

BANK OF HAWAII CORP
Form 10-Q
April 18, 2011
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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 March 31, 2011**
- 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)

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

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

96813
(Zip Code)

1-888-643-3888

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(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of April 12, 2011, there were 47,699,328 shares of common stock outstanding.

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Bank of Hawaii Corporation

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Consolidated Statements of Income (Unaudited)

	Three Months Ended			
	March 31,			
(in thousands, except per share and share amounts)	2011		2010	
Interest Income				
Interest and Fees on Loans and Leases	\$	66,593	\$	77,271
Income on Investment Securities				
Available-for-Sale		37,669		43,841
Held-to-Maturity		7,633		1,863
Deposits		(2)		13
Funds Sold		251		309
Other		279		277
Total Interest Income		112,423		123,574
Interest Expense				
Deposits		5,232		8,307
Securities Sold Under Agreements to Repurchase		7,041		6,429
Funds Purchased		6		7
Long-Term Debt		447		1,178
Total Interest Expense		12,726		15,921
Net Interest Income		99,697		107,653
Provision for Credit Losses		4,691		20,711
Net Interest Income After Provision for Credit Losses		95,006		86,942
Noninterest Income				
Trust and Asset Management		11,806		11,708
Mortgage Banking		3,122		3,464
Service Charges on Deposit Accounts		9,932		13,814
Fees, Exchange, and Other Service Charges		14,945		14,504
Investment Securities Gains, Net		6,084		20,021
Insurance		2,771		2,715
Other		5,262		5,556
Total Noninterest Income		53,922		71,782
Noninterest Expense				
Salaries and Benefits		46,782		44,564
Net Occupancy		10,327		10,144
Net Equipment		4,698		4,558
Professional Fees		2,158		1,992
FDIC Insurance		3,244		3,100
Other		18,873		17,348
Total Noninterest Expense		86,082		81,706
Income Before Provision for Income Taxes		62,846		77,018
Provision for Income Taxes		20,486		24,282
Net Income	\$	42,360	\$	52,736
Basic Earnings Per Share	\$	0.89	\$	1.10
Diluted Earnings Per Share	\$	0.88	\$	1.09
Dividends Declared Per Share	\$	0.45	\$	0.45
Basic Weighted Average Shares		47,851,612		47,914,412
Diluted Weighted Average Shares		48,074,656		48,289,427

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

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

(dollars in thousands)		March 31, 2011		December 31, 2010
Assets				
Interest-Bearing Deposits	\$	5,394	\$	3,472
Funds Sold		419,379		438,327
Investment Securities				
Available-for-Sale		4,045,096		6,533,874
Held-to-Maturity (Fair Value of \$2,437,803 and \$134,028)		2,426,710		127,249
Loans Held for Sale		16,160		17,564
Loans and Leases		5,326,929		5,335,792
Allowance for Loan and Lease Losses		(147,358)		(147,358)
Net Loans and Leases		5,179,571		5,188,434
Total Earning Assets		12,092,310		12,308,920
Cash and Noninterest-Bearing Deposits		223,068		165,748
Premises and Equipment		106,729		108,170
Customers' Acceptances		779		437
Accrued Interest Receivable		41,309		41,151
Foreclosed Real Estate		2,793		1,928
Mortgage Servicing Rights		25,919		25,379
Goodwill		31,517		31,517
Other Assets		437,880		443,537
Total Assets	\$	12,962,304	\$	13,126,787
Liabilities				
Deposits				
Noninterest-Bearing Demand	\$	2,568,942	\$	2,447,713
Interest-Bearing Demand		1,811,705		1,871,718
Savings		4,515,921		4,526,893
Time		1,015,823		1,042,671
Total Deposits		9,912,391		9,888,995
Funds Purchased		9,478		9,478
Short-Term Borrowings		6,900		6,200
Securities Sold Under Agreements to Repurchase		1,745,083		1,901,084
Long-Term Debt		32,643		32,652
Bankers' Acceptances		779		437
Retirement Benefits Payable		30,707		30,885
Accrued Interest Payable		6,605		5,007
Taxes Payable and Deferred Taxes		124,774		121,517
Other Liabilities		96,719		119,399
Total Liabilities		11,966,079		12,115,654
Shareholders' Equity				
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: March 31, 2011 - 57,120,240 / 47,760,878 and December 31, 2010 - 57,115,287 / 48,097,672)		570		570
Capital Surplus		502,029		500,888
Accumulated Other Comprehensive Income		7,936		26,965
Retained Earnings		951,817		932,629
Treasury Stock, at Cost (Shares: March 31, 2011 - 9,359,362 and December 31, 2010 - 9,017,615)		(466,127)		(449,919)
Total Shareholders' Equity		996,225		1,011,133
Total Liabilities and Shareholders' Equity	\$	12,962,304	\$	13,126,787

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

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

					Accum. Other Compre- hensive Income	Retained Earnings	Treasury Stock	Compre- hensive Income
(dollars in thousands)	Total	Common Stock	Capital Surplus					
Balance as of December 31, 2010	\$ 1,011,133	\$ 570	\$ 500,888	\$ 26,965	\$ 932,629	\$ (449,919)		
Comprehensive Income:								
Net Income	42,360	-	-	-	42,360	-		\$ 42,360
Other Comprehensive Income, Net of Tax:								
Net Unrealized Losses on Investment Securities, Net of Reclassification Adjustment	(19,500)	-	-	(19,500)	-	-		(19,500)
Amortization of Net Losses Related to								
Defined Benefit Plans	471	-	-	471	-	-		471
Total Comprehensive Income								\$ 23,331
Share-Based Compensation	744	-	744	-	-	-		
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits								
(130,609 shares)	4,530	-	397	-	(1,588)	5,721		
Common Stock Repurchased (467,403 shares)	(21,929)	-	-	-	-	(21,929)		
Cash Dividends Paid (\$0.45 per share)	(21,584)	-	-	-	(21,584)	-		
Balance as of March 31, 2011	\$ 996,225	\$ 570	\$ 502,029	\$ 7,936	\$ 951,817	\$ (466,127)		
Balance as of December 31, 2009	\$ 895,973	\$ 569	\$ 494,318	\$ 6,925	\$ 843,521	\$ (449,360)		
Comprehensive Income:								
Net Income	52,736	-	-	-	52,736	-		\$ 52,736
Other Comprehensive Income, Net of Tax:								
Net Unrealized Gains on Investment Securities, Net of Reclassification Adjustment	10,757	-	-	10,757	-	-		10,757
Amortization of Net Losses Related to								
Defined Benefit Plans	381	-	-	381	-	-		381
Total Comprehensive Income								\$ 63,874
Share-Based Compensation	714	-	714	-	-	-		
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits								
(52,481 shares)	1,785	1	(379)	-	(320)	2,483		
Common Stock Repurchased (30,594 shares)	(1,342)	-	-	-	-	(1,342)		
Cash Dividends Paid (\$0.45 per share)	(21,632)	-	-	-	(21,632)	-		
Balance as of March 31, 2010	\$ 939,372	\$ 570	\$ 494,653	\$ 18,063	\$ 874,305	\$ (448,219)		

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

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Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31,	
	2011	2010
(dollars in thousands)		
Operating Activities		
Net Income	\$ 42,360	\$ 52,736
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	4,691	20,711
Depreciation and Amortization	3,438	3,332
Amortization of Deferred Loan and Lease Fees	(721)	(623)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	13,800	10,799
Share-Based Compensation	744	714
Benefit Plan Contributions	(358)	(687)
Deferred Income Taxes	591	(5,780)
Net Gains on Sales of Leases	(122)	(291)
Net Gains on Investment Securities	(6,084)	(20,021)
Proceeds from Sales of Loans Held for Sale	159,507	117,261
Originations of Loans Held for Sale	(150,554)	(111,860)
Tax Benefits from Share-Based Compensation	(485)	(10)
Net Change in Other Assets and Other Liabilities	(402)	(22,495)
Net Cash Provided by Operating Activities	66,405	43,786
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	310,045	351,199
Proceeds from Sales	682,283	483,588
Purchases	(761,659)	(921,953)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	37,566	13,865
Purchases	(118,185)	-
Net Change in Loans and Leases	(3,399)	132,607
Premises and Equipment, Net	(1,997)	(2,666)
Net Cash Provided by Investing Activities	144,654	56,640
Financing Activities		
Net Change in Deposits	23,396	84,408
Net Change in Short-Term Borrowings	(155,301)	(89,253)
Tax Benefits from Share-Based Compensation	485	10
Proceeds from Issuance of Common Stock	4,168	2,034
Repurchase of Common Stock	(21,929)	(1,342)
Cash Dividends Paid	(21,584)	(21,632)
Net Cash Used In Financing Activities	(170,765)	(25,775)
Net Change in Cash and Cash Equivalents	40,294	74,651
Cash and Cash Equivalents at Beginning of Period	607,547	555,067
Cash and Cash Equivalents at End of Period	\$ 647,841	\$ 629,718
Supplemental Information		
Cash Paid for Interest	\$ 11,128	\$ 15,182
Cash Paid for Income Taxes	3,365	37,016
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	2,220,814	-
Transfer from Loans to Foreclosed Real Estate	866	60
Transfer from Loans to Loans Held for Sale	7,547	-

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

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Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the interim period disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Use of Estimates in the Preparation of Financial Statements

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

Investment Securities

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Premiums or discounts on investment securities are amortized or accreted using the effective interest method over the life of the security as an adjustment of yield. Unrealized holding gains or losses that remain in accumulated other comprehensive income are amortized or accreted over the remaining life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

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

Goodwill

In December 2010, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. Under GAAP, the evaluation of goodwill impairment is a two-step test. In Step 1, an entity must assess whether the carrying amount of a reporting unit exceeds its fair value. If it does, an entity must perform Step 2 of the goodwill impairment test to determine whether goodwill has been impaired and to calculate the amount of that impairment. The provisions of this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The Company adopted the provisions of this ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2011. As of March 31, 2011, the Company had no reporting units with zero or negative carrying amounts or reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. As a result, the adoption of this ASU had no impact on the Company's statements of income and condition.

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Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*, which added disclosure requirements about transfers into and out of Levels 1, 2, and 3, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of the valuation technique (e.g., market approach, income approach, or cost approach) and inputs used to measure fair value was required for recurring, nonrecurring, and Level 2 and 3 fair value measurements. The Company adopted these provisions of this ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2010. This ASU also requires that Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number as previously permitted. The Company adopted this provision of the ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2011. As this provision amends only the disclosure requirements related to Level 3 activity, the adoption of this provision of the ASU had no impact on the Company's statements of income and condition. See Note 12 to the Consolidated Financial Statements for the disclosures required by this ASU.

Future Application of Accounting Pronouncements

In January 2011, the FASB issued ASU No. 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The provisions of ASU No. 2010-20 required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses effective for the Company's reporting period ended March 31, 2011. The amendments in ASU No. 2011-01 defer the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completes their project clarifying the guidance for determining what constitutes a troubled debt restructuring. As the provisions of this ASU only defer the effective date of disclosure requirements related to troubled debt restructurings, the adoption of this ASU will have no impact on the Company's statements of income and condition.

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on the Company's statements of income and condition.

Table of Contents**Note 2. Investment Securities**

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of March 31, 2011 and December 31, 2010 were as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
(dollars in thousands)							
As of March 31, 2011							
Available-for-Sale:							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	918,766	\$	3,007	\$	(487)	\$ 921,286
Debt Securities Issued by States and Political Subdivisions		123,293		1,441		(1,286)	123,448
Mortgage-Backed Securities Issued by Government Agencies		2,883,092		39,696		(14,454)	2,908,334
U.S. Government-Sponsored Enterprises		88,259		3,769		-	92,028
Total Mortgage-Backed Securities		2,971,351		43,465		(14,454)	3,000,362
Total	\$	4,013,410	\$	47,913	\$	(16,227)	\$ 4,045,096
Held-to-Maturity:							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	149,124	\$	114	\$	(115)	\$ 149,123
Mortgage-Backed Securities Issued by Government Agencies		2,207,376		8,909		(1,269)	2,215,016
U.S. Government-Sponsored Enterprises		70,210		3,454		-	73,664
Total Mortgage-Backed Securities		2,277,586		12,363		(1,269)	2,288,680
Total	\$	2,426,710	\$	12,477	\$	(1,384)	\$ 2,437,803
As of December 31, 2010							
Available-for-Sale:							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	536,770	\$	19,131	\$	(45)	\$ 555,856
Debt Securities Issued by States and Political Subdivisions		113,715		1,477		(1,583)	113,609
Debt Securities Issued by U.S. Government-Sponsored Enterprises		500		5		-	505
Mortgage-Backed Securities Issued by Government Agencies		5,696,907		84,008		(30,887)	5,750,028
U.S. Government-Sponsored Enterprises		109,259		4,617		-	113,876
Total Mortgage-Backed Securities		5,806,166		88,625		(30,887)	5,863,904
Total	\$	6,457,151	\$	109,238	\$	(32,515)	\$ 6,533,874
Held-to-Maturity:							
Mortgage-Backed Securities Issued by Government Agencies	\$	47,368	\$	2,959	\$	-	\$ 50,327
U.S. Government-Sponsored Enterprises		79,881		3,820			