

BANK OF HAWAII CORP  
Form 10-Q  
October 26, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2015

or

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

Commission File Number: 1-6887

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

Delaware  
(State of incorporation)

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

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

96813  
(Zip Code)

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☐ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

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

As of October 20, 2015, there were 43,291,544 shares of common stock outstanding.

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Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2015	2014	2015	2014
Interest Income				
Interest and Fees on Loans and Leases	\$75,874	\$68,089	\$220,400	\$197,433
Income on Investment Securities				
Available-for-Sale	10,192	10,286	30,663	31,743
Held-to-Maturity	20,689	26,067	67,928	80,894
Deposits	2	3	7	7
Funds Sold	291	176	818	481
Other	312	302	924	906
Total Interest Income	107,360	104,923	320,740	311,464
Interest Expense				
Deposits	2,410	2,391	7,183	7,142
Securities Sold Under Agreements to Repurchase	6,307	6,523	19,118	19,385
Funds Purchased	3	3	9	10
Other Debt	749	627	1,987	1,903
Total Interest Expense	9,469	9,544	28,297	28,440
Net Interest Income	97,891	95,379	292,443	283,024
Provision for Credit Losses	—	(2,665)	—	(4,864)
Net Interest Income After Provision for Credit Losses	97,891	98,044	292,443	287,888
Noninterest Income				
Trust and Asset Management	11,907	11,716	36,442	35,573
Mortgage Banking	3,291	1,646	8,453	5,455
Service Charges on Deposit Accounts	8,669	9,095	25,409	26,611
Fees, Exchange, and Other Service Charges	13,340	13,390	39,589	39,699
Investment Securities Gains, Net	24	1,858	10,341	6,097
Annuity and Insurance	1,721	2,348	5,650	6,401
Bank-Owned Life Insurance	1,609	1,644	5,431	4,765
Other	2,660	3,253	10,138	9,598
Total Noninterest Income	43,221	44,950	141,453	134,199
Noninterest Expense				
Salaries and Benefits	46,576	45,530	143,966	137,508
Net Occupancy	7,403	9,334	25,341	28,005
Net Equipment	4,804	4,473	14,918	13,745
Data Processing	3,920	3,665	11,366	11,156
Professional Fees	2,258	1,835	6,857	6,708
FDIC Insurance	2,139	1,750	6,347	5,881
Other	24,788	14,443	53,582	42,656
Total Noninterest Expense	91,888	81,030	262,377	245,659
Income Before Provision for Income Taxes	49,224	61,964	171,519	176,428
Provision for Income Taxes	14,948	20,195	53,647	54,577
Net Income	\$34,276	\$41,769	\$117,872	\$121,851
Basic Earnings Per Share	\$0.79	\$0.95	\$2.72	\$2.77
Diluted Earnings Per Share	\$0.79	\$0.95	\$2.71	\$2.75
Dividends Declared Per Share	\$0.45	\$0.45	\$1.35	\$1.35
Basic Weighted Average Shares	43,181,233	43,859,396	43,290,137	44,034,047

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Diluted Weighted Average Shares	43,427,730	44,088,553	43,514,898	44,250,033
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The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Net Income	\$34,276	\$41,769	\$117,872	\$121,851
Other Comprehensive Income, Net of Tax:				
Net Unrealized Gains on Investment Securities	7,051	403	4,735	15,291
Defined Benefit Plans	219	157	659	469
Total Other Comprehensive Income	7,270	560	5,394	15,760
Comprehensive Income	\$41,546	\$42,329	\$123,266	\$137,611

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

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Consolidated Statements of Condition (Unaudited)

(dollars in thousands)	September 30, 2015	December 31, 2014
<b>Assets</b>		
Interest-Bearing Deposits in Other Banks	\$3,609	\$2,873
Funds Sold	274,873	360,577
Investment Securities		
Available-for-Sale	2,279,722	2,289,190
Held-to-Maturity (Fair Value of \$4,181,613 and \$4,504,495)	4,121,768	4,466,679
Loans Held for Sale	3,222	5,136
Loans and Leases	7,689,772	6,897,589
Allowance for Loan and Lease Losses	(104,038)	(108,688)
Net Loans and Leases	7,585,734	6,788,901
Total Earning Assets	14,268,928	13,913,356
Cash and Due From Banks	208,601	172,126
Premises and Equipment, Net	108,987	109,854
Accrued Interest Receivable	47,512	44,654
Foreclosed Real Estate	1,392	2,311
Mortgage Servicing Rights	23,301	24,695
Goodwill	31,517	31,517
Bank-Owned Life Insurance	266,568	262,807
Other Assets	207,317	225,888
Total Assets	\$15,164,123	\$14,787,208
<b>Liabilities</b>		
Deposits		
Noninterest-Bearing Demand	\$4,102,713	\$3,832,943
Interest-Bearing Demand	2,631,542	2,559,570
Savings	5,016,462	4,806,575
Time	1,186,245	1,434,001
Total Deposits	12,936,962	12,633,089
Funds Purchased	8,459	8,459
Securities Sold Under Agreements to Repurchase	632,138	688,601
Other Debt	270,801	173,912
Retirement Benefits Payable	54,978	55,477
Accrued Interest Payable	5,869	5,148
Taxes Payable and Deferred Taxes	25,294	27,777
Other Liabilities	131,268	139,659
Total Liabilities	14,065,769	13,732,122
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2015 - 57,749,071 / 43,342,940 and December 31, 2014 - 57,634,755 / 43,724,208)	575	574
Capital Surplus	539,112	531,932
Accumulated Other Comprehensive Loss	(21,292)	(26,686)
Retained Earnings	1,293,416	1,234,801
Treasury Stock, at Cost (Shares: September 30, 2015 - 14,406,131 and December 31, 2014 - 13,910,547)	(713,457)	(685,535)

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Total Shareholders' Equity	1,098,354	1,055,086
Total Liabilities and Shareholders' Equity	\$ 15,164,123	\$ 14,787,208

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



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

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre- hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2014	43,724,208	\$574	\$531,932	\$(26,686)	\$1,234,801	\$(685,535)	\$1,055,086
Net Income	—	—	—	—	117,872	—	117,872
Other Comprehensive Income	—	—	—	5,394	—	—	5,394
Share-Based Compensation	—	—	5,698	—	—	—	5,698
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	246,851	1	1,482	—	(376)	11,011	12,118
Common Stock Repurchased	(628,119)	—	—	—	—	(38,933)	(38,933)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(58,881)	—	(58,881)
Balance as of September 30, 2015	43,342,940	\$575	\$539,112	\$(21,292)	\$1,293,416	\$(713,457)	\$1,098,354
Balance as of December 31, 2013	44,490,385	\$572	\$522,505	\$(31,823)	\$1,151,754	\$(631,032)	\$1,011,976
Net Income	—	—	—	—	121,851	—	121,851
Other Comprehensive Income	—	—	—	15,760	—	—	15,760
Share-Based Compensation	—	—	5,831	—	—	—	5,831
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	314,579	1	1,194	—	(318)	7,976	8,853
Common Stock Repurchased	(811,235)	—	—	—	—	(46,910)	(46,910)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(59,948)	—	(59,948)
Balance as of September 30, 2014	43,993,729	\$573	\$529,530	\$(16,063)	\$1,213,339	\$(669,966)	\$1,057,413

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

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

	Nine Months Ended September 30,	
(dollars in thousands)	2015	2014
Operating Activities		
Net Income	\$ 117,872	\$ 121,851
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	—	(4,864 )
Impairment on Equipment Held for Sale	9,453	—
Depreciation and Amortization	9,541	9,280
Amortization of Deferred Loan and Lease Fees	(1,282 )	(1,341 )
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	38,753	37,592
Share-Based Compensation	5,698	5,831
Benefit Plan Contributions	(1,413 )	(1,229 )
Deferred Income Taxes	(10,618 )	(8,522 )
Net Gains on Sales of Loans and Leases	(2,510 )	(2,285 )
Net Gains on Sales of Investment Securities	(10,341 )	(6,097 )
Proceeds from Sales of Loans Held for Sale	142,391	64,545
Originations of Loans Held for Sale	(137,293 )	(58,448 )
Tax Benefits from Share-Based Compensation	(403 )	(435 )
Net Change in Other Assets and Other Liabilities	9,719	(22,210 )
Net Cash Provided by Operating Activities	169,567	133,668
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	256,581	251,633
Proceeds from Sales	68,166	14,609
Purchases	(317,458 )	(230,007 )
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	715,776	586,037
Purchases	(389,213 )	(418,825 )
Net Change in Loans and Leases	(800,482 )	(516,395 )
Premises and Equipment, Net	(8,673 )	(8,204 )
Net Cash Used in Investing Activities	(475,303 )	(321,152 )
Financing Activities		
Net Change in Deposits	303,873	446,785
Net Change in Short-Term Borrowings	(56,463 )	(71,369 )
Proceeds from Long-Term Debt	100,000	—
Tax Benefits from Share-Based Compensation	403	435
Proceeds from Issuance of Common Stock	7,244	8,317
Repurchase of Common Stock	(38,933 )	(46,910 )
Cash Dividends Paid	(58,881 )	(59,948 )
Net Cash Provided by Financing Activities	257,243	277,310
Net Change in Cash and Cash Equivalents	(48,493 )	89,826
Cash and Cash Equivalents at Beginning of Period	535,576	463,746
Cash and Cash Equivalents at End of Period	\$ 487,083	\$ 553,572

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Supplemental Information

Cash Paid for Interest	\$27,168	\$26,726
Cash Paid for Income Taxes	52,808	46,369
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	787	3,377
Transfers from Loans to Loans Held for Sale	93,539	—

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

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

### Note 1. Summary of Significant Accounting Policies

#### Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

#### Use of Estimates in the Preparation of Financial Statements

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

#### Accounting Standards Adopted in 2015

In January 2014, the FASB issued ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects (see Note 5 to the Consolidated Financial Statements). The Company adopted ASU No. 2014-01 effective January 1, 2015. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. Prior to adoption of ASU No. 2014-01, the Company accounted for such investments using the effective yield method and continued to do so for these pre-existing investments after adopting ASU No. 2014-01. The Company expects future investments to meet the criteria required for the proportional amortization method and plans to make such an accounting policy election. There

were no new investments being amortized since the adoption of ASU No. 2014-01 on January 1, 2015, and therefore, the adoption of ASU No. 2014-01 has not had a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both: (1) the amount of foreclosed residential real estate property held by the creditor; and (2) the recorded

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investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company adopted ASU No. 2014-04 effective January 1, 2015. The adoption of ASU No. 2014-04 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The amendments in the ASU require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures, effective June 30, 2015, about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings (see Note 6 to the Consolidated Financial Statements). The Company adopted the amendments in this ASU effective January 1, 2015. As of September 30, 2015, all of the Company's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, the adoption of ASU No. 2014-11 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. However, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company adopted ASU No. 2014-12 effective January 1, 2015. As of September 30, 2015, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA and VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be

derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The Company adopted ASU No. 2014-14 effective January 1, 2015. The adoption of ASU No. 2014-14 did not have a material impact on the Company's Consolidated Financial Statements.

#### Accounting Standards Pending Adoption

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which

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sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date" which defers the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of ASU No. 2015-02 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company's current method of accounting for fees paid in a cloud computing arrangement is consistent with the accounting guidance provided by ASU No. 2015-05. Therefore, the adoption of ASU No. 2015-05 is not expected to have a material impact on the Company's Consolidated Financial Statements.





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## Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of September 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$363,780	\$5,042	\$(165 )	\$368,657
Debt Securities Issued by States and Political Subdivisions	715,515	22,107	(412 )	737,210
Debt Securities Issued by Corporations	313,166	390	(2,995 )	310,561
Mortgage-Backed Securities:				
Residential - Government Agencies	341,457	8,244	(1,232 )	348,469
Residential - U.S. Government-Sponsored Enterprises	407,568	4,693	—	412,261
Commercial - Government Agencies	105,735	—	(3,171 )	102,564
Total Mortgage-Backed Securities	854,760	12,937	(4,403 )	863,294
Total	\$2,247,221	\$40,476	\$(7,975 )	\$2,279,722
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$499,731	\$4,613	\$—	\$504,344
Debt Securities Issued by States and Political Subdivisions	246,884	15,917	—	262,801
Debt Securities Issued by Corporations	155,175	1,691	(823 )	156,043
Mortgage-Backed Securities:				
Residential - Government Agencies	2,335,710	39,593	(11,588 )	2,363,715
Residential - U.S. Government-Sponsored Enterprises	619,545	6,864	(4 )	626,405
Commercial - Government Agencies	264,723	4,321	(739 )	268,305
Total Mortgage-Backed Securities	3,219,978	50,778	(12,331 )	3,258,425
Total	\$4,121,768	\$72,999	\$(13,154 )	\$4,181,613
December 31, 2014				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$325,365	\$5,933	\$(40 )	\$331,258
Debt Securities Issued by States and Political Subdivisions	723,474	21,941	(1,445 )	743,970
Debt Securities Issued by Corporations	298,272	546	(3,985 )	294,833
Mortgage-Backed Securities:				
Residential - Government Agencies	452,493	10,986	(1,043 )	462,436
Residential - U.S. Government-Sponsored Enterprises	276,390	2,262	(191 )	278,461
Commercial - Government Agencies	186,813	—	(8,581 )	178,232
Total Mortgage-Backed Securities	915,696	13,248	(9,815 )	919,129
Total	\$2,262,807	\$41,668	\$(15,285 )	\$2,289,190
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$498,767	\$2,008	\$(1,159 )	\$499,616
Debt Securities Issued by States and Political Subdivisions	249,559	15,459	—	265,018
Debt Securities Issued by Corporations	166,686	109	(3,442 )	163,353

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Mortgage-Backed Securities:

Residential - Government Agencies	2,862,369	45,407	(20,636 )	2,887,140
Residential - U.S. Government-Sponsored Enterprises	379,365	3,635	(15 )	382,985
Commercial - Government Agencies	309,933	241	(3,791 )	306,383
Total Mortgage-Backed Securities	3,551,667	49,283	(24,442 )	3,576,508
Total	\$4,466,679	\$66,859	\$(29,043 )	\$4,504,495

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of September 30, 2015. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	\$128,506	\$129,124
Due After One Year Through Five Years	450,881	454,110
Due After Five Years Through Ten Years	436,542	447,542
Due After Ten Years	73,243	77,701
	1,089,172	1,108,477
Debt Securities Issued by Government Agencies	303,289	307,951
Mortgage-Backed Securities:		
Residential - Government Agencies	341,457	348,469
Residential - U.S. Government-Sponsored Enterprises	407,568	412,261
Commercial - Government Agencies	105,735	102,564
Total Mortgage-Backed Securities	854,760	863,294
Total	\$2,247,221	\$2,279,722
Held-to-Maturity:		
Due in One Year or Less	\$9,994	\$10,008
Due After One Year Through Five Years	500,499	505,481
Due After Five Years Through Ten Years	286,833	295,665
Due After Ten Years	104,464	112,034
	901,790	923,188
Mortgage-Backed Securities:		
Residential - Government Agencies	2,335,710	2,363,715
Residential - U.S. Government-Sponsored Enterprises	619,545	626,405
Commercial - Government Agencies	264,723	268,305
Total Mortgage-Backed Securities	3,219,978	3,258,425
Total	\$4,121,768	\$4,181,613

Investment securities with carrying values of \$2.5 billion and \$2.8 billion as of September 30, 2015 and December 31, 2014, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross Gains on Sales of Investment Securities	\$1,504	\$1,858	\$11,821	\$6,097
Gross Losses on Sales of Investment Securities	(1,480 )	—	(1,480 )	—
Net Gains on Sales of Investment Securities	\$24	\$1,858	\$10,341	\$6,097



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

(dollars in thousands)	Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Longer Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
September 30, 2015						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$33,551	\$ (156 )	\$ 5,072	\$ (9 )	\$ 38,623	\$ (165 )
Debt Securities Issued by States and Political Subdivisions	55,896	(412 )	—	—	55,896	(412 )
Debt Securities Issued by Corporations	101,626	(1,392 )	143,489	(1,603 )	245,115	(2,995 )
Mortgage-Backed Securities:						
Residential - Government Agencies	34,152	(115 )	9,832	(1,117 )	43,984	(1,232 )
Commercial - Government Agencies	—	—	102,564	(3,171 )	102,564	(3,171 )
Total Mortgage-Backed Securities	34,152	(115 )	112,396	(4,288 )	146,548	(4,403 )
Total	\$225,225	\$ (2,075 )	\$ 260,957	\$ (5,900 )	\$ 486,182	\$ (7,975 )
Held-to-Maturity:						
Debt Securities Issued by Corporations						
Mortgage-Backed Securities:	\$—	\$—	\$74,246	\$ (823 )	\$74,246	\$ (823 )
Residential - Government Agencies	380,442	(2,777 )	440,675	(8,811 )	821,117	(11,588 )
Residential - U.S.	14,425	(4 )	—	—	14,425	(4 )
Government-Sponsored Enterprises	27,251	(359 )	55,578	(380 )	82,829	(739 )
Commercial - Government Agencies	27,251	(359 )	55,578	(380 )	82,829	(739 )
Total Mortgage-Backed Securities	422,118	(3,140 )	496,253	(9,191 )	918,371	(12,331 )
Total	\$422,118	\$ (3,140 )	\$ 570,499	\$ (10,014 )	\$ 992,617	\$ (13,154 )
December 31, 2014						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$1,729	\$ (2 )	\$ 5,546	\$ (38 )	\$ 7,275	\$ (40 )
Debt Securities Issued by States and Political Subdivisions	78,068	(305 )	94,543	(1,140 )	172,611	(1,445 )
Debt Securities Issued by Corporations	73,829	(1,171 )	180,335	(2,814 )	254,164	(3,985 )
Mortgage-Backed Securities:						
Residential - Government Agencies	3,025	(8 )	12,215	(1,035 )	15,240	(1,043 )
Residential - U.S.	103,824	(191 )	—	—	103,824	(191 )
Government-Sponsored Enterprises	—	—	178,232	(8,581 )	178,232	(8,581 )
Commercial - Government Agencies	—	—	178,232	(8,581 )	178,232	(8,581 )
Total Mortgage-Backed Securities	106,849	(199 )	190,447	(9,616 )	297,296	(9,815 )
Total	\$260,475	\$ (1,677 )	\$ 470,871	\$ (13,608 )	\$ 731,346	\$ (15,285 )
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$70,016	\$ (134 )	\$ 144,222	\$ (1,025 )	\$ 214,238	\$ (1,159 )
Debt Securities Issued by Corporations	46,196	(349 )	82,109	(3,093 )	128,305	(3,442 )

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Mortgage-Backed Securities:

Residential - Government Agencies	280,967	(1,207 )	845,911	(19,429 )	1,126,878	(20,636 )
Residential - U.S.	45,754	(15 )	—	—	45,754	(15 )
Government-Sponsored Enterprises						
Commercial - Government Agencies	124,594	(179 )	171,091	(3,612 )	295,685	(3,791 )
Total Mortgage-Backed Securities	451,315	(1,401 )	1,017,002	(23,041 )	1,468,317	(24,442 )
Total	\$567,527	\$ (1,884 )	\$ 1,243,333	\$ (27,159 )	\$ 1,810,860	\$ (29,043 )

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The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2015, which were comprised of 125 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of September 30, 2015 and December 31, 2014, the gross unrealized losses reported for mortgage-backed securities were primarily related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Taxable	\$25,569	\$31,053	\$82,638	\$96,796
Non-Taxable	5,312	5,300	15,953	15,841
Total Interest Income from Investment Securities	\$30,881	\$36,353	\$98,591	\$112,637

As of September 30, 2015, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of \$579.0 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. Of the Company's total Hawaii municipal bond holdings, 77% were general obligation issuances. As of September 30, 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.

As of September 30, 2015 and December 31, 2014, the carrying value of the Company's Federal Home Loan Bank of Des Moines ("FHLB Des Moines") stock and Federal Reserve Bank stock was as follows:

(dollars in thousands)	September 30, 2015	December 31, 2014
Federal Home Loan Bank Stock	\$20,000	\$47,075
Federal Reserve Bank Stock	19,836	19,299
Total	\$39,836	\$66,374

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

Effective May 31, 2015, FHLB Des Moines completed its previously announced merger with the Federal Home Loan Bank of Seattle ("FHLB Seattle"). The continuing bank, FHLB Des Moines, remains headquartered in Des Moines with a western regional office in Seattle. Prior to the merger, the Company held stock in FHLB Seattle. Pursuant to the terms of the Merger Agreement, each share of FHLB Seattle stock was converted into one share of FHLB Des Moines stock. In addition, upon the merger, the Company's excess FHLB stock was redeemed and the Company's membership effectively transferred to FHLB Des Moines. The merger did not have a material impact on the Company's



Consolidated Financial Statements or the Company's dealings with the continuing bank.

#### Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares 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 common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including 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. As of September 30, 2015, the conversion ratio was 1.6483.

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During the first nine months of 2015, the Company recorded a \$10.1 million net gain on the sale of 95,000 Visa Class B shares. Concurrent with these sales, the Company 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 outcome of the Visa litigation mentioned above, the remaining 288,714 Class B shares (475,887 Class A equivalents) that the Company owns are carried at a zero cost basis. The Company also contributed 13,800 Visa Class B restricted shares to the Bank of Hawaii Foundation during the first nine months of 2015. The contribution had no impact on noninterest expense; however, the contribution favorably impacted our effective tax rate in 2015.

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

## Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commercial		
Commercial and Industrial	\$1,169,817	\$1,055,243
Commercial Mortgage	1,622,119	1,437,513
Construction	129,254	109,183
Lease Financing	202,055	226,189
Total Commercial	3,123,245	2,828,128
Consumer		
Residential Mortgage	2,875,605	2,571,090
Home Equity	993,817	866,688
Automobile	367,640	323,848
Other <sup>1</sup>	329,465	307,835
Total Consumer	4,566,527	4,069,461
Total Loans and Leases	\$7,689,772	\$6,897,589

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income were \$1.8 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively, and \$4.1 million and \$1.6 million for the nine months ended September 30, 2015 and 2014, respectively.

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

The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2015 and 2014. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company’s impairment measurement method and the related recorded investment in loans and leases as of September 30, 2015 and 2014.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$67,005	\$39,001	\$106,006
Loans and Leases Charged-Off	(160 )	(4,233 )	(4,393 )
Recoveries on Loans and Leases Previously Charged-Off	504	1,921	2,425
Net Loans and Leases Recovered (Charged-Off)	344	(2,312 )	(1,968 )
Provision for Credit Losses	(2,708 )	2,708	—
Balance at End of Period	\$64,641	\$39,397	\$104,038
Nine Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$64,551	\$44,137	\$108,688
Loans and Leases Charged-Off	(650 )	(11,327 )	(11,977 )
Recoveries on Loans and Leases Previously Charged-Off	1,726	5,601	7,327
Net Loans and Leases Recovered (Charged-Off)	1,076	(5,726 )	(4,650 )
Provision for Credit Losses	(986 )	986	—
Balance at End of Period	\$64,641	\$39,397	\$104,038
As of September 30, 2015			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$1,977	\$3,336	\$5,313
Collectively Evaluated for Impairment	62,664	36,061	98,725
Total	\$64,641	\$39,397	\$104,038
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$29,016	\$39,013	\$68,029
Collectively Evaluated for Impairment	3,094,229	4,527,514	7,621,743
Total	\$3,123,245	\$4,566,527	\$7,689,772
Three Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,886	\$41,952	\$113,838
Loans and Leases Charged-Off	(229 )	(3,432 )	(3,661 )
Recoveries on Loans and Leases Previously Charged-Off	1,202	1,648	2,850
Net Loans and Leases Recovered (Charged-Off)	973	(1,784 )	(811 )
Provision for Credit Losses	(6,619 )	3,954	(2,665 )
Balance at End of Period	\$66,240	\$44,122	\$110,362
Nine Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,446	\$44,008	\$115,454
Loans and Leases Charged-Off	(1,863 )	(9,833 )	(11,696 )
Recoveries on Loans and Leases Previously Charged-Off	4,299	7,169	11,468
Net Loans and Leases Recovered (Charged-Off)	2,436	(2,664 )	(228 )
Provision for Credit Losses	(7,642 )	2,778	(4,864 )

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Balance at End of Period As of September 30, 2014	\$66,240	\$44,122	\$110,362
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$2,449	\$3,653	\$6,102
Collectively Evaluated for Impairment	63,791	40,469	104,260
Total	\$66,240	\$44,122	\$110,362
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$26,061	\$39,886	\$65,947
Collectively Evaluated for Impairment	2,702,863	3,837,540	6,540,403
Total	\$2,728,924	\$3,877,426	\$6,606,350

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### Credit Quality Indicators

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

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

**Pass:** Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.

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

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

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The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2015 and December 31, 2014.

September 30, 2015					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$1,122,454	\$1,551,159	\$127,541	\$201,473	\$3,002,627
Special Mention	20,726	31,145	88	85	52,044
Classified	26,637	39,815	1,625	497	68,574
Total	\$1,169,817	\$1,622,119	\$129,254	\$202,055	\$3,123,245
December 31, 2014					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other <sup>1</sup>	Total Consumer
Pass	\$2,859,438	\$989,433	\$367,009	\$328,873	\$4,544,753
Classified	16,167	4,384	631	592	21,774
Total	\$2,875,605	\$993,817	\$367,640	\$329,465	\$4,566,527
Total Recorded Investment in Loans and Leases					\$7,689,772
September 30, 2015					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$1,001,474	\$1,358,812	\$107,381	\$225,783	\$2,693,450
Special Mention	17,364	45,082	—	17	62,463
Classified	36,405	33,619	1,802	389	72,215
Total	\$1,055,243	\$1,437,513	\$109,183	\$226,189	\$2,828,128
December 31, 2014					
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other <sup>1</sup>	Total Consumer
Pass	\$2,556,140	\$862,258	\$323,232	\$307,123	\$4,048,753
Classified	14,950	4,430	616	712	20,708
Total	\$2,571,090	\$866,688	\$323,848	\$307,835	\$4,069,461
Total Recorded Investment in Loans and Leases					\$6,897,589

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

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## Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current <sup>2</sup>
As of September 30, 2015								
Commercial								
Commercial and Industrial	\$4,830	\$1,361	\$—	\$ 8,532	\$14,723	\$1,155,094	\$1,169,817	\$571
Commercial Mortgage	—	29	—	1,058	1,087	1,621,032	1,622,119	833
Construction	—	—	—	—	—	129,254	129,254	—
Lease Financing	—	—	—	—	—	202,055	202,055	—
Total Commercial	4,830	1,390	—	9,590	15,810	3,107,435	3,123,245	1,404
Consumer								
Residential Mortgage	6,023	1,526	5,060	14,749	27,358	2,848,247	2,875,605	2,419
Home Equity	2,331	2,345	1,396	3,814	9,886	983,931	993,817	1,683
Automobile	7,827	1,612	631	—	10,070	357,570	367,640	—
Other <sup>1</sup>	2,273	1,454	1,058	—	4,785	324,680	329,465	—
Total Consumer	18,454	6,937	8,145	18,563	52,099	4,514,428	4,566,527	4,102
Total	\$23,284	\$8,327	\$8,145	\$ 28,153	\$67,909	\$7,621,863	\$7,689,772	\$5,506
As of December 31, 2014								
Commercial								
Commercial and Industrial	\$992	\$356	\$2	\$ 9,088	\$10,438	\$1,044,805	\$1,055,243	\$7,819
Commercial Mortgage	458	—	—	745	1,203	1,436,310	1,437,513	—
Construction	—	—	—	—	—	109,183	109,183	—
Lease Financing	—	—	—	—	—	226,189	226,189	—
Total Commercial	1,450	356	2	9,833	11,641	2,816,487	2,828,128	7,819
Consumer								
Residential Mortgage	4,907	2,107	4,506	14,841	26,361	2,544,729	2,571,090	632
Home Equity	3,461	2,661	2,596	3,097	11,815	854,873	866,688	375
Automobile	7,862	1,483	616	—	9,961	313,887	323,848	—
Other <sup>1</sup>	2,416	1,049	941	—	4,406	303,429	307,835	—
Total Consumer	18,646	7,300	8,659	17,938	52,543	4,016,918	4,069,461	1,007
Total	\$20,096	\$7,656	\$8,661	\$ 27,771	\$64,184	\$6,833,405	\$6,897,589	\$8,826

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

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





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## Impaired Loans

The following presents by class, information related to impaired loans as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2015			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$14,131	\$24,605	\$—
Commercial Mortgage	7,337	7,337	—
Construction	1,626	1,626	—
Total Commercial	23,094	33,568	—
Total Impaired Loans with No Related Allowance Recorded	\$23,094	\$33,568	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$5,922	\$12,523	\$1,977
Total Commercial	5,922	12,523	1,977
Consumer			
Residential Mortgage	30,253	36,046	3,169
Home Equity	1,191	1,191	13
Automobile	6,238	6,238	117
Other <sup>1</sup>	1,331	1,331	37
Total Consumer	39,013	44,806	3,336
Total Impaired Loans with an Allowance Recorded	\$44,935	\$57,329	\$5,313
Impaired Loans:			
Commercial	\$29,016	\$46,091	\$1,977
Consumer	39,013	44,806	3,336
Total Impaired Loans	\$68,029	\$90,897	\$5,313
December 31, 2014			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$9,763	\$15,013	\$—
Commercial Mortgage	6,480	6,480	—
Construction	1,689	1,689	—
Total Commercial	17,932	23,182	—
Total Impaired Loans with No Related Allowance Recorded	\$17,932	\$23,182	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$7,184	\$13,784	\$2,387
Total Commercial	7,184	13,784	2,387
Consumer			

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Residential Mortgage	32,331	37,989	3,445
Home Equity	1,012	1,012	16
Automobile	5,375	5,375	66
Other <sup>1</sup>	913	913	34
Total Consumer	39,631	45,289	3,561
Total Impaired Loans with an Allowance Recorded	\$46,815	\$59,073	\$5,948

Impaired Loans:

Commercial	\$25,116	\$36,966	\$2,387
Consumer	39,631	45,289	3,561
Total Impaired Loans	\$64,747	\$82,255	\$5,948

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

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 13,368	\$ 96	\$ 10,161	\$ 96
Commercial Mortgage	7,155	67	7,046	56
Construction	1,637	26	2,024	28
Total Commercial	22,160	189	19,231	180
Consumer				
Other <sup>1</sup>	—	—	9	—
Total Consumer	—	—	9	—
Total Impaired Loans with No Related Allowance Recorded	\$ 22,160	\$ 189	\$ 19,240	\$ 180
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 6,105	\$ 24	\$ 7,345	\$ 25
Total Commercial	6,105	24	7,345	25
Consumer				
Residential Mortgage	30,719	265	31,989	269
Home Equity	1,191	9	1,029	13
Automobile	6,013	104	5,345	114
Other <sup>1</sup>	1,218	28	576	12
Total Consumer	39,141	406	38,939	408
Total Impaired Loans with an Allowance Recorded	\$ 45,246	\$ 430	\$ 46,284	\$ 433
Impaired Loans:				
Commercial	\$ 28,265	\$ 213	\$ 26,576	\$ 205
Consumer	39,141	406	38,948	408
Total Impaired Loans	\$ 67,406	\$ 619	\$ 65,524	\$ 613
(dollars in thousands)	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 12,074	\$ 304	\$ 11,518	\$ 254
Commercial Mortgage	6,799	198	9,041	167
Construction	1,658	80	1,540	66
Total Commercial	20,531	582	22,099	487
Consumer				
Other <sup>1</sup>	—	—	7	—

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Total Consumer	—	—	7	—
Total Impaired Loans with No Related Allowance Recorded	\$20,531	\$ 582	\$22,106	\$ 487
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$6,401	\$ 78	\$8,260	\$ 80
Total Commercial	6,401	78	8,260	80
Consumer				
Residential Mortgage	31,374	796	31,915	749
Home Equity	1,149	28	952	27
Automobile	5,737	319	5,235	327
Other <sup>1</sup>	1,082	77	471	30
Total Consumer	39,342	1,220	38,573	1,133
Total Impaired Loans with an Allowance Recorded	\$45,743	\$ 1,298	\$46,833	\$ 1,213
Impaired Loans:				
Commercial	\$26,932	\$ 660	\$30,359	\$ 567
Consumer	39,342	1,220	38,580	1,133
Total Impaired Loans	\$66,274	\$ 1,880	\$68,939	\$ 1,700

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

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For the three and nine months ended September 30, 2015 and 2014, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2015 and 2014, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

### Modifications

A modification of a loan constitutes a troubled debt restructuring (“TDR”) when the Company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were \$66.3 million and \$60.2 million as of September 30, 2015 and December 31, 2014, respectively. There were no commitments to lend additional funds on loans modified in a TDR as of September 30, 2015 and December 31, 2014.

The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a co-borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loan modifications usually involve extending the interest-only monthly payments up to an additional five years with a balloon payment due at maturity, or re-amortizing the remaining balance over a period up to 360 months. Interest rates are not changed for land loan modifications. Home equity modifications are made infrequently and uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

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The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2015 and 2014.

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Three Months Ended September 30, 2015			Loans Modified as a TDR for the Three Months Ended September 30, 2014		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	13	\$ 6,551	\$ —	4	\$ 1,203	\$ 155
Total Commercial	13	6,551	—	4	1,203	155
Consumer						
Residential Mortgage	2	749	—	6	1,581	56
Home Equity	1	168	2	—	—	—
Automobile	47	1,172	22	35	774	10
Other <sup>2</sup>	50	344	9	35	255	8
Total Consumer	100	2,433	33	76	2,610	74
Total	113	\$ 8,984	\$ 33	80	\$ 3,813	\$ 229

  

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Nine Months Ended September 30, 2015			Loans Modified as a TDR for the Nine Months Ended September 30, 2014		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	27	\$ 8,438	\$ 4	16	\$ 5,416	\$ 156
Commercial Mortgage	2	1,179	—	1	332	—
Total Commercial	29	9,617	4	17	5,748	156
Consumer						
Residential Mortgage	12	4,211	84	15	4,886	183
Home Equity	3	370	4	2	158	3
Automobile	119	2,723	51	112	2,213	29
Other <sup>2</sup>	102	702	20	53	414	13
Total Consumer	236	8,006	159	182	7,671	228
Total	265	\$ 17,623	\$ 163	199	\$ 13,419	\$ 384

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

<sup>2</sup> Comprised of other revolving credit and installment financing.

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The following presents by class, all loans modified in a TDR that defaulted during the three and nine months ended September 30, 2015 and 2014, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>
Commercial				
Commercial and Industrial	—	\$ —	1	\$ 22
Total Commercial	—	—	1	22
Consumer				
Residential Mortgage	2	1,069	—	—
Automobile	3	52	5	64
Other <sup>2</sup>	10	56	1	16
Total Consumer	15	1,177	6	80
Total	15	\$ 1,177	7	\$ 102
TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>
Commercial				
Commercial and Industrial	1	\$ 4,341	3	\$ 723
Total Commercial	1	4,341	3	723
Consumer				
Residential Mortgage	3	1,374	2	509
Automobile	6	108	7	110
Other <sup>2</sup>	19	98	3	27
Total Consumer	28	1,580	12	646
Total	29	\$ 5,921	15	\$ 1,369

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

<sup>2</sup> Comprised of other revolving credit and installment financing.

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

## Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled \$7.0 million as of September 30, 2015.

## Note 4. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was \$2.7 billion as of September 30, 2015 and \$2.9 billion as of December 31, 2014. Substantially all of these loans were originated by the Company and sold to third parties on a non-recourse basis with servicing rights retained. These retained servicing rights are recorded as a servicing asset and are initially recorded at fair value (see Note 13 to the Consolidated Financial Statements for more information). Changes to the balance of mortgage servicing rights are recorded in mortgage banking income in the Company's consolidated statements of income.

The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings;



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and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$1.8 million and \$2.0 million for the three months ended September 30, 2015 and 2014, respectively, and \$5.4 million and \$6.0 million for the nine months ended September 30, 2015 and 2014, respectively. Servicing income is recorded in mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and nine months ended September 30, 2015 and 2014, the change in the carrying value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Balance at Beginning of Period	\$2,188	\$2,960	\$2,604	\$3,826
Change in Fair Value:				
Due to Change in Valuation Assumptions <sup>1</sup>	—	(145)	(251)	(816)
Due to Payoffs	(116)	(72)	(281)	(267)
Total Changes in Fair Value of Mortgage Servicing Rights	(116)	(217)	(532)	(1,083)
Balance at End of Period	\$2,072	\$2,743	\$2,072	\$2,743

<sup>1</sup> Primarily represents changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.

For the three and nine months ended September 30, 2015 and 2014, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of valuation allowance, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Balance at Beginning of Period	\$21,238	\$23,437	\$22,091	\$24,297
Servicing Rights that Resulted From Asset Transfers	645	100	1,330	664
Amortization	(633)	(742)	(2,228)	(2,094)
Valuation Allowance Provision	(21)	21	36	(51)
Balance at End of Period	\$21,229	\$22,816	\$21,229	\$22,816

## Valuation Allowance:

Balance at Beginning of Period	\$—	\$(72)	\$(57)	\$—
Valuation Allowance Provision	(21)	21	36	(51)
Balance at End of Period	\$(21)	\$(51)	\$(21)	\$(51)

## Fair Value of Mortgage Servicing Rights Accounted for

## Under the Amortization Method

Beginning of Period	\$26,205	\$25,848	\$22,837	\$30,100
End of Period	\$24,419	\$24,336	\$24,419	\$24,336

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015		December 31, 2014	
Weighted-Average Constant Prepayment Rate <sup>1</sup>	10.01	%	11.62	%

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Weighted-Average Life (in years)	6.98		6.28	
Weighted-Average Note Rate	4.23	%	4.28	%
Weighted-Average Discount Rate <sup>2</sup>	9.71	%	10.61	%

<sup>1</sup> Represents annualized loan repayment rate assumption.

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

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A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of September 30, 2015 and December 31, 2014 is presented in the following table.

(dollars in thousands)	September 30, 2015	December 31, 2014
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	\$ (285 )	\$ (265 )
Decrease in fair value from 50 bps adverse change	(565 )	(524 )
Discount Rate		
Decrease in fair value from 25 bps adverse change	(284 )	(250 )
Decrease in fair value from 50 bps adverse change	(562 )	(495 )

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

#### Note 5. Affordable Housing Projects Tax Credit Partnerships

The Company makes certain equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

The Company is a limited partner in each LIHTC Partnership. Each limited partnership is managed by an unrelated third party general partner who exercises full control over the affairs of the limited partnership. The general partner has all the rights, powers and authority granted or permitted to be granted to a general partner of a limited partnership. Duties entrusted to the general partner of each limited partnership include, but are not limited to: investment in operating companies, company expenditures, investment of excess funds, borrowing funds, employment of agents, disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods, tax elections, bank accounts, insurance, litigation, cash reserve, and use of working capital reserve funds. Except for limited rights granted to consent to certain transactions, the limited partner(s) may not participate in the operation, management, or control of the limited partnership's business, transact any business in the limited partnership's name or have any power to sign documents for or otherwise bind the limited partnership. In addition, the general partner may only be removed by the limited partner(s) in the event the general partner fails to comply with the terms of the agreement or is negligent in performing its duties.

The general partner of each limited partnership has both the power to direct the activities which most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. Therefore, the Company has determined that it is not the primary beneficiary of any LIHTC partnership. The Company uses the effective yield method to account for its pre-2015 investments in these entities. Beginning January 1, 2015, any new investments that meet the requirements of the proportional amortization method will be recognized using the proportional amortization method. As of September 30, 2015, there are no investments accounted for under the proportional amortization method. The Company's net affordable housing tax credit investments and related unfunded commitments were \$70.7 million and \$68.5 million as of September 30, 2015 and December 31, 2014, respectively, and are included in other assets in the consolidated statements of condition.



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## Unfunded Commitments

As of September 30, 2015, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)	Amount
2015	\$6,954
2016	20,668
2017	1,148
2018	15
2019	75
Thereafter	67
Total Unfunded Commitments	\$28,927

The following table presents tax credits and other tax benefits recognized and amortization expense related to affordable housing for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Effective Yield Method				
Tax credits and other tax benefits recognized	\$3,353	\$2,646	\$10,095	\$7,956
Amortization Expense in Provision for Income Taxes	1,922	1,402	5,813	4,162

There were no sales or impairment losses of LIHTC investments for the nine months ended September 30, 2015 and 2014.

## Note 6. Balance Sheet Offsetting

## Interest Rate Swap Agreements ("Swap Agreements")

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling \$15.6 million and \$16.2 million as of September 30, 2015 and December 31, 2014, respectively. See Note 11 to the Consolidated Financial Statements for more information.

## Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as sales and subsequent repurchases of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. As a result, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase

agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The

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collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization in the event of counterparty default.

The following table presents the remaining contractual maturities of the Company's repurchase agreements as of September 30, 2015, disaggregated by the class of collateral pledged.

(dollars in thousands)	Remaining Contractual Maturity of Repurchase Agreements				
	Up to 90 days	91-365 days	1-3 Years	After 3 Years	Total
September 30, 2015					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$—	\$—	\$195,799	\$110,446	\$306,245
Debt Securities Issued by States and Political Subdivisions	2,147	52,001	100	—	54,248
Mortgage-Backed Securities:					
Residential - Government Agencies	2,828	43,089	18,379	108,038	172,334
Residential - U.S. Government-Sponsored Enterprises	—	6,973	10,822	81,516	99,311
Total	\$4,975	\$102,063	\$225,100	\$300,000	\$632,138

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The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of September 30, 2015 and December 31, 2014. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table.

	(i)	(ii)	(iii) = (i)-(ii)	(iv)	(v) = (iii)-(iv)	
	Gross Amounts Recognized in the Statements of Condition	Gross Amounts Offset in the Statements of Condition	Net Amounts Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged <sup>1</sup>	Net Amount
(dollars in thousands)						
September 30, 2015						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	\$305	\$—	\$305	\$305	\$—	\$—
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	15,907	—	15,907	305	—	15,602
Repurchase Agreements:						
Private Institutions	575,000	—	575,000	—	575,000	—
Government Entities	57,138	—	57,138	—	57,138	—
	\$632,138	\$—	\$632,138	\$—	\$632,138	\$—
December 31, 2014						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	\$28	\$—	\$28	\$28	\$—	\$—
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	16,268	—	16,268	28	—	16,240
Repurchase Agreements:						
Private Institutions	600,000	—	600,000	—	600,000	—
Government Entities	88,601	—	88,601	—	88,601	—
	\$688,601	\$—	\$688,601	\$—	\$688,601	\$—



<sup>1</sup> The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For repurchase agreements with private institutions, the fair value of investment securities pledged was \$0.7 billion as of September 30, 2015 and December 31, 2014. For repurchase agreements with government entities, the investment securities pledged to each government entity collectively secure both deposits as well as repurchase agreements. The Company had government entity deposits totaling \$1.2 billion and \$1.3 billion as of September 30, 2015 and December 31, 2014, respectively. The investment securities pledged as of September 30, 2015 and December 31, 2014 had a fair value of \$1.9 billion and \$2.1 billion, respectively.

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## Note 7. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2015			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	\$ 10,613	\$ 4,185	\$ 6,428
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
(Gain) Loss on Sale	(189	) (74	) \$(115
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities <sup>1</sup>	1,217	479	738
Net Unrealized Gains (Losses) on Investment Securities	11,641	4,590	7,051
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	443	175	268
Amortization of Prior Service Credit	(81	) (32	) (49
Defined Benefit Plans, Net	362	143	219
Other Comprehensive Income (Loss)	\$ 12,003	\$ 4,733	\$ 7,270
Three Months Ended September 30, 2014			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	\$ 825	\$ 325	\$ 500
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities <sup>1</sup>	(160	) (63	) (97
Net Unrealized Gains (Losses) on Investment Securities	665	262	403
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	339	133	206
Amortization of Prior Service Credit	(81	) (32	) (49
Defined Benefit Plans, Net	258	101	157
Other Comprehensive Income (Loss)	\$ 923	\$ 363	\$ 560
Nine Months Ended September 30, 2015			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	\$ 6,307	\$ 2,489	\$ 3,818
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
(Gain) Loss on Sale	(189	) (74	) (115
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities <sup>1</sup>	1,702	670	1,032
Net Unrealized Gains (Losses) on Investment Securities	7,820	3,085	4,735
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	1,330	524	806
Amortization of Prior Service Credit	(242	) (95	) (147
Defined Benefit Plans, Net	1,088	429	659
Other Comprehensive Income (Loss)	\$ 8,908	\$ 3,514	\$ 5,394

Nine Months Ended September 30, 2014

Net Unrealized Gains (Losses) on Investment Securities:

Net Unrealized Gains (Losses) Arising During the Period	\$26,143	\$10,313	\$15,830
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Amounts Reclassified from Accumulated Other Comprehensive Income  
(Loss) that (Increase) Decrease Net Income:

(Gain) Loss on Sale	(64	) (25	) \$(39	)
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Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities <sup>1</sup>	(825	) (325	) (500	)
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Net Unrealized Gains (Losses) on Investment Securities	25,254	9,963	15,291
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Defined Benefit Plans:

Amortization of Net Actuarial Losses (Gains)	1,016	400	616
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Amortization of Prior Service Credit	(242	) (95	) (147	)
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Defined Benefit Plans, Net	774	305	469
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Other Comprehensive Income (Loss)	\$26,028	\$10,268	\$15,760
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The amount relates to the amortization/accretion of unrealized net gains and losses related to the Company's

<sup>1</sup> reclassification of available-for-sale investment securities to the held-to-maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

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The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2015 and 2014:

(dollars in thousands)	Investment Securities-Available-for-Sale	Investment Securities-Held-to-Maturity	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
<b>Three Months Ended September 30, 2015</b>				
Balance at Beginning of Period	\$ 13,374	\$ (8,261 )	\$(33,675 )	\$(28,562 )
Other Comprehensive Income (Loss) Before Reclassifications	6,428	—	—	6,428
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(115 )	738	219	842
Total Other Comprehensive Income (Loss)	6,313	738	219	7,270
Balance at End of Period	\$ 19,687	\$ (7,523 )	\$(33,456 )	\$(21,292 )
<b>Three Months Ended September 30, 2014</b>				
Balance at Beginning of Period	\$ 13,991	\$ (8,532 )	\$(22,082 )	\$(16,623 )
Other Comprehensive Income (Loss) Before Reclassifications	500	—	—	500
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	(97 )	157	60
Total Other Comprehensive Income (Loss)	500	(97 )	157	560
Balance at End of Period	\$ 14,491	\$ (8,629 )	\$(21,925 )	\$(16,063 )
<b>Nine Months Ended September 30, 2015</b>				
Balance at Beginning of Period	\$ 15,984	\$ (8,555 )	\$(34,115 )	\$(26,686 )
Other Comprehensive Income (Loss) Before Reclassifications	3,818	—	—	3,818
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(115 )	1,032	659	1,576
Total Other Comprehensive Income (Loss)	3,703	1,032	659	5,394
Balance at End of Period	\$ 19,687	\$ (7,523 )	\$(33,456 )	\$(21,292 )
<b>Nine Months Ended September 30, 2014</b>				
Balance at Beginning of Period	\$ (1,300 )	\$ (8,129 )	\$(22,394 )	\$(31,823 )
Other Comprehensive Income (Loss) Before Reclassifications	15,830	—	—	15,830
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(39 )	(500 )	469	(70 )
Total Other Comprehensive Income (Loss)	15,791	(500 )	469	15,760

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Total Other Comprehensive Income  
(Loss)

Balance at End of Period	\$ 14,491	\$ (8,629 )	\$(21,925 )	\$(16,063 )
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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>1</sup>		Affected Line Item in the Statement Where Net Income Is Presented
	Three Months Ended September 30, 2015	2014	
(dollars in thousands)			
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	\$ (1,217)	) \$ 160	Interest Income
	479	(63	) Provision for Income Tax
	(738	) 97	Net of Tax
Sale of Investment Securities Available-for-Sale	189	—	Investment Securities Gains, Net
	(74	) —	Provision for Income Tax
	115	—	Net of tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit <sup>2</sup>	81	81	
Net Actuarial Losses <sup>2</sup>	(443	) (339	)
	(362	) (258	) Total Before Tax
	143	101	Provision for Income Tax
	(219	) (157	) Net of Tax
Total Reclassifications for the Period	\$ (842	) \$ (60	) Net of Tax
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>1</sup>		Affected Line Item in the Statement Where Net Income Is Presented
	Nine Months Ended September 30, 2015	2014	
(dollars in thousands)			
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	\$ (1,702	) \$ 825	Interest Income
	670	(325	) Provision for Income Tax
	(1,032	) 500	Net of Tax
Sale of Investment Securities Available-for-Sale	189	64	Investment Securities Gains, Net
	(74	) (25	) Provision for Income Tax
	115	39	Net of tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit <sup>2</sup>	242	242	
Net Actuarial Losses <sup>2</sup>	(1,330	) (1,016	)

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(1,088	)(774	) Total Before Tax
429	305	Provision for Income
		Tax
(659	)(469	) Net of Tax

Total Reclassifications for the Period	\$(1,576	) \$70	Net of Tax
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<sup>1</sup> Amounts in parentheses indicate reductions to net income.

These accumulated other comprehensive income (loss) components are included in the computation of net periodic

<sup>2</sup> benefit cost and are included in Salaries and Benefits on the consolidated statements of income (see Note 10 for additional details).

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## Note 8. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Denominator for Basic Earnings Per Share	43,181,233	43,859,396	43,290,137	44,034,047
Dilutive Effect of Equity Based Awards	246,497	229,157	224,761	215,986
Denominator for Diluted Earnings Per Share	43,427,730	44,088,553	43,514,898	44,250,033
Antidilutive Stock Options and Restricted Stock Outstanding	—	—	4,546	—

## Note 9. Business Segments

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

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

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

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

The provision for income taxes is allocated to business segments using a 37% effective tax rate. However, the provision for income taxes for our Leasing business unit (included in the Commercial Banking segment) and Auto Leasing portfolio and Pacific Century Life Insurance business unit (both included in the Retail Banking segment) are assigned their actual effective tax rates due to the unique relationship that income taxes have with their products. The residual income tax expense or benefit to arrive at the consolidated effective tax rate is included in Treasury and Other.



## Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans, small business loans and leases, and credit cards. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers retail insurance products. Products and services from Retail Banking are delivered to customers through 72 branch locations and 455 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

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### Commercial Banking

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

### Investment Services

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

### Treasury and Other

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

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

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Selected business segment financial information as of and for the three and nine months ended September 30, 2015 and 2014 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury and Other	Consolidated Total
Three Months Ended September 30, 2015					
Net Interest Income	\$51,732	\$37,133	\$4,517	\$4,509	\$97,891
Provision for Credit Losses	2,209	(226)	(20)	(1,963)	—
Net Interest Income After Provision for Credit Losses	49,523	37,359	4,537	6,472	97,891
Noninterest Income	21,206	4,777	14,363	2,875	43,221
Noninterest Expense	(49,963)	(25,482)	(14,031)	(2,412)	(91,888)
Income Before Provision for Income Taxes	20,766	16,654	4,869	6,935	49,224
Provision for Income Taxes	(7,352)	(5,586)	(1,802)	(208)	(14,948)
Net Income	\$13,414	\$11,068	\$3,067	\$6,727	\$34,276
Total Assets as of September 30, 2015	\$4,578,333	\$3,102,549	\$232,641	\$7,250,600	\$15,164,123
Three Months Ended September 30, 2014					
Net Interest Income	\$45,432	\$31,780	\$3,864	\$14,303	\$95,379
Provision for Credit Losses	1,853	(834)	(9)	(3,675)	(2,665)
Net Interest Income After Provision for Credit Losses	43,579	32,614	3,873	17,978	98,044
Noninterest Income	20,132	5,818	14,467	4,533	44,950
Noninterest Expense	(48,569)	(16,410)	(13,616)	(2,435)	(81,030)
Income Before Provision for Income Taxes	15,142	22,022	4,724	20,076	61,964
Provision for Income Taxes	(5,498)	(7,599)	(1,751)	(5,347)	(20,195)
Net Income	\$9,644	\$14,423	\$2,973	\$14,729	\$41,769
Total Assets as of September 30, 2014	\$3,896,841	\$2,680,761	\$192,739	\$7,739,825	\$14,510,166
Nine Months Ended September 30, 2015					
Net Interest Income	\$150,631	\$107,292	\$13,153	\$21,367	\$292,443
Provision for Credit Losses	5,660	(956)	(36)	(4,668)	—
Net Interest Income After Provision for Credit Losses	144,971	108,248	13,189	26,035	292,443
Noninterest Income	61,123	16,125	44,770	19,435	141,453
Noninterest Expense	(149,461)	(59,786)	(43,193)	(9,937)	(262,377)
Income Before Provision for Income Taxes	56,633	64,587	14,766	35,533	171,519
Provision for Income Taxes	(20,097)	(22,449)	(5,463)	(5,638)	(53,647)
Net Income	\$36,536	\$42,138	\$9,303	\$29,895	\$117,872
Total Assets as of September 30, 2015	\$4,578,333	\$3,102,549	\$232,641	\$7,250,600	\$15,164,123
Nine Months Ended September 30, 2014					
Net Interest Income	\$130,971	\$86,934	\$11,098	\$54,021	\$283,024
Provision for Credit Losses	2,895	(2,164)	(303)	(5,292)	(4,864)
	128,076	89,098	11,401	59,313	287,888

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Net Interest Income After Provision for  
Credit Losses

Noninterest Income	59,473	17,617	43,228	13,881	134,199
Noninterest Expense	(146,581)	(49,834)	(41,379)	(7,865)	(245,659)
Income Before Provision for Income Taxes	40,968	56,881	13,250	65,329	176,428
Provision for Income Taxes	(15,248)	(19,343)	(4,912)	(15,074)	(54,577)
Net Income	\$25,720	\$37,538	\$8,338	\$50,255	\$121,851
Total Assets as of September 30, 2014	\$3,896,841	\$2,680,761	\$192,739	\$7,739,825	\$14,510,166

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## Note 10. Pension Plans and Postretirement Benefit Plan

Components of net periodic benefit cost for the Company's pension plans and the postretirement benefit plan are presented in the following table for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Three Months Ended September 30,				
Service Cost	\$—	\$—	\$182	\$157
Interest Cost	1,186	1,242	74	348
Expected Return on Plan Assets	(1,304)	(1,275)	—	—
Amortization of:				
Prior Service Credit	—	—	(81)	(81)
Net Actuarial Losses (Gains)	443	352	—	(13)
Net Periodic Benefit Cost	\$325	\$319	\$175	\$411
Nine Months Ended September 30,				
Service Cost	\$—	\$—	\$546	\$471
Interest Cost	3,559	3,727	722	1,043
Expected Return on Plan Assets	(3,913)	(3,825)	—	—
Amortization of:				
Prior Service Credit	—	—	(242)	(242)
Net Actuarial Losses (Gains)	1,330	1,055	—	(39)
Net Periodic Benefit Cost	\$976	\$957	\$1,026	\$1,233

The net periodic benefit cost for the Company's pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the consolidated statements of income. For the three and nine months ended September 30, 2015, the Company contributed \$0.2 million and \$0.4 million, respectively, to the pension plans and \$0.3 million and \$1.1 million, respectively, to the postretirement benefit plan. The Company expects to contribute \$0.5 million to the pension plans and \$1.4 million to the postretirement benefit plan for the year ending December 31, 2015.

## Note 11. Derivative Financial Instruments

The notional amount and fair value of the Company's derivative financial instruments as of September 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	September 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	\$7,920	\$437	\$2,354	\$152
Forward Commitments	6,806	(13)	5,404	(13)
Interest Rate Swap Agreements				
Receive Fixed/Pay Variable Swaps	202,818	15,567	183,283	16,206
Pay Fixed/Receive Variable Swaps	202,818	(15,602)	183,283	(16,240)
Foreign Exchange Contracts	41,880	160	44,240	(345)

The following table presents the Company's derivative financial instruments, their fair values, and balance sheet location as of September 30, 2015 and December 31, 2014:

Derivative Financial Instruments Not Designated as Hedging Instruments <sup>1</sup> (dollars in thousands)	September 30, 2015		December 31, 2014	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives

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Interest Rate Lock Commitments	\$437	\$—	\$152	\$—
Forward Commitments	—	13	—	13
Interest Rate Swap Agreements	16,177	16,212	16,262	16,296
Foreign Exchange Contracts	186	26	101	446
Total	\$16,800	\$16,251	\$16,515	\$16,755

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

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The following table presents the Company's derivative financial instruments and the amount and location of the net gains and losses recognized in the consolidated statements of income for the three and nine months ended September 30, 2015 and 2014:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses) Recognized in the Statements of Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2015	2014	2015	2014
Interest Rate Lock Commitments	Mortgage Banking	\$755	\$363	\$2,165	\$2,244
Forward Commitments	Mortgage Banking	(210 )	3	(63 )	(483 )
Interest Rate Swap Agreements	Other Noninterest Income	429	12	836	126
Foreign Exchange Contracts	Other Noninterest Income	788	756	2,134	2,199
Conversion Rate Swap Agreement	Investment Securities Gains, Net	—	(123 )	—	(123 )
Total		\$1,762	\$1,011	\$5,072	\$3,963

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

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

As of September 30, 2015 and December 31, 2014, the Company did not designate any derivative financial instruments as formal hedging relationships. The Company's free-standing derivative financial instruments are required to be carried at their fair value on the Company's consolidated statements of condition. These financial instruments have been limited to interest rate lock commitments ("IRLCs"), forward commitments, interest rate swap agreements, foreign exchange contracts, and conversion rate swap agreements.

The Company enters into IRLCs for residential mortgage loans which commit us to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance.

Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To mitigate this risk, the Company utilizes forward commitments as economic hedges against the potential decreases in the values of the loans held for sale. IRLCs and forward commitments are free-standing derivatives which are carried at fair value with changes recorded in the mortgage banking component of noninterest income in the Company's consolidated statements of income.

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. Fair value changes are recorded in other noninterest income in the Company's consolidated statements of income. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. See Note 6 to the Consolidated Financial Statements for more information.

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



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the contracts. As of September 30, 2015, the Company's debt ratings and capital levels were in excess of these minimum requirements.

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

As each sale of Visa Class B restricted shares was completed, the Company entered into a conversion rate swap agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio of Class B into Class A unrestricted common shares. In the event of Visa increasing the conversion ratio, the buyer would be required to make payment to the Company. This conversion rate swap agreement is usually valued at zero (i.e., no contingent liability recorded) as a drop in the conversion ratio is deemed by the Company to be neither probable nor reasonably estimable. However, in September 2014, Visa announced a reduction of the conversion ratio. As a result, the Company recorded a \$0.1 million liability in September 2014 which represented the amount paid to the buyer in October 2014. As of September 30, 2015, the conversion rate swap agreement was valued at zero as further reductions to the conversion ratio were deemed neither probable nor reasonably estimable by management. See Note 2 to the Consolidated Financial Statements for more information.

#### Note 12. Commitments, Contingencies, and Guarantees

The Company's credit commitments as of September 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	September 30, 2015	December 31, 2014
Unfunded Commitments to Extend Credit	\$2,477,839	\$2,388,432
Standby Letters of Credit	43,952	48,157
Commercial Letters of Credit	17,669	14,130
Total Credit Commitments	\$2,539,460	\$2,450,719

#### Unfunded Commitments to Extend Credit

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

#### Standby and Commercial Letters of Credit

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

#### Contingencies

The Company is subject to various pending and threatened legal proceedings arising out of the normal course of business or operations. On at least a quarterly basis, the Company assesses its liabilities and contingencies in

connection with outstanding legal proceedings utilizing the most recent information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. Based on information currently available, management believes that the eventual outcome of these other actions against the Company will not be materially in excess of such amounts reserved by the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may result in a loss that materially exceeds the reserves established by the Company.

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### Risks Related to Representation and Warranty Provisions

The Company sells residential mortgage loans in the secondary market primarily to the Federal National Mortgage Association ("Fannie Mae"). The Company also pools Federal Housing Administration ("FHA") insured and U.S. Department of Veterans Affairs ("VA") guaranteed residential mortgage loans for sale to the Government National Mortgage Corporation ("Ginnie Mae"). These pools of FHA-insured and VA-guaranteed residential mortgage loans are securitized by Ginnie Mae. The agreements under which the Company sells residential mortgage loans to Fannie Mae or Ginnie Mae and the insurance or guaranty agreements with FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, and other matters. As of September 30, 2015, the unpaid principal balance of residential mortgage loans sold by the Company was \$2.6 billion. The agreements under which the Company sells residential mortgage loans require delivery of various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, the Company may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred if a loan review reveals that underwriting and documentation standards were potentially not met. Some agreements may require the Company to repurchase delinquent loans. Upon receipt of a repurchase request, the Company works with investors or insurers to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor or insurer and to determine if a contractually required repurchase event has occurred. The Company manages the risk associated with potential repurchases or other forms of settlement through its underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. During the nine months ended September 30, 2015, there were three residential mortgage loans repurchased with an aggregate unpaid principal balance of \$0.9 million as a result of the representation and warranty provisions contained in these contracts. Two of these loans were delinquent as to principal and interest at the time of repurchase, however, no losses were incurred related to these repurchases. As of September 30, 2015, there were no pending repurchase requests related to representation and warranty provisions.

### Risks Relating to Residential Mortgage Loan Servicing Activities

In addition to servicing loans in the Company's portfolio, substantially all of the loans the Company sells to investors are sold with servicing rights retained. The Company also services loans originated by other mortgage loan originators. As servicer, the Company's primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales. Each agreement under which the Company acts as servicer generally specifies a standard of responsibility for actions taken by the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective servicing agreements. However, if the Company commits a material breach of obligations as servicer, the Company may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards vary by investor. These standards and remedies are determined by servicing guides issued by the investors as well as the contract provisions established between the investors and the Company. Remedies could include repurchase of an affected loan. For the nine months ended September 30, 2015, there were no loans repurchased related to loan servicing activities. As of September 30, 2015, there were no pending repurchase requests related to loan servicing activities.

Although to date repurchase requests related to representation and warranty provisions and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of September 30, 2015, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of September 30, 2015, 99% of the Company's residential mortgage loans serviced for investors were current. The Company maintains ongoing communications with investors and continues to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in the loans sold to investors.

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### Note 13. Fair Value of Assets and Liabilities

#### Fair Value Hierarchy

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

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

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

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

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

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

##### Investment Securities Available-for-Sale

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

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are

deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs to determine fair value. As of September 30, 2015 and December 31, 2014, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company's third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company's third-party

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pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

### Loans Held for Sale

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

### Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company stratifies its mortgage servicing portfolio on the basis of loan type. The assumptions used in the discounted cash flow model are those that we believe market participants would use in estimating future net servicing income. Significant assumptions in the valuation of mortgage servicing rights include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. Mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

### Other Assets

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

### Derivative Financial Instruments

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

ratio subsequent to the sales dates. As of September 30, 2015 and December 31, 2014, the conversion rate swap agreement was valued at zero as reductions to the conversion ratio were neither probable nor reasonably estimable by management. This conversion rate swap agreement is classified as a Level 2 measurement. See Note 11 to the Consolidated Financial Statements for more information.

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



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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2015				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$60,706	\$307,951	\$—	\$368,657
Debt Securities Issued by States and Political Subdivisions	—	737,210	—	737,210
Debt Securities Issued by Corporations	—	310,561	—	310,561
Mortgage-Backed Securities:				
Residential - Government Agencies	—	348,469	—	348,469
Residential - U.S. Government-Sponsored Enterprises	—	412,261	—	412,261
Commercial - Government Agencies	—	102,564	—	102,564
Total Mortgage-Backed Securities	—	863,294	—	863,294
Total Investment Securities Available-for-Sale	60,706	2,219,016	—	2,279,722
Loans Held for Sale	—	3,222	—	3,222
Mortgage Servicing Rights	—	—	2,072	2,072
Other Assets	19,548	—	—	19,548
Derivatives <sup>1</sup>	—	186	16,614	16,800
Total Assets Measured at Fair Value on a Recurring Basis as of September 30, 2015	\$80,254	\$2,222,424	\$18,686	\$2,321,364
Liabilities:				
Derivatives <sup>1</sup>	\$—	\$39	\$16,212	\$16,251
Total Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2015	\$—	\$39	\$16,212	\$16,251
December 31, 2014				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$61,271	\$269,987	\$—	\$331,258
Debt Securities Issued by States and Political Subdivisions	—	743,970	—	743,970
Debt Securities Issued by Corporations	—	294,833	—	294,833
Mortgage-Backed Securities:				
Residential - Government Agencies	—	462,436	—	462,436
Residential - U.S. Government-Sponsored Enterprises	—	278,461	—	278,461
Commercial - Government Agencies	—	178,232	—	178,232

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Total Mortgage-Backed Securities	—	919,129	—	919,129
Total Investment Securities Available-for-Sale	61,271	2,227,919	—	2,289,190
Loans Held for Sale	—	5,136	—	5,136
Mortgage Servicing Rights	—	—	2,604	2,604
Other Assets	18,794	—	—	18,794
Derivatives <sup>1</sup>	—	101	16,414	16,515
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2014	\$80,065	\$2,233,156	\$19,018	\$2,332,239
Liabilities:				
Derivatives <sup>1</sup>	\$—	\$459	\$16,296	\$16,755
Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2014	\$—	\$459	\$16,296	\$16,755

<sup>1</sup> The fair value of each class of derivatives is shown in Note 11 to the Consolidated Financial Statements.

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For the three and nine months ended September 30, 2015 and 2014, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)	Mortgage Servicing Rights <sup>1</sup>	Net Derivative Assets and Liabilities <sup>2</sup>	
Three Months Ended September 30, 2015			
Balance as of July 1, 2015	\$2,188	\$370	
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(116	) 752	
Transfers to Loans Held for Sale	—	(720	)
Balance as of September 30, 2015	\$2,072	\$402	
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2015	\$—	\$402	
Three Months Ended September 30, 2014			
Balance as of July 1, 2014	\$2,960	\$107	
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(217	) 369	
Transfers to Loans Held for Sale	—	(408	)
Balance as of September 30, 2014	\$2,743	\$68	
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2014	\$(145	) \$68	
Nine Months Ended September 30, 2015			
Balance as of January 1, 2015	\$2,604	\$118	
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(532	) 2,164	
Transfers to Loans Held for Sale	—	(1,880	)
Balance as of September 30, 2015	\$2,072	\$402	
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2015	\$(251	) \$402	
Nine Months Ended September 30, 2014			
Balance as of January 1, 2014	\$3,826	\$379	
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(1,083	) 2,363	
Transfers to Loans Held for Sale	—	(2,674	)
Balance as of September 30, 2014	\$2,743	\$68	
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of September 30, 2014	\$(816	) \$68	

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

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



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For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of September 30, 2015 and December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Valuation Technique	Significant Unobservable Inputs (weighted-average)				Fair Value	
		Description	Sept. 30, 2015	Dec. 31, 2014	Sept. 30, 2015	Dec. 31, 2014	
Mortgage Servicing Rights	Discounted Cash Flow	Constant Prepayment Rate <sup>1</sup>	10.01	% 11.62	% \$26,491		\$25,441
		Discount Rate <sup>2</sup>	9.71	% 10.61	%		

Net Derivative Assets and Liabilities:

Interest Rate Lock Commitments	Pricing Model	Closing Ratio	92.32	% 93.85	% \$437		\$152
Interest Rate Swap Agreements	Discounted Cash Flow	Credit Factor	0.21	% 0.21	% \$(35 )		\$(34 )

<sup>1</sup> Represents annualized loan repayment rate assumption.

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

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

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

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

The unobservable input used in the fair value measurement of the Company's interest rate swap agreements is the credit factor. This factor represents the risk that a counterparty is either unable or unwilling to settle a transaction in accordance with the underlying contractual terms. A significant increase (decrease) in the credit factor could result in a significantly lower (higher) fair value measurement. The credit factor is determined by the Treasury Division based

on the risk rating assigned to each counterparty in which the Company holds a net asset position. The Company's Credit Policy Committee periodically reviews and approves the Expected Default Frequency of the Economic Capital Model for Credit Risk. The Expected Default Frequency is used as the credit factor for interest rate swap agreements.

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## Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets. The following table represents the assets measured at fair value on a nonrecurring basis as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	Fair Value Hierarchy	Net Carrying Amount	Valuation Allowance
September 30, 2015			
Mortgage Servicing Rights - amortization method	Level 3	\$21,229	\$21
Foreclosed Real Estate	Level 3	1,392	—
Other Assets - Equipment Held for Sale	Level 3	4,657	9,453
December 31, 2014			
Mortgage Servicing Rights - amortization method	Level 3	\$22,091	\$57
Foreclosed Real Estate	Level 3	2,311	89

The write-down of mortgage servicing rights accounted for under the amortization method was primarily due to changes in certain key assumptions used to estimate fair value. As previously mentioned, all of the Company's mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation. The December 31, 2014 valuation allowance for the Company's foreclosed real estate related to one commercial property. This property was sold in the third quarter of 2015. The Company's equipment held for sale represents six aircraft that were previously on lease agreements. An impairment charge of \$9.5 million (included in other noninterest expense in the Company's consolidated statements of income) was recorded in the third quarter of 2015 to reduce the carrying value to estimated fair value less cost to sell based on recent appraisals, market conditions, and management judgment. Due to the use of significant unobservable inputs combined with significant management judgment regarding the fair value of the six aircraft, the carrying value is deemed a Level 3 measurement. For segment reporting (see Note 9 to the Consolidated Financial Statements), the carrying value is included in the Commercial Banking segment. As appraisals on foreclosed real estate and equipment held for sale are not necessarily completed on the period end dates presented in the table above, the fair value information presented may not reflect the actual fair value as of September 30, 2015 and December 31, 2014.

## Fair Value Option

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

The following table reflects the difference between the aggregate fair value and the aggregate unpaid principal balance of the Company's residential mortgage loans held for sale as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
September 30, 2015			
Loans Held for Sale	\$3,222	\$ 3,009	\$ 213

December 31, 2014

Loans Held for Sale	\$5,136	\$ 4,740	\$ 396
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Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company's consolidated statements of income. For the three and nine months ended September 30, 2015 and 2014, the net gains or losses from the change in fair value of the Company's residential mortgage loans held for sale were not material.



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### Financial Instruments Not Recorded at Fair Value on a Recurring Basis

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

#### Investment Securities Held-to-Maturity

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

#### Loans

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

#### Time Deposits

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

#### Securities Sold Under Agreements to Repurchase

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

#### Other Debt

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

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The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments not recorded at fair value on a recurring basis as of September 30, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

	Carrying		Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)	Amount	Fair Value			
September 30, 2015					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	\$4,121,768	\$4,181,613	\$504,344	\$3,677,269	\$ —
Loans <sup>1</sup>	7,354,296	7,837,382	—	—	7,837,382
Financial Instruments - Liabilities					
Time Deposits	1,186,245	1,190,119	—	1,190,119	—
Securities Sold Under Agreements to Repurchase	632,138	700,916	—	700,916	—
Other Debt <sup>2</sup>	259,938	262,061	—	262,061	—
December 31, 2014					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	\$4,466,679	\$4,504,495	\$499,616	\$4,004,879	\$ —
Loans <sup>1</sup>	6,542,719	7,048,757	—	—	7,048,757
Financial Instruments - Liabilities					
Time Deposits	1,434,001	1,437,064	—	1,437,064	—
Securities Sold Under Agreements to Repurchase	688,601	758,781	—	758,781	—
Other Debt <sup>2</sup>	163,005	163,911	—	163,911	—

<sup>1</sup> Net of unearned income and the Allowance.

<sup>2</sup> Excludes capitalized lease obligations.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Forward-Looking Statements

This report contains forward-looking statements 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 II of this report and Part I of our Annual Report on Form 10-K for the year ended December 31, 2014, and subsequent periodic and current reports filed with the U.S. Securities and Exchange Commission (the "SEC"). Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances.

#### Overview

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

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

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders.

#### Hawaii Economy

General economic conditions in Hawaii remained positive during the third quarter of 2015 led by an active construction industry, stable tourism, low unemployment, and a strong real estate market. For the first eight months of 2015, total visitor arrivals increased 4.1% while total visitor spending increased 3.1% compared to the same period in 2014. The statewide seasonally-adjusted unemployment rate was at 3.4% in September 2015 compared to 5.1% nationally. For the first nine months of 2015, the volume of single-family home sales on Oahu increased 4.9%, while the volume of condominium sales on Oahu increased 5.1% compared with the same period in 2014. The median price of single-family home sales and condominium sales on Oahu increased 4.0% and 1.4%, respectively, for the first nine months of 2015 compared to the same period in 2014. As of

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September 30, 2015, months of inventory of single-family homes and condominiums on Oahu remained low at 3.2 months and 3.5 months, respectively.

### Earnings Summary

Net income for the third quarter of 2015 was \$34.3 million, a decrease of \$7.5 million or 18% compared to the same period in 2014. Diluted earnings per share was \$0.79 for the third quarter of 2015, a decrease of \$0.16 or 17% compared to the same period in 2014. The Company has made a strategic decision to dispose of all of its remaining aircraft leases, which we substantially entered into in the 1990s, and accordingly, has recorded a \$6.5 million after tax (\$10.5 million pre-tax) impairment charge in the third quarter of 2015.

Our lower earnings for the third quarter of 2015 were primarily due to the following:

Other noninterest expense for the third quarter of 2015 was \$24.8 million, an increase of \$10.3 million or 72% compared to the same period in 2014. This increase was primarily due to a \$9.5 million impairment charge on six aircraft which were previously on lease agreements (an additional \$1.0 million was due to the expected loss on the pending sale of an aircraft lease and recorded in other noninterest income, see below). 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. We recorded no provision for credit losses in the third quarter of 2015 compared to a \$2.7 million negative provision recorded in the same period in 2014. The negative provision was primarily due to the reduction in the specific reserve related to one commercial client.

Net gains on sales of investment securities totaled less than \$0.1 million in the third quarter of 2015 compared to \$1.9 million during the same period in 2014. The net gain in the third quarter of 2014 was due to a \$1.9 million gain on the sale of 23,000 Visa Class B shares. In the first quarter of 2015, we recorded a \$10.1 million gain on the sale of 95,000 Visa Class B shares. The sale of Visa Class B shares was larger in the first quarter of 2015 due to our new counterparty's minimum transaction requirement. Due to the large first quarter sale, we did not sell additional Visa Class B shares during the second and third quarters, nor do we anticipate further sales of Visa Class B shares for the remainder of 2015. The Company received these Class B shares in 2008 as part of Visa's initial public offering and they are transferable only under limited circumstances until they can be converted to the publicly traded Class A shares. We also contributed to the Bank of Hawaii Foundation 4,500 and 5,700 Visa Class B shares during the third quarters of 2015 and 2014, respectively. These contributions had no impact on noninterest expense; however, these contributions favorably impacted our effective tax rate.

Salaries and benefits expense for the third quarter of 2015 was \$46.6 million, an increase of \$1.0 million or 2% compared to the same period in 2014. Commission expense increased by \$0.4 million primarily due to an increase in both loan origination and refinance activity. In addition, share-based compensation and medical expense increased by \$0.4 million and \$0.3 million, respectively.

Other noninterest income for the third quarter of 2015 was \$2.7 million, a decrease of \$0.6 million or 18% compared to the same period in 2014. This decrease was primarily due to a \$1.0 million expected loss on the pending sale of an aircraft lease.

These items were partially offset by the following:

Provision for income taxes for the third quarter of 2015 was \$14.9 million, a decrease of \$5.2 million or 26% compared to the same period in 2014 primarily due to lower pretax income and a lower effective income tax rate primarily due to an increase in energy tax credit investments.

Net interest income for the third quarter of 2015 was \$97.9 million, an increase of \$2.5 million or 3% compared to the same period in 2014. The increase was primarily due to higher loan volume. Our net interest margin was 2.77% in the

third quarter of 2015, a decrease of 8 basis points compared to the same period in 2014. The decrease was primarily due to lower yields in our investment securities and loans, reflective of the current low interest rate environment. Net occupancy expense for the third quarter of 2015 was \$7.4 million, a decrease of \$1.9 million or 21% compared to the same period in 2014 primarily due to a \$1.7 million gain on the sale of two real estate properties in Guam. Net income for the first nine months of 2015 was \$117.9 million, a decrease of \$4.0 million or 3% compared to the same period in 2014. Diluted earnings per share was \$2.71 for the first nine months of 2015, a decrease of \$0.04 or 1% compared to the same period in 2014.

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Our lower earnings for the first nine months of 2015 were primarily due to the following:

Other noninterest expense for the first nine months of 2015 was \$53.6 million, an increase of \$10.9 million or 26% compared to the same period in 2014. This increase was primarily due to the aforementioned \$9.5 million impairment charge on six aircraft which were previously on lease agreements. In addition, amortization expense related to our solar energy partnership investments increased by \$0.7 million and credit card expense increased by \$0.6 million. These increases were partially offset by a \$0.6 million decrease in our debit card mileage program travel expense. Salaries and benefits expense for the first nine months of 2015 was \$144.0 million, an increase of \$6.5 million or 5% compared to the same period in 2014 due in part to a \$2.2 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 \$1.2 million and \$0.9 million, respectively.

We recorded no provision for credit losses for the first nine months of 2015 compared to a \$4.9 million negative provision recorded in the same period in 2014. The negative provision in 2014 was primarily due to several large commercial loan recoveries during the first nine months of 2014, combined with the aforementioned reduction in the specific reserve related to one commercial client during the third quarter of 2014.

These items were partially offset by the following:

Net interest income for the first nine months of 2015 was \$292.4 million, an increase of \$9.4 million or 3% compared to the same period in 2014. The increase was primarily due to higher loan volume. Our net interest margin was 2.79% for the first nine months of 2015, a decrease of 7 basis points compared to the same period in 2014. The decrease was primarily due to lower yields in our investment securities and loans, reflective of the current low interest rate environment.

Net gains on sales of investment securities totaled \$10.3 million for the first nine months of 2015 compared to \$6.1 million during the same period in 2014. This increase was primarily due to the aforementioned \$10.1 million gain on the sale of 95,000 Visa Class B shares during the first quarter of 2015. During the first nine months of 2014, we recorded a \$5.8 million gain on the sale of 68,500 Visa Class B shares. We also contributed to the Bank of Hawaii Foundation 13,800 and 16,900 Visa Class B shares during the first nine months of 2015 and 2014, respectively. These contributions had no impact on noninterest expense; however, these contributions favorably impacted our effective tax rate.

Mortgage banking income for the first nine months of 2015 was \$8.5 million, an increase of \$3.0 million or 55% compared to the same period in 2014. This increase was primarily due to our decision to sell conforming saleable loans from our mortgage portfolio which generated gains on sales of residential mortgage loans.

Net occupancy expense for the first nine months of 2015 was \$25.3 million, a decrease of \$2.7 million or 10% compared to the same period in 2014 primarily due to the aforementioned \$1.7 million gain on the sale of two real estate properties in Guam. In addition, electricity rates were down due in part to lower oil prices.

Other noninterest income for the first nine months of 2015 was \$10.1 million, an increase of \$0.5 million or 6% compared to the same period in 2014. This increase was primarily due to an additional \$0.8 million in fees related to our customer interest rate swap derivative program and a \$0.5 million referral fee received in the second quarter of 2015 related to the transition of various services provided to some institutional 401k plans. In addition, we recorded \$0.5 million in fee revenue from our Managed Account Portfolio Solutions platform, our new investment advisory services product launched in September 2014. These increases were partially offset by the aforementioned \$1.0 million expected loss on the pending sale of an aircraft lease.

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

Total loans and leases were \$7.7 billion as of September 30, 2015, an increase of \$792.2 million or 11% 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 \$104.0 million as of September 30, 2015, a decrease of \$4.7 million or 4% from December 31, 2014. The Allowance represents 1.35% of total loans and leases outstanding

as of September 30, 2015 and 1.58% of total loans and leases outstanding as of December 31, 2014. The decrease was commensurate with the Company's credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

As of September 30, 2015, the total carrying value of our investment securities portfolio was \$6.4 billion, a decrease of \$354.4 million or 5% compared to December 31, 2014. During the first nine months of 2015, we continued to reduce our



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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, and to a lesser extent Small Business Administration securities.

Total deposits were \$12.9 billion as of September 30, 2015, an increase of \$303.9 million or 2% from December 31, 2014 primarily due to higher commercial and consumer core deposits.

Total shareholders' equity was \$1.1 billion as of September 30, 2015, an increase of \$43.3 million or 4% from December 31, 2014. We continued to return capital to our shareholders in the form of share repurchases and dividends. During the first nine months of 2015, we repurchased 628,119 shares of our common stock at a total cost of \$38.9 million under our share repurchase program and from shares purchased from employees and/or directors in connection with stock swaps, income tax withholdings related to the vesting of restricted stock, and shares purchased for a deferred compensation plan. We also paid cash dividends of \$58.9 million during the first nine months of 2015.

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Our financial highlights are presented in Table 1.

## Financial Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2015	2014	2015	2014
For the Period:				
Operating Results				
Net Interest Income	\$97,891	\$95,379	\$292,443	\$283,024
Provision for Credit Losses	—	(2,665 )	—	(4,864 )
Total Noninterest Income	43,221	44,950	141,453	134,199
Total Noninterest Expense	91,888	81,030	262,377	245,659
Net Income	34,276	41,769	117,871	121,851
Basic Earnings Per Share	0.79	0.95	2.72	2.77
Diluted Earnings Per Share	0.79	0.95	2.71	2.75
Dividends Declared Per Share	0.45	0.45	1.35	1.35
Performance Ratios				
Return on Average Assets	0.89	% 1.15	% 1.05	% 1.15
Return on Average Shareholders' Equity	12.45	15.57	14.62	15.53
Efficiency Ratio <sup>1</sup>	65.12	57.74	60.47	58.88
Net Interest Margin <sup>2</sup>	2.77	2.85	2.79	2.86
Dividend Payout Ratio <sup>3</sup>	56.96	47.37	49.63	48.74
Average Shareholders' Equity to Average Assets	7.18	7.41	7.15	7.38
Average Balances				
Average Loans and Leases	\$7,545,985	\$6,488,780	\$7,301,656	\$6,290,548
Average Assets	15,220,660	14,372,375	15,069,405	14,221,143
Average Deposits	13,008,890	12,200,654	12,887,019	12,016,485
Average Shareholders' Equity	1,092,592	1,064,589	1,077,828	1,048,924
Market Price Per Share of Common Stock				
Closing	\$63.49	\$56.81	\$63.49	\$56.81
High	69.00	60.75	69.00	61.73
Low	58.53	55.55	53.90	53.45
	September 30,	December 31,		
	2015	2014		
As of Period End:				
Balance Sheet Totals				
Loans and Leases	\$7,689,772	\$6,897,589		
Total Assets	15,164,123	14,787,208		
Total Deposits	12,936,962	12,633,089		
Other Debt	270,801	173,912		
Total Shareholders' Equity	1,098,354	1,055,086		
Asset Quality				
Non-Performing Assets	29,545	30,082		
Allowance for Loan and Lease Losses	\$104,038	\$108,688		
Allowance to Loans and Leases Outstanding	1.35	% 1.58	%	

# Capital Ratios

Common Equity Tier 1 Capital Ratio <sup>4</sup>	14.11	%	n/a	
Tier 1 Capital Ratio <sup>4</sup>	14.11		14.69	%
Total Capital Ratio <sup>4</sup>	15.37		15.94	
Tier 1 Leverage Ratio <sup>4</sup>	7.18		7.13	
Total Shareholders' Equity to Total Assets	7.24		7.14	
Tangible Common Equity to Tangible Assets <sup>5</sup>	7.05		6.94	
Tangible Common Equity to Risk-Weighted Assets <sup>4, 5</sup>	13.78		14.46	

# Non-Financial Data

Full-Time Equivalent Employees	2,154	2,161
Branches	72	74
ATMs	455	459

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

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

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

<sup>4</sup> September 30, 2015 calculated under Basel III rules, which became effective January 1, 2015.

<sup>5</sup> 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 financial institution, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. Table 2 provides a reconciliation of these Non-GAAP financial measures with their most closely related GAAP measures.

GAAP to Non-GAAP Reconciliation (dollars in thousands)	September 30, 2015	Table 2 December 31, 2014		
Total Shareholders' Equity	\$1,098,354	\$1,055,086		
Less: Goodwill	31,517	31,517		
Tangible Common Equity	\$1,066,837	\$1,023,569		
 Total Assets	 \$15,164,123	 \$14,787,208		
Less: Goodwill	31,517	31,517		
Tangible Assets	\$15,132,606	\$14,755,691		
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements <sup>1</sup>	\$7,740,028	\$7,077,035		
 Total Shareholders' Equity to Total Assets	7.24	% 7.14	%	
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.05	% 6.94	%	
 Tier 1 Capital Ratio <sup>1</sup>	14.11	% 14.69	%	
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP) <sup>1</sup>	13.78	% 14.46	%	

<sup>1</sup> September 30, 2015 calculated under Basel III rules, which became effective January 1, 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 3. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 4.

## Average Balances and Interest Rates - Taxable-Equivalent Basis

(dollars in millions)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014			Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Average		Income/Yield/	Average		Income/Yield/	Average		Income/Yield/	Average		Income/Yield/
	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
<b>Earning Assets</b>												
<b>Interest-Bearing</b>												
Deposits in Other Banks	\$3.4	\$—	0.22 %	\$4.1	\$—	0.24 %	\$3.3	\$—	0.27 %	\$4.6	\$—	0.20 %
Funds Sold	508.2	0.3	0.22	326.2	0.2	0.21	488.8	0.8	0.22	301.9	0.5	0.21
<b>Investment Securities</b>												
<b>Available-for-Sale</b>												
Taxable	1,524.4	6.5	1.69	1,508.0	6.6	1.75	1,547.8	19.5	1.68	1,527.2	20.7	1.81
Non-Taxable	719.4	5.8	3.19	704.0	5.7	3.22	722.8	17.2	3.18	694.4	16.9	3.24
<b>Held-to-Maturity</b>												
Taxable	3,953.3	19.1	1.93	4,390.2	24.4	2.23	4,032.8	63.2	2.09	4,465.2	76.0	2.27
Non-Taxable	247.3	2.4	3.93	250.9	2.5	3.95	248.2	7.3	3.93	251.7	7.5	3.96
Total Investment Securities	6,444.4	33.8	2.09	6,853.1	39.2	2.29	6,551.6	107.2	2.18	6,938.5	121.1	2.33
Loans Held for Sale	13.4	0.1	3.82	2.0	—	4.03	9.2	0.3	3.72	3.3	0.1	4.43
<b>Loans and Leases</b>												
<sup>1</sup> Commercial and Industrial	1,166.7	9.3	3.15	980.8	8.9	3.61	1,151.3	27.2	3.16	951.8	24.8	3.48
Commercial Mortgage	1,568.2	15.0	3.79	1,350.6	13.3	3.89	1,506.3	43.0	3.82	1,301.3	38.6	3.97
Construction	124.5	1.5	4.93	126.2	1.3	4.20	118.2	4.2	4.75	109.0	3.6	4.35
Commercial Lease Financing	216.2	1.9	3.50	235.1	2.0	3.33	222.4	5.8	3.46	240.6	5.1	2.81
Residential Mortgage	2,832.4	28.8	4.07	2,396.7	25.3	4.22	2,734.0	84.6	4.13	2,336.1	75.1	4.29
Home Equity	961.3	8.6	3.58	823.3	8.1	3.92	915.8	24.9	3.63	803.8	23.7	3.94
Automobile	359.2	4.7	5.18	296.6	4.0	5.29	345.1	13.5	5.21	280.3	11.2	5.33
Other <sup>2</sup>	317.5	6.1	7.60	279.5	5.2	7.45	308.6	17.3	7.49	267.6	15.3	7.66
Total Loans and Leases	7,546.0	75.9	4.00	6,488.8	68.1	4.18	7,301.7	220.5	4.03	6,290.5	197.4	4.19
Other	37.5	0.3	3.33	71.4	0.3	1.69	51.6	0.9	2.39	74.1	0.9	1.63
Total Earning Assets <sup>3</sup>	14,552.9	110.4	3.02	13,745.6	107.8	3.13	14,406.2	329.7	3.05	13,612.9	320.0	3.14
Cash and Due From Banks	131.6			152.4			131.3			144.5		
Other Assets	536.2			474.4			531.9			463.7		

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Total Assets	\$15,220.7				\$14,372.4				\$15,069.4				\$14,221.1			
Interest-Bearing Liabilities																
Interest-Bearing Deposits																
Demand	\$2,622.4	\$0.2	0.03	%	\$2,417.4	\$0.2	0.03	%	\$2,604.0	\$0.6	0.03	%	\$2,367.8	\$0.5	0.03	%
Savings	5,067.8	1.1	0.09		4,591.4	1.0	0.09		5,011.2	3.3	0.09		4,549.4	2.9	0.09	
Time	1,201.3	1.1	0.36		1,440.1	1.2	0.34		1,278.1	3.3	0.35		1,440.1	3.7	0.35	
Total																
Interest-Bearing Deposits	8,891.5	2.4	0.11		8,448.9	2.4	0.11		8,893.3							