,516	4,251	4,016	2,370	2,646
Other [1]	9,381	11,019	12,289	11,459	9,408
Total Consumer	42,166	44,137	44,008	56,153	58,044
Total Allocation of Allowance for Loan and Lease Losses	$102,880	$108,688	$115,454	$128,857	$138,606

	December 31, 2015		2014		2013		2012		2011
	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category
Commercial									
Commercial and Industrial	1.98 %	14.15 %	2.54 %	15.30 %	3.50 %	14.95 %	2.50 %	14.17 %	2.92
Commercial Mortgage	1.90	21.29	2.16	20.84	2.36	20.47	3.02	18.74	2.76
Construction	3.54	1.99	4.51	1.58	5.20	1.76	3.15	1.95	5.40
Lease Financing	0.60	2.60	0.74	3.28	1.69	4.30	5.53	4.70	8.17
Total Commercial	1.93	40.03	2.28	41.00	2.83	41.48	3.14	39.56	3.72
Consumer									
Residential Mortgage	0.38	37.13	0.55	37.28	0.64	37.45	0.77	40.14	0.85
Home Equity	1.23	13.57	1.71	12.56	1.69	12.69	3.15	13.16	3.49
Automobile	2.23	4.85	1.31	4.70	1.57	4.20	1.13	3.58	1.37
Other [1]	2.69	4.42	3.58	4.46	4.83	4.18	5.50	3.56	5.14

Total Consumer	0.89	59.97	1.08	59.00	1.23	58.52	1.59	60.44	1.72
Total	1.31 %	100.00 %	1.58 %	100.00 %	1.89 %	100.00 %	2.20 %	100.00 %	2.50

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

As of December 31, 2015, the Allowance was $102.9 million or 1.31% of total loans and leases outstanding, compared with an Allowance of $108.7 million or 1.58% of total loans and leases outstanding as of December 31, 2014. The level of the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

Net charge-offs of loans and leases were $6.8 million or 0.09% of total average loans and leases in 2015 compared to $1.9 million or 0.03% of total average loans and leases in 2014. Net recoveries in our commercial portfolios were $1.2 million in 2015 compared to net recoveries of $2.7 million in 2014. This decrease was primarily due to a $2.1 million non-recurring recovery experienced in 2014. Net charge-offs in our consumer portfolios were $8.0 million in 2015 compared to $4.6 million in 2014. This increase was primarily reflected in our automobile and other consumer portfolios, reflective of the growth and seasoning in these portfolios.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of December 31, 2015 based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The allocation of the Allowance to our commercial portfolio segment decreased by $3.8 million or 6% from December 31, 2014. This decrease was primarily due to a $2.1 million decrease in the Allowance allocated to a commercial and industrial loan in Guam.
The allocation of the Allowance to our consumer portfolio segment decreased by $2.0 million or 4% from December 31, 2014 due to lower losses and loss rates.

See Note 4 to the Consolidated Financial Statements for more information on the Allowance and credit quality indicators.

Reserve for Unfunded Commitments

The Unfunded Reserve was $6.1 million as of December 31, 2015, an increase of $0.2 million or 3% from December 31, 2014. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

Other Credit Risks

In the normal course of business, we serve the needs of state and political subdivisions in multiple capacities, including traditional banking products such as deposit services, and by investing in municipal debt securities. The carrying value of our municipal debt securities was $977.9 million as of December 31, 2015 and $993.5 million as of December 31, 2014. We also maintained investments in corporate bonds with a carrying value of $460.2 million as of December 31, 2015 and $461.5 million as of December 31, 2014. We are exposed to credit risk in these investments should the issuer of a security be unable to meet its financial obligations. This may result in the issuer failing to make scheduled interest payments and/or being unable to repay the principal upon maturity. See the "Analysis of Statements of Condition - Investment Securities" section in MD&A for more information.

Our use of derivative financial instruments has been very limited in recent years. However, these financial instruments do expose the Company to counterparty credit risk. See Note 17 to the Consolidated Financial Statements for more information.

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 core business activities of extending loans and accepting deposits. Our investment securities portfolio is also subject to significant interest rate risk.

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.

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

Our use of derivative financial instruments, as detailed in Note 17 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 that attempts to capture the dynamic nature of the balance sheet. The model is used to estimate and measure the balance sheet sensitivity to changes in interest rates. These estimates are based on assumptions about the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. The model's analytics include the effects of standard prepayment options on mortgages and customer withdrawal options for deposits. While such assumptions are inherently uncertain, we believe that these assumptions are reasonable.

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 20 presents, for the twelve months subsequent to December 31, 2015 and 2014, 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 our net interest income simulation as of December 31, 2015, net interest income is expected to increase as interest rates rise. This is due in part to our strategy to maintain a relatively short investment portfolio duration. In addition, rising interest rates would drive higher rates on loans and investment securities, as well as induce a slower pace of premium amortization on certain securities within our investment portfolio. However, lower interest rates would likely cause a decline in net interest income as lower rates would lead to lower yields on loans and investment securities, as well as drive higher premium amortization on existing investment securities. Since deposit costs are already at low levels, lower interest rates are unlikely to significantly impact our funding costs. Based on our net interest income simulation as of December 31, 2015, net interest income sensitivity to changes in interest rates for the twelve months subsequent to December 31, 2015 was more sensitive compared to the sensitivity profile for the twelve months subsequent to December 31, 2014. The increase in sensitivity was partially due to changes in our balance sheet mix, including increases in funds sold, loans, and core deposits. Also contributing to the sensitivity increase was lengthening the tenor of our liabilities, including public funds and term debt.

Net Interest Income Sensitivity Profile Table 20

	Impact on Future Annual Net Interest Income					
(dollars in thousands)	December 31, 2015			December 31, 2014		
Gradual Change in Interest Rates (basis points)						
+200	$11,217	2.7	%	$7,934	2.0	%

+100	5,095	1.2	3,740	1.0
-100	(7,132)	(1.7)	(6,528)	(1.7)
Immediate Change in Interest Rates (basis points)				
+200	$28,194	6.9 %	$18,962	4.8 %
+100	12,840	3.1	8,804	2.2
-100	(20,437)	(5.0)	(20,755)	(5.3)

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.

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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. Also, our share-based compensation expense is dependent on the fair value of the stock options, restricted stock units, and restricted stock at the date of grant. The fair value of stock options, restricted stock units, 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 balance changes, 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 which is primarily on deposit with the FRB. Potential sources of liquidity also include investment securities in our available-for-sale securities portfolio, and our ability to sell loans in the secondary market and to secure borrowings from the FRB and FHLB. Our held-to-maturity securities, while not intended for sale, may also be utilized in repurchase agreements to obtain funding. Our core 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.

Maturities and payments on outstanding loans also provide a steady flow of funds. Additionally, as of December 31, 2015, investment securities with a carrying value of $167.0 million were due to mature or expected to prepay in 2016. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and FRB. As of December 31, 2015, we could have borrowed an additional $1.1 billion from the FHLB and an additional $560.8 million from the FRB based on the amount of collateral pledged.

We continued our focus on maintaining a strong liquidity position throughout 2015. As of December 31, 2015, cash and cash equivalents were $755.7 million, the carrying value of our available-for-sale and held-to-maturity investment securities were $2.3 billion and $4.0 billion, respectively, and total deposits were $13.3 billion. As of December 31, 2015, our available-for-sale portfolio consisted primarily of municipal bond holdings, mortgage-backed securities issued by Ginnie Mae and Fannie Mae, Small Business Administration debt securities, and corporate bonds. As of December 31, 2015, our available-for-sale investment securities portfolio and our held-to-maturity investment securities portfolio were comprised of securities with an average base duration of approximately 2.7 years and 3.8 years, respectively.

Capital Management

We actively manage capital, commensurate with our risk profile, to enhance shareholder value. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory "well-capitalized" thresholds. 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 could cause certain mandatory and discretionary actions by regulators that, if undertaken, would likely 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 December 31, 2015, the Company and the Bank were considered "well capitalized" under this regulatory framework. The Company's regulatory capital ratios are presented in Table 21 below. There have been no conditions or events since December 31, 2015 that management believes have changed either the Company's or the Bank's capital classifications.

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As of December 31, 2015, shareholders' equity was $1.1 billion, an increase of $61.2 million or 6% from December 31, 2014. Earnings for 2015 of $160.7 million, common stock issuances of $21.0 million, shared-based compensation of $7.7 million, and other comprehensive income of $3.1 million were offset by cash dividends paid of $78.4 million. In 2015, we also repurchased 802,255 shares of our common stock under our share repurchase program at an average cost per share of $62.61 and a total cost of $50.2 million. From the beginning of our share repurchase program in July 2001 through December 31, 2015, we repurchased a total of 52.8 million shares of common stock and returned a total of $1.97 billion to our shareholders at an average cost of $37.35 per share.

From January 1, 2016 through February 17, 2016, the Parent repurchased an additional 149,500 shares of common stock at an average cost of $59.50 per share and a total cost of $8.9 million. 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 January 2016, 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 March 14, 2016 to shareholders of record at the close of business on February 29, 2016.

We continue to evaluate the potential impact that regulatory rules may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act. See the "Regulatory Initiatives Affecting the Banking Industry" section below for further discussion on the potential impact that these regulatory rules may have on our liquidity and capital requirements.

Table 21 presents a five-year history of activities and balances in our capital accounts, along with key capital ratios.

Shareholders' Equity and Regulatory Capital — Table 21

	December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Change in Shareholders' Equity					
Net Income	$160,704	$163,042	$150,502	$166,076	$160,043
Cash Dividends Paid	(78,367)	(79,660)	(80,534)	(81,645)	(84,891)
Dividend Reinvestment Program	4,316	4,479	4,656	4,721	5,008
Common Stock Repurchased	(52,981)	(64,046)	(39,655)	(81,444)	(111,544)
Other[1]	27,502	19,295	(44,658)	11,290	22,918
Increase (Decrease) in Shareholders' Equity	$61,174	$43,110	$(9,689)	$18,998	$(8,466)
Regulatory Capital [2]					
Shareholders' Equity	$1,116,260	$1,055,086	$1,011,976	$1,021,665	$1,002,667
Less: Goodwill [3]	27,416	31,517	31,517	31,550	31,600
Postretirement Benefit Liability Adjustments	(28,860)	(34,115)	(22,394)	(30,569)	(27,669)
Net Unrealized Gains (Losses) on Investment Securities [4]	5,304	15,984	(1,300)	45,977	39,396
Other	(198)	2,069	(137)	24	2,343
Common Equity Tier 1 Capital	1,112,598	N/A	N/A	N/A	N/A
Tier 1 Capital	1,112,598	1,039,631	1,004,290	974,683	956,997
Allowable Reserve for Credit Losses	99,647	88,785	78,761	71,680	67,775
Total Regulatory Capital	$1,212,245	$1,128,416	$1,083,051	$1,046,363	$1,024,772
Risk-Weighted Assets [2]	$7,962,484	$7,077,035	$6,258,143	$5,671,774	$5,345,740

Key Regulatory Capital Ratios [2]					
Common Equity Tier 1 Capital Ratio	13.97 %	N/A%	N/A%	N/A%	N/A%
Tier 1 Capital Ratio	13.97	14.69	16.05	17.18	17.90
Total Capital Ratio	15.22	15.94	17.31	18.45	19.17
Tier 1 Leverage Ratio	7.26	7.13	7.24	7.25	7.20

[1] Includes unrealized gains and losses on available-for-sale investment securities, minimum pension liability adjustments, and common stock issuances under share-based compensation and related tax benefits.

[2] December 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

[3] December 31, 2015 calculated net of deferred tax liabilities.

[4] December 31, 2015 includes unrealized gains and losses related to the Company's reclassification of available-for-sale investment securities to the held-to-maturity category.

Regulatory Initiatives Affecting the Banking Industry

Basel III

The FRB and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's (“BCBS”) capital guidelines for U.S. banks. Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. The final rules also revised the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules’ requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of December 31, 2015, the Company remained characterized as "well-capitalized" under the new rules.

On September 3, 2014, the FRB, the FDIC, and the Office of the Comptroller of the Currency finalized the Liquidity Coverage Ratio (“LCR”), which requires banks to hold highly liquid assets relative to cash outflows over a 30-day period during a stressed scenario. The LCR generally applies to banking organizations with over $50.0 billion in assets, and therefore, should not directly impact the Company.

Management continues to monitor regulatory developments and their potential impact to the Company's liquidity requirements.

Stress Testing

The Dodd-Frank Act requires federal banking agencies to issue regulations that require banks with total consolidated assets of more than $10.0 billion to conduct and publish company-run 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 stress testing requirements for banks, such as the Company, with total consolidated assets of more than $10.0 billion but less than $50.0 billion. These rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

In March 2014, the FRB, OCC, and FDIC issued final supervisory guidance for these stress tests. This joint final supervisory guidance discusses supervisory expectations for stress test practices, provides examples of practices that would be consistent with those expectations, and offers additional details about stress test methodologies. It also emphasizes the importance of stress testing as an ongoing risk management practice.

We submitted our latest stress testing results, utilizing data as of September 30, 2014, to the FRB on March 31, 2015. On June 26, 2015, we made our first stress test-related public disclosure (posted on our website), utilizing data as of September 30, 2014.

Debit Card Interchange Fees

On July 31, 2013, a U.S. District Court judge declared invalid provisions of the rule issued by the FRB under the Durbin Amendment of the Dodd-Frank Act, regarding the amount of the debit card interchange fee cap and the network non-exclusivity provisions, which was effective October 1, 2011. In September 2013, the U.S. District Court judge agreed to the FRB's request to leave the existing rules in place until an appeals court rules on the case.

On March 21, 2014, a panel of the U.S. Court of Appeals for the District of Columbia (the "Court") overturned the U.S. District Court's opinion. The Court concluded that the FRB "reasonably interpreted the Durbin Amendment" to allow issuers to recover certain costs that are incremental to the authorization, clearing, and settlement ("ACS") costs. Finding that the FRB's interpretation was reasonable, the Court then analyzed whether the FRB reasonably concluded that issuers could recover the four specific costs challenged by the merchants: fixed ACS costs, network processing fees, fraud losses and transaction monitoring costs. The Court acknowledged that such a task was not "an exact science" and involved policy determinations in which the FRB had "expertise" and to which the FRB was entitled to "special deference." The Court also rejected the merchants' argument that the Durbin Amendment “unambiguously” required that there be multiple unaffiliated network routing options for each debit card transaction. The Court ruled that the FRB’s final rule does exactly what Congress contemplated, which is that under the rule, issuers and networks are prohibited from restricting the number of payment card networks on which an electronic debit transaction may be processed to only affiliated networks. The Court remanded one issue relating to recovery of transactions-monitoring costs back to the FRB, asking it to articulate a reasonable justification for determining that transactions-monitoring costs fell within the interchange fee standard rather than in the fraud-prevention adjustment. On August 18, 2014, some of the trade associations and retailers filed an appeal with the U.S. Supreme Court seeking review of the decision of the Court. On January 20, 2015, the U.S. Supreme Court announced it would not hear retailers’ challenge to the FRB's debit card interchange fee rules. The U.S. Supreme Court's decision not to hear the case keeps intact the March 21, 2014 ruling by the Court. On August 11, 2015, the FRB clarified the remanded issue regarding transactions-monitoring costs mentioned above. The clarification explains that the FRB included these costs in the base interchange fee rather than the fraud-prevention adjustment because “transactions-monitoring is integral to an issuer’s decision to authorize a specific transaction.” Management will continue to monitor the developments related to this matter and any potential impact on the Company's statements of income.

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, and the risk of cyber security attacks. 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. Operational risk is inherent in all business activities, and management of this risk is important to the achievement of Company goals and objectives.

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. Our internal audit department also validates the system of internal controls through ongoing risk-based audit procedures and reports on the effectiveness of internal controls to executive management and the Audit and Risk Committee of the Board of Directors.

While our internal controls are 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.

Off-Balance Sheet Arrangements and Guarantees

Off-Balance Sheet Arrangements

We hold interests in several unconsolidated variable interest entities ("VIEs"). These unconsolidated VIEs are primarily low-income housing partnerships and solar energy tax credit partnership investments. 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. See discussion of our accounting policy related to VIEs in Note 1 to the Consolidated Financial Statements.

Guarantees

We pool Federal Housing Administration ("FHA") insured and U.S. Department of Veterans Affairs ("VA") guaranteed residential mortgage loans for sale to Ginnie Mae. We also sell residential mortgage loans in the secondary market to Fannie Mae. The agreements under which we sell residential mortgage loans to Ginnie Mae or Fannie Mae and the insurance or guaranty agreements with the FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse the respective investor if it is found that required documents were not delivered or were defective.

We also service substantially all of the loans we sell to investors in the secondary market. Each agreement under which we act as servicer generally specifies a standard of responsibility for our actions 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

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obligations as servicer, we may be subject to various penalties which may include the repurchase of an affected loan or a reimbursement to the respective investor.

See discussion of our risks related to representation and warranty provisions as well as our risks related to residential mortgage loan servicing activities in Note 20 to the Consolidated Financial Statements.

Contractual Obligations

Our contractual obligations as of December 31, 2015 were as follows:

Contractual Obligations [1] Table 22

(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Deposits with No Stated Maturity	$12,073,452	$—	$—	$—	$12,073,452
Time Deposits	933,273	196,380	32,960	15,038	1,177,651
Funds Purchased	7,333	—	—	—	7,333
Securities Sold Under Agreements to Repurchase	128,757	200,100	150,000	150,000	628,857
Other Debt [2]	53,408	175,897	4,362	3,920	237,587
Banker's Acceptances Outstanding	261	—	—	—	261
Capital Lease Obligations	825	1,650	1,650	26,405	30,530
Non-Cancelable Operating Leases	13,752	21,263	16,246	99,276	150,537
Purchase Obligations	10,689	9,316	3,435	2,085	25,525
Pension and Postretirement Benefit Contributions [3]	1,459	2,843	2,854	8,494	15,650
Total Contractual Obligations	$13,223,209	$607,449	$211,507	$305,218	$14,347,383

1 Our liability for unrecognized tax benefits ("UTBs") as of December 31, 2015 was $11.6 million. We were unable to reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not included in this disclosure.

2 Includes interest on non-recourse debt.

3 Amounts only include obligations related to the unfunded non-qualified pension plan and postretirement benefit plan.

Commitments to extend credit, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon; therefore, these items are not included in the above table (see Note 20 to the Consolidated Financial Statements for more information). Our non-cancelable operating leases and capital lease obligations are primarily related to branch premises, equipment, and a portion of the Company's headquarters' building with lease terms extending through 2052. Purchase obligations arise from agreements to purchase goods or services that are enforceable and legally binding. Other contracts included in purchase obligations primarily consist of service agreements for various systems and applications supporting bank operations. Pension and postretirement benefit contributions represent the minimum expected contribution to the unfunded non-qualified pension plan and postretirement benefit plan. Actual contributions may differ from these estimates.

See discussion of credit, lease, and other contractual commitments in Note 20 to the Consolidated Financial Statements which is incorporated herein by reference.

Future Application of Accounting Pronouncements

See discussion of the expected impact of accounting pronouncements recently issued but that we have not adopted as of December 31, 2015 in Note 1 to the Consolidated Financial Statements.

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Selected Quarterly Consolidated Financial Data

Table 23 presents our selected quarterly financial data for 2015 and 2014.

Condensed Statements of Income Table 23

	Three Months Ended 2015				Three Months Ended 2014			
(dollars in thousands, except per share amounts)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest Income	$111,370	$107,360	$107,250	$106,130	$106,169	$104,923	$103,924	$102,617
Interest Expense	9,726	9,469	9,468	9,360	9,537	9,544	9,512	9,384
Net Interest Income	101,644	97,891	97,782	96,770	96,632	95,379	94,412	93,233
Provision for Credit Losses	1,000	—	—	—	—	(2,665)	(2,199)	—
Investment Securities Gains (Losses), Net	(181)	24	86	10,231	1,966	1,858	2,079	2,160
Noninterest Income	44,947	43,197	45,839	42,076	43,852	43,092	42,402	42,608
Noninterest Expense	85,727	91,888	83,574	86,915	81,240	81,030	81,082	83,547
Income Before Provision for Income Taxes	59,683	49,224	60,133	62,162	61,210	61,964	60,010	54,454
Provision for Income Taxes	16,851	14,948	18,979	19,720	20,019	20,195	18,520	15,862
Net Income	$42,832	$34,276	$41,154	$42,442	$41,191	$41,769	$41,490	$38,592
Per Common Share								
Basic Earnings Per Share	$1.00	$0.79	$0.95	$0.98	$0.95	$0.95	$0.94	$0.87
Diluted Earnings Per Share	$0.99	$0.79	$0.95	$0.97	$0.94	$0.95	$0.94	$0.87
Dividends Declared Per Share	$0.45	$0.45	$0.45	$0.45	$0.45	$0.45	$0.45	$0.45
Performance Ratios								
Net Income to Average Total Assets (ROA)	1.11%	0.89%	1.10%	1.15%	1.12%	1.15%	1.17%	1.12%
Net Income to Average	15.41	12.45	15.33	16.18	15.39	15.57	15.87	15.15

Shareholders' Equity (ROE)								
Efficiency Ratio [1]	58.55	65.12	58.16	58.30	57.03	57.74	58.38	60.54
Net Interest Margin [2]	2.85	2.77	2.81	2.81	2.84	2.85	2.86	2.87

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

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

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Fourth Quarter Results and Other Matters

Net Income

Net income for the fourth quarter of 2015 was $42.8 million, an increase of $1.6 million or 4% compared to the fourth quarter of 2014. Diluted earnings per share were $0.99 for the fourth quarter of 2015, an increase of $0.05 or 5% compared to the fourth quarter of 2014.

Net Interest Income

Net interest income, on a taxable-equivalent basis, for the fourth quarter of 2015 was $104.7 million, an increase of $5.1 million or 5% compared to the fourth quarter of 2014. This increase was primarily due to a higher level of earning assets. Average earning assets increased by $704.7 million in the fourth quarter of 2015 compared to the same period in 2014. Earning assets increased primarily due to increased deposits. Total deposits were $13.3 billion as of December 31, 2015, a $618.0 million increase from December 31, 2014. Net interest margin was 2.85% for the fourth quarter of 2015, an increase of 1 basis point compared to the fourth quarter of 2014. Loan and investment yields decreased slightly in the fourth quarter of 2015 compared to the fourth quarter of 2014, primarily due to lower yields in our investment securities and loans, reflective of the continued low interest rate environment. However, this was offset by our loans and leases, which generally have higher yields than investment securities, comprising a larger percentage of our earning assets in the current quarter.

Provision for Credit Losses

We recorded a Provision of $1.0 million in the fourth quarter of 2015 compared to no Provision recorded in the fourth quarter of 2014, while recording net charge-offs of loans and leases of $2.2 million and $1.7 million in the fourth quarters of 2015 and 2014, respectively.

Noninterest Income

Net gains on sales of investment securities decreased by $2.1 million in the fourth quarter of 2015 compared to the fourth quarter of 2014. This decrease was primarily due to a $2.0 million gain of the sale of 22,000 Visa Class B restricted shares in the fourth quarter of 2014. See the "Noninterest Income" section of MD&A for more information.

Noninterest income, other than net gains on sales of investment securities, was $44.9 million in the fourth quarter of 2015, an increase of $1.1 million or 2% compared to the fourth quarter of 2014. This increase was primarily due to a $1.0 million distribution received from a low-income housing partnership. In addition, mortgage banking income increased by $1.0 million primarily due to our decision to sell more conforming saleable loans from current production, which generated gains on sales of residential mortgage loans. These increases were partially offset by a $1.0 million decrease in trust and asset management income primarily due to a decrease in the number of accounts under management.

Noninterest Expense

Noninterest expense was $85.7 million in the fourth quarter of 2015, an increase of $4.5 million or 6% compared to the fourth quarter of 2014. Salaries and benefits increased by $2.5 million primarily due to higher separation expense and base salaries. Insurance expense increased by $2.1 million primarily due to a reserve reduction in the fourth quarter of 2014. Operational losses, which include losses as a result of bank error, fraud, items processing, or theft, increased by $1.4 million. Data processing expense increased by $1.3 million primarily due to the roll-out of EMV chip-enabled debit cards. These increases were partially offset by a $3.9 million gain on the sale of a Honolulu branch property in the fourth quarter of 2015.

Provision for Income Taxes

The provision for income taxes was $16.9 million in the fourth quarter of 2015, a decrease of $3.2 million or 16% compared to the fourth quarter of 2014. The effective tax rate for the fourth quarter of 2015 was 28.23% compared with an effective tax rate of 32.71% for the fourth quarter of 2014. The lower effective tax rate in the fourth quarter of 2015 was primarily due to a $0.9 million release of a valuation allowance for the expected utilization of capital losses due to the sale of a low-income housing investment in 2015, a $0.6 million addition to reserves for uncertain tax positions in 2014 and a $0.4 million release of reverse from uncertain tax positions in 2015.

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Common Stock Repurchase Program

In the fourth quarter of 2015, we repurchased 214,000 shares of our common stock under our share repurchase program at an average cost per share of $65.08 and a total cost of $13.9 million. See Note 11 to the Consolidated Financial Statements for more information related to our common stock repurchase program.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section in Management's Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this report.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Bank of Hawaii Corporation

We have audited the accompanying consolidated statements of condition of Bank of Hawaii Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of Bank of Hawaii Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank of Hawaii Corporation and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bank of Hawaii Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 29, 2016

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	2015	2014	2013
Interest Income			
Interest and Fees on Loans and Leases	$298,522	$267,407	$253,276
Income on Investment Securities			
Available-for-Sale	41,492	42,475	53,570
Held-to-Maturity	89,650	105,860	90,062
Deposits	8	9	10
Funds Sold	1,133	673	415
Other	1,305	1,209	1,172
Total Interest Income	432,110	417,633	398,505
Interest Expense			
Deposits	9,626	9,534	10,143
Securities Sold Under Agreements to Repurchase	25,364		