

BANK OF HAWAII CORP
Form 10-K
February 25, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark
One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____

Commission File Number 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

130 Merchant Street, Honolulu, Hawaii

(Address of principal executive offices)

1-888-643-3888

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$.01 Par Value

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer x

Accelerated filer o

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

Smaller reporting company o

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

Yes o No x

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of \$50.32, was approximately \$2,205,592,123.

There was no non-voting common equity of the registrant outstanding on that date.

As of February 14, 2014, there were 44,536,988 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2014 Annual Meeting of Shareholders to be held on April 25, 2014, are incorporated by reference into Part III of this Report.

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2013 Form 10-K Annual Report
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Part I

Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii.

The Parent's principal and only operating subsidiary, Bank of Hawaii (the "Bank"), was organized on December 17, 1897 and is chartered by the State of Hawaii. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") and the Bank is a member of the Federal Reserve System.

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

The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., and Pacific Century Life Insurance Corporation. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage, investment services, and providing credit insurance.

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

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

The Parent's other subsidiary is the BOHC Investment Fund, LLC (the "Fund"). The Fund was organized in September 2007, to invest in and hold securities of Qualified High Technology Businesses, as defined in the Hawaii Revised Statutes.

Competition

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

exceptional service levels, and knowledge of local trends and conditions, we believe the Company has developed an effective competitive advantage in its market.

Supervision and Regulation

Our operations are subject to extensive regulation by federal and state governmental authorities. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system and capital markets. The following information describes some of the more significant laws and regulations applicable to us. The descriptions are qualified in their entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

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The Parent

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

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

Under the BHC Act, a BHC may elect to become a financial holding company and thereby engage in a broader range of financial and other activities than are permissible for traditional BHCs. In order to qualify for the election, all of the depository institution subsidiaries of the BHC must be well-capitalized and well-managed. Additionally, all of its insured depository institution subsidiaries must have achieved a rating of "satisfactory" or better under the Community Reinvestment Act (the "CRA"). Financial holding companies are permitted to engage in activities that are "financial in nature"; activities incidental to or complementary of the financial activities of traditional BHCs, as determined by the FRB. The Parent has not elected to become a financial holding company.

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

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

Bank of Hawaii

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

Bankoh Investment Services, Inc., the broker dealer subsidiary of the Bank, is incorporated in Hawaii and is regulated by the Financial Industry Regulatory Authority, and the DCCA's Business Registration Division. Pacific Century Life

Insurance Corporation is incorporated in Arizona and is regulated by the State of Arizona Department of Insurance.

The Dodd Frank Act

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

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swap and derivative transactions, proprietary trading and investing in private equity and other funds. All of these new rules and regulations may result in increased compliance and other costs, increased legal risk and decreased product offerings.

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

Capital Requirements

The federal bank regulatory agencies have issued substantially similar risk-based and leverage capital guidelines applicable to BHCs and the banks they supervise. Under the risk-based capital requirements, the Company and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8% to be considered "adequately capitalized." At least half of the total capital is to be composed of common equity, retained earnings, and qualifying perpetual preferred stock, less certain intangibles ("Tier 1 Capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, and a limited amount of the allowance for loan and lease losses ("Tier 2 Capital") and, together with Tier 1 Capital, equals total capital ("Total Capital"). Risk-weighted assets are calculated by taking assets and credit equivalent amounts of off-balance-sheet items and assigning them to one of several broad risk categories. The risk categories are assigned according to the obligor, or, if relevant, to the guarantor, or to the nature of the collateral. The aggregate dollar value of the amount in each category is then multiplied by the risk weight associated with that category.

BHCs and banks are also required to maintain minimum leverage ratios established by the federal bank regulatory agencies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted quarterly average assets ("Tier 1 Leverage Ratio") equal to 3% to be considered "adequately capitalized" for BHCs and banks that have the highest regulatory rating and are not experiencing significant growth or expansion. All other BHCs and banks will generally be required to maintain a Tier 1 Leverage Ratio of at least 100 to 200 basis points above the stated minimum. See Note 11 to the Consolidated Financial Statements for capital ratios for the Company and the Bank.

The risk-based capital standards identify concentrations of credit risk and the risk arising from non-traditional banking activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agencies in assessing an institution's overall capital adequacy. The capital guidelines also provide that exposure to a decline in the economic value of an institution's capital due to changes in interest rates is a factor to be considered in evaluating a bank's capital adequacy.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under regulations established by the federal banking agencies, a "well capitalized" institution must have a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2013, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition

or the prospects of that financial institution.

In December 2010, the oversight body of the Basel Committee on Banking Supervision finalized a set of international guidelines for determining regulatory capital known as “Basel III,” which includes reforms regarding capital, leverage, and liquidity. In July 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC") and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations.

As part of implementing the provisions of the Dodd-Frank Act, in October 2012, the FRB published final rules requiring banks with total consolidated assets of more than \$10.0 billion to conduct and publish annual stress tests. Compliance with these requirements began in October 2013.

See the “Regulatory Initiatives Affecting the Banking Industry” section in MD&A for more information on Basel III and stress testing.

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Dividend Restrictions

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

Transactions with Affiliates and Insiders

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

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

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

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

Volcker Rule

On December 10, 2013, the final "Volcker Rule" under the Dodd-Frank Act was approved by the FRB, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission. The Volcker Rule prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The final rule may limit or restrict the Company's activities related to proprietary trading and private equity investing. In connection with the issuance of the regulations, the FRB exercised its authority to extend the conformance period for compliance with the Volcker Rule by one year from July

21, 2014 to July 21, 2015. During the remaining conformance period, each banking entity is expected to engage in good faith efforts that will result in conformance of all its activities and investments with the requirements of the Volcker Rule by July 21, 2015. The Company has determined that the Volcker Rule does not materially apply to our current or anticipated future operations, and therefore, is not expected to have a material impact on the Company's Consolidated Financial Statements.

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund (the "DIF"), which the FDIC maintains by assessing depository institutions an insurance premium. As a result of higher levels of bank failures over the last few years and the dramatic increase in resolution costs of the FDIC, the DIF was depleted. In addition, the amount of FDIC insurance coverage for insured deposits was increased from \$100,000 to \$250,000 per depositor, per institution, and until January 1, 2013, the insurance coverage for non-interest bearing demand deposits was unlimited. These developments caused increased

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stress on the DIF. To restore reserves and ensure that the DIF would be able to adequately cover losses from future bank failures, the FDIC approved new deposit insurance rules in November 2009. These new rules required insured depository institutions to prepay their estimated quarterly risk-based assessments for all of 2010, 2011, and 2012. As a result, on December 30, 2009, the Bank prepaid its assessment in the amount of \$42.3 million related to years 2010 through 2012. During 2013, the FDIC returned the remaining balance of \$15.5 million of our prepaid FDIC assessment.

On February 7, 2011, as required by the Dodd-Frank Act, the FDIC approved final rules on assessments which became effective on April 1, 2011. These final rules redefined the base for FDIC insurance assessments from the amount of insured deposits to an institution's "average consolidated total assets minus average tangible equity." The FDIC's final rules eliminated risk categories and debt ratings from the assessment calculation for large banks (over \$10.0 billion) and combined CAMELS ratings and certain financial measures into two scorecards; one for most large banks and another for the remaining large, highly complex banks. Each scorecard assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate. However, the FDIC retains the ability to adjust the total score of large and highly complex banks based upon quantitative or qualitative measures not adequately captured in the scorecards. Our FDIC insurance assessment was \$7.8 million in 2013, \$7.9 million in 2012, and \$9.3 million in 2011.

Other Safety and Soundness Regulations

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

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

Community Reinvestment and Consumer Protection Laws

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

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods.

Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received an "outstanding" rating in its most recent CRA evaluation.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (the "CFPB") as an agency responsible for promulgating regulations designed to protect consumers including implementing, examining and enforcing compliance with federal consumer financial laws. The Dodd-Frank Act adds prohibitions on unfair, deceptive and abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB. In 2013, the CFPB focused its rulemaking in the area of mortgage reform, issuing six mortgage-related rules that became effective January 10, 2014, involving new Ability-To-Repay requirements, standards for the "Qualified Mortgage" safe harbor, a new regulatory framework for mortgage servicing, and changes to loan originator compensation. The CFPB, along with other prudential regulators and the Department of Justice, have also expanded their regulatory examinations and investigations focus to a concept of "fair and responsible banking." Fair and responsible banking strives to provide equal credit opportunities to all applicants of a community, to prohibit discrimination by lenders on the basis of certain borrower characteristics, and to ensure that a bank's practices are not deceptive, unfair, or take unreasonable advantage of the consumer or businesses when offering retail financial services. The focus will be expanded to

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encompass the entire loan life cycle, including post-closing activities such as collections and servicing, and pre-application activities such as marketing and loan solicitation and origination. Fair and responsible banking ensures that banks provide fair and equitable access to the entire spectrum of financial products and services, including credit cards, student and auto lending, to all consumers and businesses in the marketplace it serves, and strives to be clear and transparent in all communications with customers, treating them fairly in all circumstances.

Additional rulemakings to come under the Dodd-Frank Act make it difficult to predict the ultimate effect on our financial condition or results of operations.

Bank Secrecy Act / Anti-Money Laundering Laws

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

Employees

As of December 31, 2013, we had approximately 2,200 employees.

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Executive Officers of the Registrant

Listed below are executive officers of the Parent as of December 31, 2013.

Peter S. Ho, 48

Chairman and Chief Executive Officer since July 2010 and President since April 2008; Vice Chairman and Chief Banking Officer from January 2006 to April 2008.

Kent T. Lucien, 60

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

Peter M. Biggs, 62

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

Sharon M. Crofts, 48

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

Wayne Y. Hamano, 59

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

Mark A. Rossi, 64

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

Mary E. Sellers, 57

Vice Chairman and Chief Risk Officer since July 2005.

Donna A. Tanoue, 59

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

Derek J. Norris, 64

Senior Executive Vice President and Controller since December 2009; Executive Vice President and Controller since December 2008; Executive Vice President and General Auditor from January 2002 to December 2008.

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Item 1A. Risk Factors

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

Changes in business and economic conditions, in particular those of Hawaii and the Pacific Islands (Guam and nearby islands), could lead to lower revenue, lower asset quality, and lower earnings.

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

General economic conditions in Hawaii continued to be healthy in 2013, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an accelerating construction industry. However, deterioration of economic conditions or the slow pace of economic recovery, either locally or nationally, could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings. The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be negatively impacted by a decline in the value of collateral.

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

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

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

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in

response to general economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads, any of which could adversely affect our financial condition or results of operations.

Credit losses could increase if economic conditions stagnate or deteriorate.

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

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level of the reserve for credit losses. Many of these assumptions are based on current economic conditions. Should economic conditions stagnate or deteriorate nationally or in Hawaii, we may experience higher credit losses in future periods.

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

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

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

The regulation of most consumer financial products and services is now centralized in the CFPB, where it has begun to exercise its broad rule-making, supervisory, and examination authority, as well as expanded data collecting and enforcement powers, over depository institutions with more than \$10.0 billion in assets. The CFPB has recently focused its rulemaking in several areas, particularly in the areas of mortgage reform involving the Real Estate Settlement Procedures Act (Reg X), the Truth-in-Lending Act (Reg Z), the Equal Credit Opportunity Act (Reg B), and the Fair Debt Collection Practices Act. In January 2013, the CFPB issued six mortgage-related rulemakings involving, among other things, new Ability-to-Repay requirements, standards for the "Qualified Mortgage" safe harbor, a new regulatory framework for mortgage servicing, and changes to loan originator compensation arrangements, all of which will create challenges for product and service offerings, operations and compliance programs. These rules became effective January 10, 2014.

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

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

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

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

On October 9, 2012, the FRB published final rules implementing the stress testing requirements for banks, such as the Company, with total consolidated assets of more than \$10.0 billion but less than \$50.0 billion, but delayed the initial stress test until the fall of 2013 (utilizing data as of September 30, 2013). The final stress testing rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

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

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

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

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

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, credit unions, mortgage companies, broker dealers, and insurance companies, all of which may be based in or outside of Hawaii and the Pacific Islands. We expect competitive conditions to intensify as consolidation in the financial services industry continues. The financial services industry is also likely to become more competitive as further technological advances enable more companies, including non-depository institutions, to provide financial services. Failure to effectively compete, innovate, and to make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

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

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

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

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet

connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. These third parties with which we do business or that facilitate our business activities, including exchanges, clearing firms, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Although we have safeguards and business continuity plans in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses, loss of customers, or damage to our reputation.

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

Our technologies, systems, networks and software, and those of other financial institutions, have been and are likely to continue to be the target of cyber attacks, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may derive from human error, fraud or malice on the part of external or internal parties, or may result from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

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

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption could: 1) Disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; 2) Result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers, including account numbers and other financial information; 3) Result in a violation of applicable privacy, data breach and other laws, subjecting the Bank to additional regulatory scrutiny and expose the Bank to civil litigation, governmental fines and possible financial liability; 4) Require significant management attention and resources to remedy the damages that result; or 5) Harm our reputation or cause a decrease in the number of customers that choose to do business with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our results of operations, financial condition, and cash flows.

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

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

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

We are, from time to time, involved in various legal proceedings arising from our normal business activities. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs.

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The outcome of these cases is uncertain. Substantial legal liability or significant regulatory action against us could have material financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could materially affect our results of operations and financial condition. Based on information currently available, we believe that the eventual outcome of known actions against us will not be materially in excess of such amounts accrued by us. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may be material to our statement of income for any particular period.

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

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

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

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

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

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

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

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

values can reduce our level of assets under management and thereby decrease our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our derivative financial instruments and mortgage servicing rights. Mortgage banking income may also be impacted by changes in our strategy to manage our residential mortgage portfolio. For example, we may occasionally change the proportion of our loan originations that are sold in the secondary market and added to our loan portfolio.

Our mortgage banking income was particularly strong in 2012 due to high levels of loan refinancing activity and loan sales, which were the result of low interest rates. Our mortgage banking income decreased in 2013 compared to 2012 as rising interest rates

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during 2013 adversely impacted the salable loan pipeline volume and its related loan sales margins. Further decreases in mortgage banking income could adversely affect our results of operations.

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

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

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

During 2013, we repurchased 0.7 million shares of our common stock at a total cost of \$35.5 million under our share repurchase program. We also paid cash dividends of \$80.5 million during 2013. In January 2014, the Parent's Board of Directors declared a quarterly cash dividend of \$0.45 per share on the Parent's outstanding shares. In addition, from January 1, 2014 through February 14, 2014, the Parent repurchased an additional 113,500 shares of common stock at an average cost of \$57.85 per share and a total cost of \$6.6 million. As of February 14, 2014, remaining buyback authority was \$27.4 million of the total \$1.9 billion repurchase amount authorized by our Board of Directors.

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. We own and lease other branch offices and operating facilities located throughout Hawaii and the Pacific Islands. Additional information with respect to premises and equipment is presented in Notes 6 and 19 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

Information required by this item is set forth in Note 19 to the Consolidated Financial Statements, under the discussion related to Contingencies.

Item 4. Mine Safety Disclosures

Not Applicable.

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Part II

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

Market Information, Shareholders, and Dividends

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

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

Year/Period	Market Price Range			Book Value	Dividends Declared
	High	Low	Close		
2013	\$59.92	\$44.88	\$59.14	\$22.75	\$1.80
First Quarter	50.91	44.88	50.81		0.45
Second Quarter	52.17	46.04	50.32		0.45
Third Quarter	57.13	50.50	54.45		0.45
Fourth Quarter	59.92	53.16	59.14		0.45
2012	\$49.99	\$41.41	\$44.05	\$22.83	\$1.80
First Quarter	48.75	44.08	48.35		0.45
Second Quarter	49.99	44.02	45.95		0.45
Third Quarter	48.92	45.29	45.62		0.45
Fourth Quarter	46.38	41.41	44.05		0.45

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 14, 2014, there were 6,540 common shareholders of record.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ²
October 1 - 31, 2013	25,680	\$55.82	24,000	\$37,630,080
November 1 - 30, 2013	46,720	58.78	43,000	35,103,270
December 1 - 31, 2013	41,824	58.63	19,275	33,980,763
Total	114,224	\$58.06	86,275	

¹ During the fourth quarter of 2013, 27,949 shares were purchased from employees and/or directors in connection with stock swaps, shares purchased for a deferred compensation plan, and income tax withholdings related to the vesting of

restricted stock. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

² The share repurchase program was first announced in July 2001. As of December 31, 2013, \$34.0 million remained of the total \$1.9 billion total repurchase

amount authorized by the Parent's Board of Directors under the share repurchase program. The program has no set expiration or termination date.

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Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that \$100 was invested on December 31, 2008 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

	2008	2009	2010	2011	2012	2013
Bank of Hawaii Corporation	\$100	\$109	\$114	\$112	\$115	\$160
S&P 500 Index	\$100	\$126	\$146	\$149	\$172	\$228
S&P Banks Index	\$100	\$94	\$114	\$102	\$127	\$173

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)

	2013	2012	2011	2010	2009	
Year Ended December 31,						
Operating Results						
Net Interest Income	\$358.9	\$377.3	\$390.2	\$406.5	\$412.3	
Provision for Credit Losses	—	1.0	12.7	55.3	107.9	
Total Noninterest Income	186.2	200.3	197.7	255.3	267.8	
Total Noninterest Expense	331.0	334.3	348.2	346.2	350.0	
Net Income	150.5	166.1	160.0	183.9	144.0	
Basic Earnings Per Share	3.39	3.68	3.40	3.83	3.02	
Diluted Earnings Per Share	3.38	3.67	3.39	3.80	3.00	
Dividends Declared Per Share	1.80	1.80	1.80	1.80	1.80	
Performance Ratios						
Net Income to Average Total Assets (ROA)	1.10	% 1.22	% 1.22	% 1.45	% 1.22	%
Net Income to Average Shareholders' Equity (ROE)	14.78	16.23	15.69	18.16	16.42	
Efficiency Ratio ¹	60.71	57.88	59.23	52.32	51.46	
Net Interest Margin ²	2.81	2.97	3.13	3.41	3.72	
Dividend Payout Ratio ³	53.10	48.91	52.94	47.00	59.60	
Average Shareholders' Equity to Average Assets	7.44	7.52	7.78	7.98	7.44	
Average Balances						
Average Loans and Leases	\$5,883.7	\$5,680.3	\$5,349.9	\$5,472.5	\$6,145.0	
Average Assets	13,692.1	13,609.2	13,105.0	12,687.7	11,783.4	
Average Deposits	11,396.8	10,935.0	9,924.7	9,509.1	9,108.4	
Average Shareholders' Equity	1,018.3	1,023.3	1,020.1	1,012.7	877.2	
Weighted Average Shares Outstanding						
Basic Weighted Average Shares	44,380,948	45,115,441	47,064,925	48,055,025	47,702,500	
Diluted Weighted Average Shares	44,572,725	45,249,300	47,224,981	48,355,965	48,009,277	
As of December 31,						
Balance Sheet Totals						
Loans and Leases	\$6,095.4	\$5,854.5	\$5,538.3	\$5,335.8	\$5,759.8	
Total Assets	14,084.3	13,728.4	13,846.4	13,126.8	12,414.8	
Total Deposits	11,914.7	11,529.5	10,592.6	9,889.0	9,409.7	
Long-Term Debt	174.7	128.1	30.7	32.7	90.3	
Total Shareholders' Equity	1,012.0	1,021.7	1,002.7	1,011.1	896.0	
Asset Quality						
Allowance for Loan and Lease Losses	\$115.5	\$128.9	\$138.6	\$147.4	\$143.7	
Non-Performing Assets ⁴	39.7	37.1	40.8	37.8	48.3	

Financial Ratios

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Allowance to Loans and Leases Outstanding	1.89	% 2.20	% 2.50	% 2.76	% 2.49	%
Tier 1 Capital Ratio	15.55	16.13	16.68	18.28	14.84	
Total Capital Ratio	16.81	17.39	17.95	19.55	16.11	
Tier 1 Leverage Ratio	7.07	6.83	6.73	7.15	6.76	
Total Shareholders' Equity to Total Assets	7.19	7.44	7.24	7.70	7.22	
Tangible Common Equity to Tangible Assets ⁵	6.98	7.23	7.03	7.48	6.98	
Tangible Common Equity to Risk-Weighted Assets ⁵	15.49	17.24	17.93	19.29	15.45	

Non-Financial Data

Full-Time Equivalent Employees	2,196	2,276	2,370	2,399	2,418
Branches and Offices	74	76	81	82	83
ATMs	466	494	506	502	485
Common Shareholders of Record	6,564	6,775	6,977	7,128	7,323

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

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

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

⁴ Excluded from non-performing assets are contractually binding non-accrual loans held for sale of \$4.2 million as of December 31, 2009.

⁵ Tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. See the "Use of Non-GAAP Financial Measures" section below.

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Use of Non-GAAP Financial Measures

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

GAAP to Non-GAAP Reconciliation

	December 31,					
(dollars in thousands)	2013	2012	2011	2010	2009	
Total Shareholders' Equity	\$1,011,976	\$1,021,665	\$1,002,667	\$1,011,133	\$895,973	
Less: Goodwill	31,517	31,517	31,517	31,517	31,517	
Intangible Assets	—	33	83	154	233	
Tangible Common Equity	\$980,459	\$990,115	\$971,067	\$979,462	\$864,223	
Total Assets	\$14,084,280	\$13,728,372	\$13,846,391	\$13,126,787	\$12,414,827	
Less: Goodwill	31,517	31,517	31,517	31,517	31,517	
Intangible Assets	—	33	83	154	233	
Tangible Assets	\$14,052,763	\$13,696,822	\$13,814,791	\$13,095,116	\$12,383,077	
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	\$6,330,532	\$5,744,722	\$5,414,481	\$5,076,909	\$5,594,532	
Total Shareholders' Equity to Total Assets	7.19	% 7.44	% 7.24	% 7.70	% 7.22	%
Tangible Common Equity to Tangible Assets (Non-GAAP)	6.98	% 7.23	% 7.03	% 7.48	% 6.98	%
Tier 1 Capital Ratio	15.55	% 16.13	% 16.68	% 18.28	% 14.84	%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP)	15.49	% 17.24	% 17.93	% 19.29	% 15.45	%

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) competitive pressures in the markets for financial services and products; 4) the impact of recent legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"); 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any 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. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Policies

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

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan and lease losses (the "Allowance") and a reserve for unfunded commitments (the "Unfunded Reserve"). The Allowance provides for probable and estimable losses inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio. The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

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

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

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

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 and 2 valuations as those that are based on quoted prices for identical instruments traded in active markets and quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 3 valuations are based on model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that we believe market participants would use in pricing the asset or liability.

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2013 and 2012, \$2.3 billion or 16% and \$3.4 billion or 25%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in

either Levels 1 or 2 of the fair value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2013 and 2012, \$22.0 million and \$33.6 million, respectively, of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2013 and 2012, Level 3 financial assets recorded at fair value on a recurring basis were \$25.3 million and \$47.1 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2013 and 2012, Level 3 financial liabilities recorded at fair value on a recurring basis were \$21.0 million and \$32.4 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

Our third-party pricing service makes no representations or warranties that the pricing data provided to us is complete or free from errors, omissions, or defects. As a result, we have processes in place to monitor and periodically review the information provided to us by our third-party pricing service such as: 1) Our third-party pricing service provides us with documentation by asset class of inputs and methodologies used to value securities. We review this documentation to evaluate the inputs and

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valuation methodologies used to place securities into the appropriate level of the fair value hierarchy. This documentation is periodically updated by our third-party pricing service. Accordingly, transfers of securities within the fair value hierarchy are made if deemed necessary. 2) On a quarterly basis, management reviews the pricing information received from our third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by our third-party pricing service. We also identify investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades relative to historic levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2013 and 2012, management did not make adjustments to prices provided by our third-party pricing service as a result of illiquid or inactive markets. 3) On a quarterly basis, management also 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. 4) On an annual basis, to the extent available, we obtain and review independent auditor's reports from our third-party pricing service related to controls placed in operation and tests of operating effectiveness. We did not note any significant control deficiencies in our review of the independent auditor's reports related to services rendered by our third-party pricing service. 5) Our third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. Our third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. Our third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Based on the composition of our investment securities portfolio, we believe that we have developed appropriate internal controls and performed appropriate due diligence procedures to prevent or detect material misstatements. See Note 20 to the Consolidated Financial Statements for more information on our fair value measurements.

Leased Asset Residual Values

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

Income Taxes

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

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. As of December 31, 2013 and 2012, we carried a valuation allowance of \$4.2 million and \$5.1 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

We are also required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2013 and 2012, our liabilities for UTBs were \$11.8 million and \$15.4 million, respectively. See Note 16 to the Consolidated Financial Statements for more information on income taxes.

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Overview

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

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders. Our business plan is balanced between growth and risk management while maintaining flexibility to adjust to economic changes. We remain cautious about the local and national economies, interest rates, loan demand, and regulatory initiatives that are expected to impact the financial services industry. We intend to continue to focus on providing customers with a competitive mix of products and services, maintaining strong credit quality, improving expense management, and efficiently managing capital.

Hawaii Economy

General economic conditions in Hawaii continue to be healthy, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an accelerating construction industry. In 2013, a record 8.2 million visitors arrived in Hawaii, surpassing the 2012 record of 8.0 million visitors by 2.6%. Total visitor spending for 2013 increased by 2.0% compared to the same period in 2012. The statewide seasonally-adjusted unemployment rate was 4.5% in December 2013, compared to 6.7% nationally. The volume of single-family home sales on Oahu was 4.6% higher in 2013 compared to 2012 and the volume of condominium sales on Oahu was 11.8% higher in 2013 compared to 2012. The median price of single-family home sales on Oahu increased 4.8% in 2013 and the median price of condominium sales on Oahu was 4.6% higher compared to 2012. As of December 31, 2013, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 2.7 months and 2.9 months, respectively. According to the National Housing Trend Report for December 2013, Honolulu had the third lowest median number of days on the market for housing inventory in the United States.

Earnings Summary

Net income for 2013 was \$150.5 million, a decrease of \$15.6 million or 9% compared to 2012. Diluted earnings per share were \$3.38 in 2013, a decrease of \$0.29 or 8% compared to 2012. Our return on average assets was 1.10% in 2013, a decrease of 12 basis points from 2012, and our return on average shareholders' equity was 14.78% in 2013, a decrease of 145 basis points from 2012.

Our lower net income in 2013 was primarily due to the following:

- Net interest income was \$358.9 million in 2013, a decrease of \$18.4 million or 5% compared to 2012. Our net interest margin was 2.81% in 2013, a decrease of 16 basis points compared to 2012. The lower margin in 2013 was primarily due to the reinvestment of investment securities and the origination of new loans at lower yields. However, as interest rates increased significantly since the early part of the second quarter of 2013, our net interest margin has improved over the last two quarters. To the extent interest rates remain at these higher levels or increase further, it is possible that our margins may continue to improve. However, as interest rates are still at relatively low levels, any potential increase in our margin will take time to be fully realized.

Mortgage banking income was \$19.2 million in 2013, a decrease of \$16.5 million or 46% compared to 2012 as rising interest rates during 2013 adversely impacted the amount of refinance activity and the related loan sales margins.

These items were partially offset by the following:

Trust and asset management income was \$47.9 million in 2013, an increase of \$2.7 million or 6% in 2013 compared to 2012. This increase was primarily due to higher market values of assets under management and higher trust termination fees.

Net occupancy expense was \$38.7 million in 2013, a decrease of \$4.2 million or 10% in 2013 compared to 2012. This decrease was primarily due to branch closures during 2012, combined with higher sublease revenue in 2013.

The provision for income taxes was \$63.7 million in 2013, a decrease of \$12.6 million or 16% compared to 2012 due to a lower pretax income and a lower effective income tax rate.

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We continued our focus on maintaining a strong balance sheet throughout 2013, with adequate reserves for credit losses, and high levels of liquidity and capital. In particular:

The allowance for loan and lease losses (the "Allowance") was \$115.5 million as of December 31, 2013, a decrease of \$13.4 million or 10% from December 31, 2012. The ratio of our Allowance to total loans and leases outstanding decreased to 1.89% as of December 31, 2013, compared to 2.20% as of December 31, 2012. The decrease in the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and an improving Hawaii economy.

We continued to invest excess liquidity in high-grade investment securities. As of December 31, 2013, the total carrying value of our investment securities portfolio was \$7.0 billion, relatively unchanged from December 31, 2012. In 2013, we reduced our positions in U.S. Treasury Notes and mortgage-backed securities issued by the Government National Mortgage Association ("Ginnie Mae"). We re-invested these proceeds, in part, into corporate and municipal bond holdings.

Total deposits were \$11.9 billion as of December 31, 2013, an increase of \$385.2 million or 3% from December 31, 2012. This growth was due to general economic expansion in the State of Hawaii and an increase in our market share of the deposit market. However, public time deposits decreased as a result of reduced pricing in those products.

Total shareholders' equity was \$1.0 billion as of December 31, 2013, a decrease of \$9.7 million or 1% from December 31, 2012. This decrease was due, in part, to a \$64.1 million after-tax decrease in the fair value of our available-for-sale investment securities, of which \$16.8 million was related to securities that were subsequently reclassified to the held-to-maturity category for capital management purposes. Should market interest rates continue to increase, we may experience further reductions in the fair value of our available-for-sale investment securities, which may result in lower levels of capital. We also continued to return capital to our shareholders in the form of share repurchases and dividends. During 2013, we repurchased 0.7 million shares of common stock at a total cost of \$35.5 million under our share repurchase program. We also paid cash dividends of \$80.5 million during 2013. These decreases to shareholders' equity were partially offset by earnings in 2013 of \$150.5 million.

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Analysis of Statements of Income

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

Average Balances and Interest Rates – Taxable-Equivalent Basis

Table 1

(dollars in millions)	2013			2012			2011			
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	
Earning Assets										
Interest-Bearing										
Deposits	\$4.0	\$—	0.26 %	\$3.7	\$—	0.26 %	\$4.2	\$—	0.19 %	
Funds Sold	221.2	0.4	0.19	263.5	0.5	0.20	380.2	0.8	0.22	
Investment Securities										
Available-for-Sale	2,822.5	61.6	2.18	3,346.3	75.0	2.24	4,439.8	105.4	2.37	
Held-to-Maturity	4,086.6	91.8	2.25	3,636.7	95.0	2.61	2,279.6	72.2	3.16	
Loans Held for Sale	16.4	0.7	4.18	14.7	0.6	4.29	11.0	0.5	4.54	
Loans and Leases ¹										
Commercial and Industrial										
Commercial Mortgage	1,152.9	46.9	4.06	988.2	42.9	4.34	887.1	42.8	4.82	
Construction	114.6	5.4	4.75	101.9	5.1	5.04	80.1	4.0	5.06	
Commercial Lease Financing	261.6	6.0	2.31	283.3	6.8	2.39	322.1	8.7	2.71	
Residential Mortgage	2,275.8	101.7	4.47	2,349.6	111.3	4.74	2,126.9	111.5	5.24	
Home Equity	761.5	31.4	4.12	773.2	33.4	4.31	784.9	37.4	4.76	
Automobile	232.3	12.7	5.48	196.8	11.7	5.96	194.4	13.2	6.78	
Other ²	219.2	18.0	8.21	187.1	15.2	8.11	163.8	12.4	7.57	
Total Loans and Leases	5,883.7	253.0	4.30	5,680.3	257.7	4.54	5,349.9	261.8	4.89	
Other	78.3	1.2	1.50	79.9	1.1	1.41	79.9	1.1	1.40	
Total Earning Assets ³	13,112.7	408.7	3.12	13,025.1	429.9	3.30	12,544.6	441.8	3.52	
Cash and Noninterest-Bearing										
Deposits	138.9			137.2			135.3			
Other Assets	440.5			446.9			425.1			
Total Assets	\$13,692.1			\$13,609.2			\$13,105.0			
Interest-Bearing Liabilities										
Interest-Bearing Deposits										
Demand	\$2,140.5	\$0.6	0.03 %	\$1,938.6	\$0.5	0.03 %	\$1,786.7	\$0.7	0.04 %	
Savings	4,461.4	3.9	0.09	4,447.8	4.5	0.10	4,501.0	7.3	0.16	
Time	1,406.2	5.6	0.40	1,524.6	7.4	0.48	1,067.8	10.3	0.96	
Total Interest-Bearing Deposits	8,008.1	10.1	0.13	7,911.0	12.4	0.16	7,355.5	18.3	0.25	
Short-Term Borrowings	31.7	—	0.15	15.1	—	0.14	18.2	—	0.11	
Securities Sold Under	809.4	26.9	3.32	1,335.7	28.9	2.16	1,845.8	29.2	1.58	

Agreements to Repurchase									
Long-Term Debt	171.0	2.6	1.50	31.5	1.9	6.10	31.6	2.0	6.23
Total Interest-Bearing Liabilities	9,020.2	39.6	0.44	9,293.3	43.2	0.47	9,251.1	49.5	0.53
Net Interest Income		\$369.1			\$386.7			\$392.3	
Interest Rate Spread			2.68 %			2.83 %		2.99 %	
Net Interest Margin			2.81 %			2.97 %		3.13 %	
Noninterest-Bearing Demand Deposits	3,388.7			3,024.0			2,569.2		
Other Liabilities	264.9			268.6			264.6		
Shareholders' Equity	1,018.3			1,023.3			1,020.1		
Total Liabilities and Shareholders' Equity	\$13,692.1			\$13,609.2			\$13,105.0		

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

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

³ Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$10.2 million for 2013, \$9.5 million for 2012, and \$2.1 million for 2011.

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Analysis of Change in Net Interest Income – Taxable-Equivalent Basis (dollars in millions)	Year Ended December 31, 2013 Compared to 2012			Table 2 Year Ended December 31, 2012 Compared to 2011		
	Volume ¹	Rate ¹	Total	Volume ¹	Rate ¹	Total
Change in Interest Income:						
Funds Sold	\$(0.1)	\$—	\$(0.1)	\$(0.2)	\$(0.1)	\$(0.3)
Investment Securities						
Available-for-Sale	(11.5)	(1.9)	(13.4)	(24.8)	(5.6)	(30.4)
Held-to-Maturity	11.0	(14.2)	(3.2)	37.1	(14.3)	22.8
Loans Held for Sale	0.1	—	0.1	0.1	—	0.1
Loans and Leases						
Commercial and Industrial	2.5	(2.9)	(0.4)	0.4	(0.9)	(0.5)
Commercial Mortgage	6.9	(2.9)	4.0	4.6	(4.5)	0.1
Construction	0.6	(0.3)	0.3	1.1	—	1.1
Commercial Lease Financing	(0.6)	(0.2)	(0.8)	(1.0)	(0.9)	(1.9)
Residential Mortgage	(3.4)	(6.2)	(9.6)	11.1	(11.3)	(0.2)
Home Equity	(0.5)	(1.5)	(2.0)	(0.5)	(3.5)	(4.0)
Automobile	2.0	(1.0)	1.0	0.1	(1.6)	(1.5)
Other ²	2.6	0.2	2.8	1.9	0.9	2.8
Total Loans and Leases	10.1	(14.8)	(4.7)	17.7	(21.8)	(4.1)
Other	—	0.1	0.1	—	—	—
Total Change in Interest Income	9.6	(30.8)	(21.2)	29.9	(41.8)	(11.9)
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	0.1	—	0.1	0.1	(0.3)	(0.2)
Savings	—	(0.6)	(0.6)	(0.1)	(2.7)	(2.8)
Time	(0.6)	(1.2)	(1.8)	3.4	(6.3)	(2.9)
Total Interest-Bearing Deposits	(0.5)	(1.8)	(2.3)	3.4	(9.3)	(5.9)
Securities Sold Under Agreements to Repurchase	(13.9)	11.9	(2.0)	(9.4)	9.1	(0.3)
Long-Term Debt	3.1	(2.4)	0.7	—	(0.1)	(0.1)
Total Change in Interest Expense	(11.3)	7.7	(3.6)	(6.0)	(0.3)	(6.3)
Change in Net Interest Income	\$20.9	\$(38.5)	\$(17.6)	\$35.9	\$(41.5)	\$(5.6)

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

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

Net Interest Income

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

Net interest income was \$358.9 million in 2013, a decrease of \$18.4 million or 5% compared to 2012. On a taxable-equivalent basis, net interest income was \$369.1 million in 2013, a decrease of \$17.6 million or 5% compared to 2012. Net interest margin decreased by 16 basis points in 2013 compared to 2012. The lower margin in 2013 was primarily due to the reinvestment of investment securities and the origination of new loans at lower yields. However, as interest rates increased significantly since the early part of the second quarter of 2013, our net interest margin has improved over the last two quarters. To the extent interest rates remain at these higher levels or increase further, it is

possible that our margins may continue to improve. However, as interest rates are still at relatively low levels, any potential increase in our margins may take time to be fully realized.

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Yields on our earning assets decreased by 18 basis points in 2013 compared to 2012, reflective of lower yields on investment securities and loans. Yields on our investment securities portfolio decreased by 21 basis points in 2013 compared to 2012, reflective of the run-off of higher yielding securities with proceeds, in part, being invested in lower yielding securities. Yields on our loans and leases decreased by 24 basis points in 2013 compared to 2012, with lower yields in nearly every category of loans and leases, as a result of the current low interest rate environment. Partially offsetting the lower yields on our earning assets in 2013 compared to 2012 were slightly lower funding costs primarily due to marginally lower rates paid on our interest-bearing deposits combined with lower rates paid on our long-term debt. Rates paid on our securities sold under agreements to repurchase increased by 116 basis points in 2013 compared to 2012. This increase was primarily due to local government entities, during the second and third quarters of 2012, transferring their funds previously invested in short-term (and therefore low-yielding) repurchase agreements into public time deposits, leaving the balance of our repurchase agreements consisting mainly of longer term agreements. These agreements with private entities have longer terms at relatively higher interest rates. Rates paid on our long-term debt decreased by 460 basis points in 2013 compared to 2012 primarily due to \$150.0 million in FHLB advances received since the fourth quarter of 2012 at relatively low interest rates.

Average balances of our earning assets increased by \$87.6 million or 1% in 2013 compared to 2012 primarily due to an increase in the average balance of our loans and leases. Average balances of our commercial mortgage portfolio increased by \$164.8 million primarily due to increased demand from new and existing customers as the economy in Hawaii continues to improve and the average balances of our commercial and industrial loan portfolio increased by \$65.6 million due to an increase in corporate demand for funding. The increase in the average balances of these loan categories was partially offset by a \$73.7 million decrease in our residential mortgage loan portfolio primarily due to lower originations, particularly refinancing activity, as a result of higher interest rates. In addition, the average balance of our residential mortgage loan portfolio declined due to continued paydowns and increased sales of loans in the secondary market. The increase in the average balances of our earning assets was also partially offset by a \$73.9 million decrease in the average balance of our investment securities portfolio. In 2013, we continued to reduce our holdings in U.S. Treasury notes and our positions in mortgage-backed securities issued by the Government National Mortgage Association (“Ginnie Mae”) in an effort to manage extension risk related to our mortgage-backed securities. We re-invested these proceeds, in part, into corporate and municipal bond holdings. Average balances in our U.S. Treasury Notes decreased by \$288.6 million and average balances in our mortgage-backed securities issued by Ginnie Mae decreased by \$122.6 million in 2013 compared to 2012. Average balances of our corporate bonds increased by \$246.0 million and our municipal bond holdings increased by \$176.6 million in 2013 compared to 2012.

Average balances of our interest-bearing liabilities decreased by \$273.1 million or 3% in 2013 compared to 2012. Average balances of our time deposits decreased by \$118.4 million as some customers moved their funds to more liquid deposits. Average balances of our securities sold under agreements to repurchase decreased by \$526.4 million, a portion of which was transferred by local government entities into time deposits. Partially offsetting the decrease was a \$171.3 million increase in the average balances of our premier interest-bearing demand products and a \$139.5 million increase in the average balance of our long-term debt due to advances from the FHLB primarily for asset/liability management purpose. Partially offsetting the decrease in the average balances of our interest-bearing liabilities in 2013 compared to 2012 was an increase of \$281.0 million average balance in our commercial noninterest-bearing demand deposits.

Net interest income was \$377.3 million in 2012, an increase of \$12.9 million or 3% compared to 2011. On a taxable-equivalent basis, net interest income was \$386.7 million in 2012, a decrease of \$5.6 million or 1% compared to 2011. Net interest margin decreased by 16 basis points in 2012 compared to 2011. Yields on our earning assets decreased by 22 basis points in 2012 compared to 2011, reflective of investments and loans repricing at lower rates. Yields on our investment securities portfolio decreased by 21 basis points in 2012 compared to 2011, reflective of the run-off of higher yielding securities with proceeds, in part, being invested in lower yielding securities. Yields on our loans and leases declined in nearly every category in 2012 compared to 2011. Partially offsetting the lower yields on our earning assets was a decrease in deposit funding costs. Rates paid on our interest-bearing liabilities decreased by 6 basis points in 2012 compared to 2011. Rates paid on our savings deposits decreased by 6 basis points in 2012

compared to 2011 and rates paid on our time deposits decreased by 48 basis points in 2012 compared to 2011, partially offset by a 58 basis point increase on our rates paid on securities sold under agreements to repurchase as local government entities transferred their funds into time deposits.

Average balances of our earning assets increased by \$480.5 million or 4% in 2012 compared to 2011 primarily due to an increase in our investment securities portfolio and residential mortgage loan portfolio. In 2012, we reduced our positions in U.S. Treasury Notes and mortgage-backed securities issued by Ginnie Mae and re-invested these proceeds, in part, into municipal bond holdings and debt securities issued by the Small Business Administration (the "SBA"). Average balances in our U.S. Treasury Notes decreased by \$137.7 million and average balances in our mortgage-backed securities issued by Ginnie Mae decreased by \$344.9 million in 2012 compared to 2011. Average balances of our municipal bond holdings increased by \$511.8 million and average balances of our SBA securities increased by \$253.1 million in 2012 compared to 2011. Also contributing to the increase in

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average balances of our earning assets was a \$222.7 million increase in the average balance of our residential mortgage loan portfolio primarily due to strong refinancing activity, resulting from low interest rates, as well as our decision to add more fixed-rate conforming saleable loans to our portfolio.

Average balances of our interest-bearing liabilities remained relatively unchanged at \$9.3 billion in 2012 and 2011. Average balances of our interest-bearing deposits increased by \$555.5 million in 2012 compared to 2011 primarily due to an increase in average public time deposit balances. This was partially offset by a \$510.1 million decrease in average public repurchase agreement balances due to the transfer of local government entities' funds to time deposits noted above.

Provision for Credit Losses

The provision for credit losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of our loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of our credit quality. We recorded no Provision in 2013, a Provision of \$1.0 million in 2012, and a Provision of \$12.7 million in 2011. Our decision to not record a Provision in 2013 was reflective of our evaluation as to the adequacy of the Allowance. For further discussion on the Allowance, see the "Corporate Risk Profile – Credit Risk" section in MD&A.

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Noninterest Income

Table 3 presents the major components of noninterest income for 2013, 2012, and 2011.

Noninterest Income

(dollars in thousands)	Year Ended December 31,			Dollar Change		Table 3 Percent Change	
	2013	2012	2011	2013 to 2012	2012 to 2011	2013 to 2012	2012 to 2011
Trust and Asset Management	\$47,932	\$45,229	\$45,046	\$2,703	\$183	6	% —
Mortgage Banking	19,186	35,644	14,664	(16,458)	20,980	(46)	143
Service Charges on Deposit Accounts	37,124	37,621	38,733	(497)	(1,112)	(1)	(3)
Fees, Exchange, and Other Service Charges	50,469	48,965	60,227	1,504	(11,262)	3	(19)
Investment Securities Gains (Losses), Net	—	(77)	6,366	77	(6,443)	(100)	(101)
Insurance	9,190	9,553	10,957	(363)	(1,404)	(4)	(13)
Bank-Owned Life Insurance	5,892	6,805	6,330	(913)	475	(13)	8
Other	16,430	16,546	15,332	(116)	1,214	(1)	8
Total Noninterest Income	\$186,223	\$200,286	\$197,655	\$(14,063)	\$2,631	(7)	% 1

Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets that we manage and the fee rate charged to customers. Total trust assets under administration were \$10.4 billion, \$9.9 billion, and \$9.3 billion as of December 31, 2013, 2012, and 2011, respectively. Trust and asset management income increased by \$2.7 million or 6% in 2013 compared to 2012. This increase was primarily due to a \$1.1 million increase in agency fees mainly due to higher market values of assets under management. Special service fees increased by \$0.6 million mainly due to higher trust termination fees. In addition, management fees increased by \$0.5 million. Trust and asset management income remained relatively unchanged in 2012 compared to 2011. Testamentary fees increased \$0.8 million and agency fees rose \$0.4 million in 2012 compared to 2011. This was partially offset by a \$0.9 million decrease in special service fees which were the result of two large trust termination fees recorded in the first quarter of 2011.

Mortgage banking income is highly influenced by mortgage interest rates and the housing market. Mortgage banking income decreased by \$16.5 million or 46% in 2013 compared to 2012 as rising interest rates during 2013 adversely impacted the amount of refinance activity and the related loan sales margins. In particular, rising interest rates caused our refinance activity to decrease, particularly in the fourth quarter of 2013, in comparison to the high volume experienced in 2012. Mortgage banking income increased by \$21.0 million or 143% in 2012 compared to 2011. This increase was primarily due to higher loan originations, sales volume and margins resulting from lower interest rates.

Service charges on deposit accounts decreased by \$0.5 million or 1% in 2013 compared to 2012. This decrease was primarily due to a \$0.3 million decline in account analysis fees due to higher investable balances resulting in larger earnings credit rates granted to our customers. In addition, overdraft fees also decreased by \$0.3 million primarily due to a reduction in American Samoa deposit accounts. Service charges on deposit accounts decreased by \$1.1 million or 3% in 2012 compared to 2011. This decrease was primarily due to a decline in account analysis fees as a result of reduced charges applied against the customers' earnings credit rate.

Fees, exchange, and other service charges are primarily comprised of debit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges increased by \$1.5 million or 3% in 2013 compared to 2012. This increase was partially due to a \$0.7 million increase in fees from

our consumer credit cards, introduced in late 2012. Also contributing to the increase was a \$0.7 million increase in other loan fees, primarily prepayment penalty fees and syndication and administration fees. Fees, exchange, and other service charges decreased by \$11.3 million or 19% in 2012 compared to 2011. This decrease was primarily due to a \$10.9 million decline in debit card income resulting mainly from the pricing restrictions imposed by the Durbin Amendment, which was effective October 1, 2011.

There were no sales of investment securities in 2013. The sales of investment securities resulted in a \$0.1 million net loss in 2012 and a \$6.4 million net gain in 2011. The amount and timing of our sales of investment securities are dependent on a number of factors, including our efforts to preserve capital levels while managing duration and extension risk.

Insurance income decreased by \$0.4 million or 4% in 2013 compared to 2012 and by \$1.4 million or 13% in 2012 compared to 2011 primarily due to lower sales of our annuity products. The low interest rate environment, in particular, adversely affected sales of our fixed annuity products in 2012.

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Bank-owned life insurance decreased by \$0.9 million or 13% in 2013 compared to 2012. This decrease was primarily due to a \$0.6 million one-time bonus adjustment on one of our policies in the third quarter of 2012, combined with lower yields received in the current year. Bank-owned life insurance increased by \$0.5 million or 8% in 2012 compared to 2011 primarily due to the previously mentioned \$0.6 million one-time bonus adjustment on one of our policies in the third quarter of 2012.

Other noninterest income decreased by \$0.1 million or 1% in 2013 compared to 2012. This decrease was primarily due to a \$0.5 million contingent payment received in the third quarter of 2012 related to the 2010 sale of our proprietary mutual funds. This decrease was offset by a \$0.5 million increase in fees from safe deposit box rentals. Other noninterest income increased by \$1.2 million or 8% in 2012 compared to 2011. This increase was primarily due to a lessee exercising its early buy-out option on two cargo ship leveraged leases which resulted in a pre-tax gain of \$3.5 million in the first quarter of 2012. As noted above, we also received a \$0.5 million contingent payment in the third quarter of 2012 related to the 2010 sale of our proprietary mutual funds. These increases were partially offset by a \$2.0 million contingent payment received in the third quarter of 2011 related to the 2010 sale of our proprietary mutual funds, combined with a \$1.0 million pre-tax loss related to the sale and termination of an aircraft lease in the first quarter of 2012.

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Noninterest Expense

Table 4 presents the major components of noninterest expense for 2013, 2012, and 2011.

Noninterest Expense

(dollars in thousands)	Year Ended December 31,			Dollar Change		Table 4 Percent Change			
	2013	2012	2011	2013 to 2012	2012 to 2011	2013 to 2012	2012 to 2011		
Salaries and Benefits:									
Salaries	\$115,389	\$115,208	\$115,512	\$181	\$(304)	—	% —		%
Incentive Compensation	16,568	16,926	16,367	(358)	) 559	(2)	) 3		
Share-Based Compensation	4,932	6,961	5,720	(2,029)	) 1,241	(29)	) 22		
Commission Expense	6,874	6,993	6,489	(119)	) 504	(2)	) 8		
Retirement and Other Benefits	15,289	16,014	16,829	(725)	) (815)	(5)	) (5))
Payroll Taxes	11,242	10,593	10,645	649	(52)	) 6		—	
Medical, Dental, and Life Insurance	9,431	9,319	9,039	112	280	1		3	
Separation Expense	4,486	2,394	2,215	2,092	179	87		8	
Total Salaries and Benefits	184,211	184,408	182,816	(197)	) 1,592	—		1	
Net Occupancy	38,745	42,965	43,169	(4,220)	) (204)	(10)) —		
Net Equipment	18,366	19,723	18,849	(1,357)	) 874	(7)	) 5		
Data Processing	13,840	13,202	14,067	638	(865)	) 5		(6))
Professional Fees	9,405	9,623	8,623	(218)	) 1,000	(2)	) 12		
FDIC Insurance	7,765	7,873	9,346	(108)	) (1,473)	(1)	) (16))
Other Expense:									
Delivery and Postage Services	8,423	8,612	8,955	(189)	) (343)	(2)	) (4))
Mileage Program Travel	6,190	6,741	8,910	(551)	) (2,169)	(8)	) (24))
Merchant Transaction and Card Processing Fees	4,569	4,895	5,162	(326)	) (267)	(7)	) (5))
Advertising	5,021	4,659	5,484	362	(825)	) 8		(15))
Other	34,434	31,587	42,812	2,847	(11,225)	) 9		(26))
Total Other Expense	58,637	56,494	71,323	2,143	(14,829)	) 4		(21))
Total Noninterest Expense	\$330,969	\$334,288	\$348,193	\$(3,319)	\$(13,905)	(1)	)%	(4))%

Total salaries and benefits remained relatively unchanged in 2013 compared to 2012. Share-based compensation decreased by \$2.0 million primarily due to amortization expense recorded in 2012 related to stock options granted during that year. These stock options were fully amortized in 2012 and there were no stock options granted in 2013. Retirement and other benefits decreased by \$0.7 million primarily due to credit adjustments related to forfeitures recorded in the fourth quarter of 2013. These decreases were offset by a \$2.1 million increase in separation expense coupled with a \$0.6 million increase in payroll taxes mainly due to higher Hawaii unemployment tax rates in 2013.

Total salaries and benefits increased by \$1.6 million or 1% in 2012 compared to 2011. Share-based compensation increased by \$1.2 million primarily due to an increase in amortization related to performance-based restricted stock granted in the first quarter of 2012. In addition, incentive compensation and commission expense increased by \$0.6 million and \$0.5 million, respectively. These increases were partially offset by a \$0.8 million decrease in retirement and other benefits due to lower amortization expense related to our pension plan.

Net occupancy decreased by \$4.2 million or 10% in 2013 compared to 2012. This decrease was primarily due to branch closures during 2012, combined with higher sublease revenue in 2013. As a result, net rental expense decreased by \$2.4 million and depreciation and amortization expense decreased by \$0.8 million. In addition, we recorded impairment charges of \$1.1 million in 2012 related to several of the Company's branch premises. Net

occupancy remained relatively unchanged in 2012 compared to 2011.

Net equipment expense decreased by \$1.4 million or 7% in 2013 compared to 2012 primarily due to a \$1.2 million purchase of technology equipment in 2012. Net equipment expense increased by \$0.9 million or 5% in 2012 compared to 2011 primarily due to the previously noted purchase of technology equipment in 2012.

Data processing expense increased by \$0.6 million or 5% in 2013 compared to 2012 primarily due to new services provided in 2013 including improvements to our online and mobile banking systems. Data processing expense decreased by \$0.9 million or 6% in 2012 compared to 2011.

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Professional fees decreased by \$0.2 million or 2% in 2013 compared to 2012 primarily due to lower legal fees. Professional fees increased by \$1.0 million or 12% in 2012 compared to 2011 primarily due to an increase in information technology and tax consulting fees.

FDIC insurance expense remained relatively unchanged in 2013 compared to 2012. FDIC insurance expense decreased by \$1.5 million or 16% in 2012 compared to 2011 primarily due to lower rate assessments which became effective April 1, 2011.

Other noninterest expense increased by \$2.1 million or 4% in 2013 compared to 2012. This increase was primarily due to a \$1.7 million increase in operating losses, which include losses as a result of bank error, fraud, items processing, or theft. In addition, insurance expense increased by \$1.4 million mainly due to a reserve reduction in the fourth quarter of 2012. These increases were partially offset by a \$1.0 million decrease in donation expense. Other noninterest expense decreased by \$14.8 million or 21% in 2012 compared to 2011. This decrease was primarily due to a \$9.0 million settlement of overdraft litigation recorded in 2011. In addition, expenses related to our debit card airline mileage program decreased by \$2.2 million, insurance expense decreased by \$1.6 million, and operating losses decreased by \$1.5 million in 2012 compared to 2011.

Income Taxes

Table 5 presents our provision for income taxes and effective tax rates for 2013, 2012, and 2011:

Provision for Income Taxes and Effective Tax Rates

(dollars in thousands)	Provision for Income Taxes	Table 5 Effective Tax Rates	
2013	\$63,659	29.73	%
2012	76,214	31.46	%
2011	66,937	29.49	%

The provision for income taxes was \$63.7 million in 2013, a decrease of \$12.6 million or 16% compared to 2012. The lower effective tax rate in 2013 compared to 2012 was primarily due to lower pretax income (by increasing the effect that permanent tax differences, such as tax credits and release of reserves, have on the overall effective tax rate), a \$3.4 million release of reserves related to the closing of a state audit for prior years, \$0.9 million in higher tax credits, and \$0.4 million resulting from higher tax-exempt municipal bond income. Also favorably impacting the effective tax rate in 2013 was a \$0.8 million release of a valuation allowance for the expected utilization of capital losses due to the sale of a low-income housing investment.

The provision for income taxes was \$76.2 million in 2012, an increase of \$9.3 million or 14% compared to 2011. The higher effective tax rate in 2012 compared to 2011 was primarily due to higher pretax income. This was partially offset by a tax gain of \$4.1 million related to a lessee exercising its early buy-out option on two cargo ship leveraged leases.

The provision for income taxes was \$66.9 million and the effective tax rate was 29.49% in 2011. The effective tax rate in 2011 was favorably impacted by lower pretax income as well as several significant discrete tax items. We recorded a \$3.5 million credit to the provision for income taxes related to the reversal of liabilities for unrecognized state tax benefits due to the lapse in the statute of limitations related to tax years held open by the settlement of the Lease In-Lease Out ("LILO") and Sale In-Lease Out ("SILO") transactions and the filing of Hawaii amended tax returns to report the Internal Revenue Service ("IRS") adjustments. We also recorded a \$3.5 million credit to the provision for income taxes related to the release of general reserves due to the closing of the IRS audit for tax years 2007 and 2008 and as a result of settling interest due to the IRS for tax years 1998 through 2006. Also favorably impacting the

effective tax rate in 2011 was a \$3.5 million release of a valuation allowance for the expected utilization of capital losses on the future sale of a low-income housing investment.

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Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. Table 6 summarizes net income from our business segments for 2013, 2012, and 2011. Additional information about segment performance is presented in Note 13 to the Consolidated Financial Statements.

Business Segment Net Income	Table 6		
	Year Ended December 31,		
(dollars in thousands)	2013	2012	2011
Retail Banking	\$27,242	\$39,741	\$32,803
Commercial Banking	37,931	49,515	51,387
Investment Services	9,843	8,923	9,943
Total	75,016	98,179	94,133
Treasury and Other	75,486	67,897	65,910
Consolidated Total	\$150,502	\$166,076	\$160,043

Retail Banking

Net income decreased by \$12.5 million or 31% in 2013 compared to 2012 primarily due to decreases in noninterest income and net interest income, partially offset by decreases in noninterest expense and the Provision. The decrease in noninterest income was primarily due to lower mortgage banking income. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit balances and higher margins on the segment's loan portfolio. The decrease in noninterest expense was primarily due to lower occupancy and donation expense related to branch closures in 2012, impairment recorded in 2012 related to several branch premises, and lower debit card expenses related to changes in the debit card airline mileage program. The decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment combined with improving credit trends and a stable underlying risk profile of the loan portfolio.

Net income increased by \$6.9 million or 21% in 2012 compared to 2011 primarily due to decreases in the Provision and noninterest expense, combined with an increase in noninterest income. This was partially offset by a decrease in net interest income. The decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment combined with improving credit trends and the underlying risk profile of the loan portfolio. The decrease in noninterest expense was primarily due to higher 2011 allocated expenses related to the overdraft litigation settlement accrued in the second quarter of 2011. The increase in noninterest income was primarily due to higher mortgage banking income, partially offset by lower debit card interchange income resulting from the pricing restrictions imposed by the Durbin Amendment, which was effective October 1, 2011. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit and loan balances.

Commercial Banking

Net income decreased by \$11.6 million or 23% in 2013 compared to 2012 primarily due to increases in the Provision and noninterest expense and a decrease in net interest income. The increase in the Provision was due to higher net charge-offs of loans in the segment. The decrease in net interest income was due to lower earnings credits on the segment's deposit portfolio, partially offset by an increase in loan margins attributable to strong loan growth. The increase in noninterest expense was primarily due to higher salaries, other operating and allocated expenses.

Net income decreased by \$1.9 million or 4% in 2012 compared to 2011 primarily due to a decrease in net interest income. This was partially offset by decreases in the provision for income taxes and noninterest expense. The decrease in net interest income was due to lower earnings credits on the segment's deposit portfolio, partially offset by higher average deposit balances. The decrease in the provision for income taxes was attributed to a gain recognized upon a lessee exercising its early buy-out option on two cargo ship leveraged leases in the first quarter of 2012. The decrease

in noninterest expense was primarily due to lower other operating expense, higher allocated expenses in 2011 related to the overdraft litigation settlement accrued in the second quarter of 2011, and lower allocated FDIC insurance expense resulting from lower rate assessments.

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Investment Services

Net income increased by \$0.9 million or 10% in 2013 compared to 2012 primarily due to an increase in noninterest income and a decrease in noninterest expense. This was partially offset by a decrease in net interest income. The increase in noninterest income was primarily due to higher trust and asset management income attributable to an increase in the average market value of assets under administration driven by continued growth in our agency business, an increase in investment advisory fees and higher trust termination fees. The decrease in noninterest expense was primarily due to lower salaries expense. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio.

Net income decreased by \$1.0 million or 10% in 2012 compared to 2011 primarily due to decreases in net interest income and noninterest income, partially offset by a decrease in noninterest expense. The decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio. The decrease in noninterest income was primarily due to lower annuity and life insurance fee income from the segment's full service brokerage, coupled with a contingent payment received in the third quarter of 2011 related to the 2010 sale of our proprietary mutual funds. The decrease in noninterest expense was primarily due to lower salaries and other operating expense.

Treasury and Other

Net income increased by \$7.6 million or 11% in 2013 compared to 2012 primarily due to a reduction in the provision for income taxes and a reduction in the Provision. The reduction in the provision for income taxes was primarily due to a reduction in the corporate effective tax rate. The decrease in the Provision for the segment represents the reduction in the Allowance due to the strength in credit quality.

Net income increased by \$2.0 million or 3% in 2012 compared to 2011 primarily due to an increase in net interest income. This was partially offset by lower noninterest income. The increase in net interest income was primarily due to lower deposit funding costs partially offset by lower yields in the investment portfolio. The decrease in noninterest income was primarily due to lower net investment securities gains.

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

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Analysis of Statements of Condition

Investment Securities

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

Maturities and Average Yield on Securities

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year-5 Years	Weighted Average Yield	After 5 Years-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Total Weighted Average Yield
As of December 31, 2013										
Available-for-Sale Debt Securities Issued by the U.S. Treasury and Government Agencies ²	\$1.6	2.3	% \$251.2	1.8	% \$138.1	1.5	% \$—	—	% \$390.9	1.7
Debt Securities Issued by States and Political Subdivisions ¹	0.4	5.6	100.4	2.9	471.3	3.1	119.7	5.5	691.8	3.5
Debt Securities Issued by Corporations	31.7	1.5	98.5	1.8	150.0	1.9	—	—	280.2	1.8
Mortgage-Backed Securities ²										
Residential - Government Agencies	64.5	2.2	558.1	2.3	18.6	4.9	—	—	641.2	2.3
Residential - U.S. Government-Sponsored Enterprises	0.3	4.7	14.6	2.8	7.0	3.2	—	—	21.9	3.0
Commercial - Government Agencies	—	—	17.5	1.6	202.4	1.7	—	—	219.9	1.7
Total Mortgage-Backed Securities	64.8	2.3	590.2	2.2	228.0	2.0	—	—	883.0	2.2
Total	\$98.5	2.0	% \$1,040.3	2.1	% \$987.4	2.4	% \$119.7	5.5	% \$2,245.9	2.4
Held-to-Maturity Debt Securities Issued by the U.S. Treasury and Government Agencies ²	\$30.2	1.3	% \$393.9	1.3	% \$9.9	1.5	% \$—	—	% \$434.0	1.3
Debt Securities Issued by States and Political Subdivisions ¹	—	—	—	—	130.8	4.0	122.2	5.5	253.0	4.8
Debt Securities Issued by Corporations	—	—	—	—	5.2	2.5	185.0	2.1	190.2	2.1
Mortgage-Backed Securities ²										
Residential - Government Agencies	7.4	1.8	2,273.6	2.3	1,242.3	2.7	—	—	3,523.3	2.4

Residential - U.S. Government-Sponsored Enterprises	—	—	18.1	3.8	3.5	2.4	—	—	21.6	3.6
Commercial - Government Agencies	—	—	—	—	322.4	2.9	—	—	322.4	2.9
Total Mortgage-Backed Securities	7.4	1.8	2,291.7	2.3	1,568.2	2.7	—	—	3,867.3	2.5
Total	\$37.6	1.4	% \$2,685.6	2.2	% \$1,714.1	2.8	% \$307.2	3.4	% \$4,744.5	2.5
Total Investment Securities										
As of December 31, 2013	\$136.1		\$3,725.9		\$2,701.5		\$426.9		\$6,990.4	
As of December 31, 2012	\$601.0		\$4,331.6		\$1,621.0		\$333.2		\$6,886.8	

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

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

The carrying value of our investment securities portfolio was \$7.0 billion as of December 31, 2013, an increase of \$25.6 million or less than 1% compared to December 31, 2012.

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

In 2013, we continued to reduce our holdings in U.S. Treasury notes and our positions in mortgage-backed securities issued by the Government National Mortgage Association (“Ginnie Mae”) in an effort to manage extension risk related to our mortgage-backed securities. We re-invested these proceeds, in part, into corporate and municipal bond holdings. As of December 31, 2013, our remaining portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of December 31, 2013, the credit ratings of these mortgage-backed securities were all AAA-rated, with a low probability of a change in ratings in the near future. As of December 31, 2013, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately three years.

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Gross unrealized gains in our investment securities portfolio were \$68.5 million as of December 31, 2013 and \$172.3 million as of December 31, 2012. Gross unrealized losses on our investment securities were \$117.6 million as of December 31, 2013 and \$3.8 million as of December 31, 2012. This increase in our gross unrealized loss positions on our investment securities was primarily due to an increase in interest rates beginning in the second quarter of 2013, relative to the interest rate environment when the investment securities were purchased. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by government agencies, municipal bond holdings, and corporate bonds.

During 2013, we reclassified at fair value \$579.9 million in available-for-sale investment securities to the held-to-maturity category to enhance our capital management in a rising interest rate environment. In addition, management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

As of December 31, 2013, included in the Company's investment securities at fair value were securities issued by political subdivisions within the State of Hawaii of \$562.1 million, representing 60% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 76% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of December 31, 2013, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

The Company's corporate bond holdings as of December 31, 2013 had a fair value of \$458.0 million. Of this total, \$184.5 million or 40% was fully guaranteed by the Export-Import Bank of the United States, an agency of the U.S. government. Of the remaining \$273.5 million of corporate bonds, 91% were credit-rated A or better by Standard & Poor's while the remaining corporate bonds were credit-rated A- or better by at least one nationally recognized statistical rating organization.

As of December 31, 2013, we did not own any subordinated debt, or preferred or common stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. See Note 3 to the Consolidated Financial Statements for more information.

Loans and Leases

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

Loans and Leases (dollars in thousands)	December 31,				
	2013	2012	2011	2010	2009
Commercial					
Commercial and Industrial	\$911,367	\$829,512	\$817,170	\$772,624	\$795,167
Commercial Mortgage	1,247,510	1,097,425	938,250	863,385	841,431
Construction	107,349	113,987	98,669	80,325	108,395
Lease Financing	262,207	274,969	311,928	334,997	412,933
Total Commercial	2,528,433	2,315,893	2,166,017	2,051,331	2,157,926
Consumer					
Residential Mortgage	2,282,894	2,349,916	2,215,892	2,094,189	2,190,677
Home Equity	773,385	770,376	780,691	807,479	921,571
Automobile	255,986	209,832	192,506	209,008	283,937
Other ¹	254,689	208,504	183,198	173,785	205,674
Total Consumer	3,566,954	3,538,628	3,372,287	3,284,461	3,601,859

Total Loans and Leases	\$6,095,387	\$5,854,521	\$5,538,304	\$5,335,792	\$5,759,785
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¹ Comprised of other revolving credit, installment, and lease financing.

Total loans and leases were \$6.1 billion as of December 31, 2013. This represents a \$240.9 million or 4% increase from December 31, 2012 primarily due to growth in our commercial lending portfolio.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in

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

Commercial loans and leases were \$2.5 billion as of December 31, 2013, an increase of \$212.5 million or 9% from December 31, 2012. Commercial and industrial loans increased by \$81.9 million or 10% from December 31, 2012 due to an increase in corporate demand for funding. Commercial mortgage loans increased by \$150.1 million or 14% from December 31, 2012 primarily to finance new business activities as well as for refinancing opportunities in the current low interest rate environment. Construction loans decreased by \$6.6 million or 6% from December 31, 2012. Although we experienced modest growth in this portfolio for most of 2013, reflective of new construction activity in Hawaii, there was a payoff of one construction loan for approximately \$21.5 million in the fourth quarter of 2013. Lease financing decreased by \$12.8 million or 5% from December 31, 2012 primarily due to continued paydowns in this portfolio. In January 2014, lease financing balances decreased by an additional \$18.7 million due to a lessee exercising its early buy-out option on an aircraft leveraged lease. This transaction resulted in a nominal after-tax loss.

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

Consumer loans and leases were \$3.6 billion as of December 31, 2013, an increase of \$28.3 million or 1% from December 31, 2012. Residential mortgage loans decreased by \$67.0 million or 3% from December 31, 2012 primarily due to lower loan originations, the result of higher interest rates in 2013 and continued paydowns in this portfolio. Home equity loans increased by \$3.0 million or less than 1% from December 31, 2012 primarily due to an increase in loan production and higher line utilization. Consumer demand for home equity loans has, in part, been favorably impacted by real estate values. Automobile loans increased by \$46.2 million or 22% from December 31, 2012 primarily due to increased customer demand. Other consumer loans increased by \$46.2 million or 22% from December 31, 2012 primarily due to our successful installment loan campaign in the second quarter of 2013 as well as growth in our consumer credit card balances.

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

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

Geographic Distribution of Loan and Lease Portfolio
December 31, 2013

Table 9

(dollars in thousands)	Hawaii	U.S. Mainland ¹	Guam	Other Pacific Islands	Foreign ²	Total
Commercial						
Commercial and Industrial	\$818,770	\$40,596	\$48,436	\$1,436	\$2,129	\$911,367
Commercial Mortgage	1,127,772	36,962	82,776	—	—	1,247,510
Construction	97,535	—	9,814	—	—	107,349
Lease Financing	45,627	191,159	3,334	—	22,087	262,207
Total Commercial	2,089,704	268,717	144,360	1,436	24,216	2,528,433
Consumer						
Residential Mortgage	2,161,092	—	117,975	3,827	—	2,282,894
Home Equity	744,014	5,389	22,126	1,856	—	773,385
Automobile	192,026	1,442	58,332	4,186	—	255,986
Other ³	187,107	—	29,402	38,177	3	254,689
Total Consumer	3,284,239	6,831	227,835	48,046	3	3,566,954
Total Loans and Leases	\$5,373,943	\$275,548	\$372,195	\$49,482	\$24,219	\$6,095,387
Percentage of Total Loans and Leases	88	% 5	% 6	% 1	% 0	% 100

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

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

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

Table 10 presents a maturity distribution for selected loan categories. This table excludes real estate loans (other than construction loans), lease financing, and consumer loans.

Maturities for Selected Loan Categories ¹

Table 10

(dollars in thousands)	December 31, 2013			Total
	Due in One Year or Less	Due After One to Five Years ²	Due After Five Years ²	
Commercial and Industrial	\$343,172	\$309,514	\$258,681	\$911,367
Construction	34,725	28,623	44,001	107,349
Total	\$377,897	\$338,137	\$302,682	\$1,018,716

¹ Based on contractual maturities.

² As of December 31, 2013, loans maturing after one year consisted of \$353.9 million in variable rate loans and \$286.9 million in fixed rate loans.

Goodwill

Goodwill was \$31.5 million as of December 31, 2013 and 2012. As of December 31, 2013, based on our qualitative assessment, there were no reporting units where we believed that it was more likely than not that the fair value of a

reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

Other Assets

Other assets were \$430.5 million as of December 31, 2013, a decrease of \$26.6 million or 6% from December 31, 2012. This decrease was primarily due to a \$15.7 million decrease in prepaid expenses as a result of the FDIC returning the remaining assessments that were prepaid by us to the FDIC in 2009. Also contributing to the decrease in other assets was an \$11.3 million decrease in the fair value of our interest rate swap agreements, which due to our risk mitigating strategies in structuring these agreements are offset with similar decreases recorded in other liabilities. The fair value of these derivative financial instruments is impacted by interest rate movements. See Note 7 to the Consolidated Financial Statements for more information on the composition of our other assets.

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Deposits

Table 11 presents the components of our deposits by major customer categories as of December 31, 2013 and 2012.

Deposits	Table 11	
	December 31,	
(dollars in thousands)	2013	2012
Consumer	\$5,829,352	\$5,537,624
Commercial	4,814,076	4,576,410
Public and Other	1,271,228	1,415,448
Total Deposits	\$11,914,656	\$11,529,482

Total deposits were \$11.9 billion as of December 31, 2013, a \$385.2 million or 3% increase from December 31, 2012. Consumer deposits increased by \$291.7 million and commercial deposits increased by \$237.7 million. This growth was due to general economic expansion in the State of Hawaii and an increase in our market share of the deposit market. However, public time deposits decreased by \$144.2 million as a result of reduced pricing in those products.

Average time deposits of \$100,000 or more were \$1.1 billion in 2013 and \$1.2 billion in 2012. See Note 8 to the Consolidated Financial Statements for more information.

Table 12 presents the components of our savings deposits as of December 31, 2013 and 2012.

Savings Deposits	Table 12	
	December 31,	
(dollars in thousands)	2013	2012
Money Market	\$1,654,435	\$1,607,738
Regular Savings	2,905,715	2,791,578
Total Savings Deposits	\$4,560,150	\$4,399,316

Securities Sold Under Agreements to Repurchase

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

Securities Sold Under Agreements to Repurchase	Table 13	
	December 31,	
(dollars in thousands)	2013	2012
Government Entities	\$170,049	\$158,947
Private Institutions	600,000	600,000
Total Securities Sold Under Agreements to Repurchase	\$770,049	\$758,947

Securities sold under agreements to repurchase were \$770.0 million as of December 31, 2013, an \$11.1 million or 1% increase from December 31, 2012. As of December 31, 2013, the weighted average maturity was 364 days for our repurchase agreements with government entities and 5.4 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted average maturity for our repurchase agreements with private institutions would decrease to 3.7 years. As of December 31, 2013 and 2012, the weighted average interest rate for repurchase agreements with government entities was 0.19% and 0.12%, respectively, while the weighted average interest rate for repurchase agreements with private institutions as of December 31, 2013 and 2012 was 4.21% and 4.63%, respectively, with all rates being fixed. All of our repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as sales and subsequent repurchases of securities.

During 2013, we modified the terms on 13 of our repurchase agreements with private institutions totaling \$325.0 million. The modifications involved extending the maturity date and lowering the interest rate. The original maturity dates, ranging from 2015 to 2016, were extended to 2018 to 2020, while the weighted average interest rate was lowered from 4.71% to 3.92%. In addition,

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these repurchase agreements originally allowed highly rated investments such as U.S. agency mortgage-backed securities to be posted as collateral. As a condition of the modified terms, we are now required to post U.S. Treasury securities as collateral.

See Note 9 and 18 to the Consolidated Financial Statements for more information.

Long-Term Debt

Long-term debt was \$174.7 million as of December 31, 2013, a \$46.7 million or 36% increase from December 31, 2012. This increase was due to a \$50.0 million advance we received from the FHLB in the first quarter of 2013. The stated interest on the advance is 0.60% with maturity in February 2016. The advance from the FHLB was primarily for asset/liability management purposes. As of December 31, 2013, our remaining line of credit with the FHLB was \$1.1 billion.

Pension and Postretirement Plan Obligations

Retirement benefits payable were \$35.0 million as of December 31, 2013, a \$12.7 million or 27% decrease from December 31, 2012. Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on a number of key assumptions, including the discount rate, the expected return on plan assets, and the health-care cost trend rate. The accounting for pension and postretirement benefit plans reflect the long-term nature of the obligations and the investment horizon of the plan assets. The decrease in retirement benefits payable was primarily due to utilizing a higher discount rate assumption.

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

Discount Rate Sensitivity Analysis	Base Discount Rate	Impact of Discount Rate			
		25 Basis Point Increase		25 Basis Point Decrease	
(dollars in thousands)		Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
2013 Net Periodic Benefit Cost	4.29	%)\$28	\$2	\$(36	)\$ (4)
Benefit Plan Obligations as of December 31, 2013	5.22	%(2,636	)(769	)2,711	791
Estimated 2014 Net Periodic Benefit Cost	5.22	%_	(72	)(7	)46

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

Foreign Activities

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2013, 2012 and 2011, we did not have cross-border outstandings to any

foreign country which exceeded 0.75% of our total assets.

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Corporate Risk Profile

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

Credit Risk

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

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

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

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

generally do not exceed 75%.

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

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

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On January 10, 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule to ensure that prospective consumers have the ability-to-repay their residential mortgage loans prior to financial institutions extending them credit. The final rule, which became effective January 2014, provides for certain minimum requirements for financial institutions in making ability-to-repay determinations. In underwriting a residential mortgage loan, lenders will be required to consider among other factors the borrower's current or reasonably expected income or assets, current employment status, current debt obligations, DTI ratios, and the credit history of the borrower. Lenders will be presumed to have complied with the ability-to-repay rule ("safe harbor") if they issue "Qualified Mortgages" which must meet certain criteria including the general guideline that the DTI ratio may not exceed 43%. Loans that meet these criteria will be considered "Qualified Mortgages," and as a result will generally protect lenders from fines or litigation in the event of foreclosure. The final rule is not expected to have a material impact on our lending activities and on our statements of income or condition.

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

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

Our overall credit risk position reflects an improving Hawaii economy, with decreasing levels of higher risk loans and leases and credit losses compared to 2012. The tourism industry is leading the economic recovery in Hawaii with increases in visitor arrivals and spending. The construction industry is also expanding with ongoing or planned developments in mass transit, retail, and condominium projects. The statewide seasonally-adjusted unemployment rate continued to improve throughout 2013 as well. Although we added a \$6.4 million commercial and industrial loan in Guam to non-accrual status in the fourth quarter of 2013, the underlying risk profile of our lending portfolio remained stable in 2013.

Higher Risk Loans and Leases

Although asset quality has improved in recent years, we remain vigilant in light of the uncertainties in the U.S. economy as well as concerns related to specific segments of our lending portfolio that present a higher risk profile. As of December 31, 2013, the higher risk segments within our loan and lease portfolio continue to be concentrated in residential land loans, certain home equity loans, and air transportation leases. In addition, loans and leases based on Hawaiian islands other than Oahu (the "neighbor islands") may present a higher risk profile as the neighbor islands have continued to experience higher levels of unemployment and have shown signs of slower economic recovery when compared to Oahu.

Table 15 summarizes the amount of our loan and lease portfolio that demonstrate a higher risk profile. The Allowance associated with these higher risk loans and leases is consistent with our methodologies for each of the respective loan or lease classes. These higher risk loans and leases have been considered in our quarterly evaluation of the adequacy of the Allowance.

Higher Risk Loans and Leases Outstanding

(dollars in thousands)

	Table 15 December 31,	
	2013	2012
Residential Land Loans	\$11,922	\$14,984
Home Equity Loans	12,594	19,914
Air Transportation Leases	26,152	27,782
Total	\$50,668	\$62,680

As of December 31, 2013, our higher risk loans and leases outstanding decreased by \$12.0 million or 19% from December 31, 2012, with improvements in each category.

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Residential land loans in our residential mortgage portfolio consist of consumer loans secured by unimproved lots. These loans often represent higher risk due to the volatility in the value of the underlying collateral. Our residential land loan portfolio was \$11.9 million as of December 31, 2013, of which \$10.4 million related to properties on the neighbor islands. The decrease in our higher risk exposure in this portfolio in 2013 was primarily due to \$2.3 million in payments and \$0.8 million in gross loan charge-offs. Residential land loans are collectively evaluated for impairment in connection with the evaluation of our residential mortgage portfolio. As of December 31, 2013, there were four residential land loans that were modified as troubled debt restructurings, however the specific Allowance associated with these loans was nominal as they were charged-down to fair value at the time of restructuring. As of December 31, 2013, there was one residential land loan that was 90 days past due as to principal or interest. The higher risk segment within our Hawaii home equity lending portfolio was \$12.6 million or 2% of our total home equity loans outstanding as of December 31, 2013, a decrease of \$7.3 million or 37% from December 31, 2012. The higher risk segment within our Hawaii home equity portfolio includes those loans originated in 2005 or later, with current monitoring credit scores below 600, and with original LTV ratios greater than 70%. The decrease in our higher risk exposure in this portfolio segment in 2013 was primarily due to improved credit score migration from our Oahu owner occupants, which account for 69% of this higher risk segment. Higher risk loans in our Hawaii home equity portfolio are collectively evaluated for impairment in connection with the evaluation of our entire home equity portfolio. As of December 31, 2013, there was no specific Allowance associated with the balance of our higher risk home equity loans. As of December 31, 2013, our higher risk home equity loans had a 90 day past due delinquency ratio of 8.1%. During 2013, \$2.6 million or 50% of our gross charge-offs of home equity loans were from our higher risk segment.

We consider all of our air transportation leases to be of higher risk due to the volatile financial profile of the industry. Domestic air transportation carriers continue to demonstrate a higher risk profile due to fuel costs, pension plan obligations, consumer demand, and marginal pricing power. Carriers are migrating to newer generations of more fuel efficient fleets, which are negatively impacting older generation aircraft valuations. We believe that these risks could place additional pressure on the financial health of air transportation carriers for the foreseeable future. Outstanding credit exposure related to our air transportation leases was \$26.2 million as of December 31, 2013, a decrease of \$1.6 million or 6% from December 31, 2012. As of December 31, 2013, included in our commercial leasing portfolio were four leveraged leases on aircraft that were originated in the 1990's and prior. As of December 31, 2013, the Allowance associated with our air transportation leases was \$2.6 million or 10% of outstanding balances. During 2013, there were no delinquencies in our air transportation leasing portfolio and no charge-offs were recorded.

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

Table 16 presents a five-year history of non-performing assets and accruing loans and leases past due 90 days or more.

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More	Table 16					
	December 31,					
(dollars in thousands)	2013	2012	2011	2010	2009	
Non-Performing Assets ¹						
Non-Accrual Loans and Leases						
Commercial						
Commercial and Industrial	\$11,929	\$5,534	\$6,243	\$1,642	\$6,646	
Commercial Mortgage	2,512	3,030	2,140	3,503	1,167	
Construction	—	833	2,080	288	8,154	
Lease Financing	—	—	5	19	631	
Total Commercial	14,441	9,397	10,468	5,452	16,598	
Consumer						
Residential Mortgage	20,264	21,725	25,256	28,152	19,893	
Home Equity	1,740	2,074	2,024	2,254	5,153	
Other ²	—	—	—	—	550	
Total Consumer	22,004	23,799	27,280	30,406	25,596	
Total Non-Accrual Loans and Leases	36,445	33,196	37,748	35,858	42,194	
Non-Accrual Loans Held for Sale	—	—	—	—	3,005	
Foreclosed Real Estate	3,205	3,887	3,042	1,928	3,132	
Total Non-Performing Assets	\$39,650	\$37,083	\$40,790	\$37,786	\$48,331	
Accruing Loans and Leases Past Due 90 Days or More						
Commercial						
Commercial and Industrial	\$1,173	\$27	\$1	\$—	\$623	
Lease Financing	—	—	—	—	120	
Total Commercial	1,173	27	1	—	743	
Consumer						
Residential Mortgage	4,564	6,908	6,422	5,399	8,979	
Home Equity	3,009	2,701	2,194	1,067	2,210	
Automobile	322	186	170	410	875	
Other ²	790	587	435	707	886	
Total Consumer	8,685	10,382	9,221	7,583	12,950	
Total Accruing Loans and Leases Past Due 90 Days or More	\$9,858	\$10,409	\$9,222	\$7,583	\$13,693	
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	\$51,123	\$31,844	\$33,703	\$23,724	\$7,274	
Total Loans and Leases	\$6,095,387	\$5,854,521	\$5,538,304	\$5,335,792	\$5,759,785	
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.60	% 0.57	% 0.68	% 0.67	% 0.73	%
Ratio of Non-Performing Assets to Total Loans and Leases	0.65	% 0.63	% 0.74	% 0.71	% 0.84	%
and Foreclosed Real Estate	0.61	% 0.45	% 0.56	% 0.31	% 1.04	%

Ratio of Commercial Non-Performing
Assets to
Total Commercial Loans and Leases
and Commercial Foreclosed Real Estate

Ratio of Consumer Non-Performing

Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.68	% 0.75	% 0.85	% 0.95	% 0.72	%
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Ratio of Non-Performing Assets and
Accruing

Loans and Leases Past Due 90 Days or More to	0.81	% 0.81	% 0.90	% 0.85	% 1.08	%
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Total Loans and Leases and Foreclosed
Real Estate

¹ Excluded from non-performing assets were contractually binding non-accrual loans held for sale of \$4.2 million as of December 31, 2009.

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

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Table 17 presents the activity in Non-Performing Assets ("NPAs") for 2013:

Non-Performing Assets (dollars in thousands)	Table 17
Balance at Beginning of Year	\$37,083
Additions	26,386
Reductions	
Payments	(7,822)
Return to Accrual Status	(6,584)
Sales of Foreclosed Real Estate	(6,096)
Charge-offs/Write-downs	(3,317)
Total Reductions	(23,819)
Balance at End of Year	\$39,650

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

Total NPAs were \$39.7 million as of December 31, 2013, an increase of \$2.6 million or 7% from December 31, 2012. The ratio of our NPAs to total loans and leases, and foreclosed real estate was 0.65% as of December 31, 2013 and 0.63% as of December 31, 2012. The increase was primarily due to a \$6.4 million increase in commercial and industrial non-accrual loans, due to the addition of one commercial loan in Guam.

Commercial and industrial non-accrual loans increased by \$6.4 million or 116% from December 31, 2012 primarily due to the addition of one loan in Guam noted above. As of December 31, 2013, two commercial borrowers comprised over 86% of the non-accrual balance. We have evaluated our commercial and industrial non-accrual loans for impairment and have recorded partial charge-offs totaling \$11.9 million on three of these loans.

Commercial mortgage non-accrual loans decreased by \$0.5 million or 17% from December 31, 2012. One loan was paid-off in 2013 and the prior partial charge-off on this loan of \$0.5 million was fully recovered. We have individually evaluated all five commercial mortgage non-accrual loans for impairment and recorded no charge-offs.

There was one construction non-accrual loan as of December 31, 2012. This loan was sold in the first quarter of 2013 and a prior partial charge-off on this loan of \$0.3 million was fully recovered.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by \$1.5 million or 7% from December 31, 2012. This decrease was primarily due to \$7.3 million in payments received and \$1.8 million returning to accrual status, partially offset by \$8.1 million in additions. Residential mortgage non-accrual loans remain at elevated levels due mainly to the lengthy judiciary foreclosure process. As of December 31, 2013, our residential mortgage non-accrual loans were comprised of 55 loans with a weighted average current LTV ratio of 71%.

Foreclosed real estate represents property acquired as the result of borrower defaults on loans. Foreclosed real estate is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Foreclosed real estate decreased by \$0.7 million or 18% from December 31, 2012. This decrease was primarily due to the sales of nineteen properties in 2013 for a net gain of \$0.5 million. This was partially offset by fifteen residential properties that were added to foreclosed real estate in 2013. As of December 31, 2013, foreclosed real estate was comprised of one commercial property and five Hawaii residential properties.

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

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were \$9.9 million as of December 31, 2013, a \$0.6 million or 5% decrease from December 31, 2012. This decrease was primarily in our residential mortgage portfolio.

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Impaired Loans

Impaired loans are defined as loans for which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. Included in impaired loans are all classes of commercial non-accruing loans (except lease financing and small business loans), all loans modified in a TDR (including accruing TDRs), and other loans where we believe that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment. Impaired loans were \$77.1 million as of December 31, 2013 and \$50.6 million as of December 31, 2012, and had a related Allowance of \$12.8 million as of December 31, 2013 and \$3.7 million as of December 31, 2012. These increases were primarily due to three borrowers with \$20.0 million of commercial loans outstanding and a related Allowance of \$8.1 million as of December 31, 2013. We have individually evaluated these three loans for impairment and have recorded prior charge-offs of \$6.6 million on one of these loans. As of December 31, 2013, we have recorded charge-offs of \$17.9 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of December 31, 2013 had been accrued under the original terms, approximately \$3.1 million in total interest income would have been recorded in 2013, compared to the \$0.4 million recorded as interest income on those loans.

Loans Modified in a Troubled Debt Restructuring

Table 18 presents information on loans whose terms have been modified in a TDR.

Loans Modified in a Troubled Debt Restructuring	December 31,	Table 18
(dollars in thousands)	2013	2012
Commercial		
Commercial and Industrial	\$11,563	\$4,319
Commercial Mortgage	12,386	1,032
Construction	1,059	833
Total Commercial	25,008	6,184
Consumer		
Residential Mortgage	32,339	29,036
Home Equity	795	—
Automobile	5,183	5,641
Other ¹	329	282
Total Consumer	38,646	34,959
Total	\$63,654	\$41,143

¹ Comprised of other revolving credit and installment financing.

Loans modified in a TDR increased by \$22.5 million or 55% from December 31, 2012. This increase was due in part to the restructure of two Hawaii commercial loans to the same borrower, a \$7.0 million commercial mortgage loan and a \$3.6 million commercial and industrial loan, which was repaid in the first quarter of 2014. Commercial loans modified in a TDR also increased due to performing classified loans that were modified in conjunction with the renewals of these facilities. These commercial TDRs all remain on accrual status as scheduled payments continue to be received. Residential mortgage loans modified in a TDR are those loans in which we lowered monthly payments to accommodate the borrowers' financial needs for a period of time. As of December 31, 2013, \$51.1 million or 80% of our loans modified in a TDR were performing in accordance with their modified contractual terms and were on

accrual status.

Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated performance under the modified terms by making six consecutive payments. See Note 4 to the Consolidated Financial Statements for a description of the modification programs that we currently offer to our customers.

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Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the "Unfunded Reserve"). Table 19 presents the activity in the Company's reserve for credit losses for the years ended December 31:

Reserve for Credit Losses (dollars in thousands)	2013	2012	2011	2010	Table 19 2009	
Balance at Beginning of Period	\$ 134,276	\$ 144,025	\$ 152,777	\$ 149,077	\$ 128,667	
Loans and Leases Charged-Off						
Commercial						
Commercial and Industrial	(8,083)	(3,617)	(8,112)	(21,125)	(26,641)	
Commercial Mortgage	—	—	—	(2,048)	(2,092)	
Construction	—	(330)	—	(2,274)	(10,360)	
Lease Financing	(16)	—	—	(500)	(14,022)	
Consumer						
Residential Mortgage	(2,013)	(4,408)	(8,174)	(12,139)	(7,768)	
Home Equity	(5,220)	(6,717)	(10,853)	(15,052)	(12,722)	
Automobile	(2,131)	(2,082)	(3,229)	(6,425)	(9,903)	
Other ¹	(7,657)	(7,005)	(6,392)	(10,315)	(13,233)	
Total Loans and Leases Charged-Off	(25,120)	(24,159)	(36,760)	(69,878)	(96,741)	
Recoveries on Loans and Leases						
Previously Charged-Off						
Commercial						
Commercial and Industrial	1,681	3,939	2,434	2,082	1,211	
Commercial Mortgage	557	67	538	68	45	
Construction	365	8	—	7,321	476	
Lease Financing	41	177	3,528	158	131	
Consumer						
Residential Mortgage	3,540	2,820	2,152	1,544	1,059	
Home Equity	1,943	1,335	1,695	1,597	364	
Automobile	1,628	1,931	2,479	3,128	3,153	
Other ¹	1,962	3,154	2,492	2,393	2,584	
Total Recoveries on Loans and Leases	11,717	13,431	15,318	18,291	9,023	
Previously Charged-Off						
Net Loans and Leases Charged-Off	(13,403)	(10,728)	(21,442)	(51,587)	(87,718)	
Provision for Credit Losses	—	979	12,690	55,287	107,878	
Provision for Unfunded Commitments	648	—	—	—	250	
Balance at End of Period ²	\$ 121,521	\$ 134,276	\$ 144,025	\$ 152,777	\$ 149,077	
Components						
Allowance for Loan and Lease Losses	\$ 115,454	\$ 128,857	\$ 138,606	\$ 147,358	\$ 143,658	
Reserve for Unfunded Commitments	6,067	5,419	5,419	5,419	5,419	
Total Reserve for Credit Losses	\$ 121,521	\$ 134,276	\$ 144,025	\$ 152,777	\$ 149,077	
Average Loans and Leases Outstanding	\$ 5,883,686	\$ 5,680,279	\$ 5,349,938	\$ 5,472,534	\$ 6,144,976	
Ratio of Net Loans and Leases						
Charged-Off to						
Average Loans and Leases	0.23	% 0.19	% 0.40	% 0.94	% 1.43	%
Outstanding						
Ratio of Allowance for Loan and Lease	1.89	% 2.20	% 2.50	% 2.76	% 2.49	%
Losses to						

Loans and Leases Outstanding

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

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

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Allowance for Loan and Lease Losses

Table 20 presents the allocation of the Allowance by loan and lease category.

Allocation of Allowance for Loan and Lease Losses

Table 20

(dollars in thousands)	December 31,		2011	2010	2009
	2013	2012			
Commercial					
Commercial and Industrial	\$31,942	\$20,724	\$23,865	\$26,343	\$24,551
Commercial Mortgage	29,495	33,182	25,900	26,634	25,559
Construction	5,588	3,592	5,326	5,691	4,499
Lease Financing	4,421	15,206	25,471	22,309	27,698
Total Commercial	71,446	72,704	80,562	80,977	82,307
Consumer					
Residential Mortgage	14,631	18,063	18,758	18,063	13,884
Home Equity	13,072	24,261	27,232	29,838	28,877
Automobile	4,016	2,370	2,646	5,579	7,349
Other ¹	12,289	11,459	9,408	12,901	11,241
Total Consumer	44,008	56,153	58,044	66,381	61,351
Total Allocation of Allowance for Loan and Lease Losses	\$115,454	\$128,857	\$138,606	\$147,358	\$143,658

	December 31,		2012	2011	2010	2009			
	2013	2012							
	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category
Commercial									
Commercial and Industrial	3.50	% 14.95	% 2.50	% 14.17	% 2.92	% 14.75	% 3.41	% 14.48	% 3.09
Commercial Mortgage	2.36	20.47	3.02	18.74	2.76	16.94	3.08	16.18	3.04
Construction	5.20	1.76	3.15	1.95	5.40	1.78	7.09	1.50	4.15
Lease Financing	1.69	4.30	5.53	4.70	8.17	5.63	6.66	6.28	6.71
Total Commercial	2.83	41.48	3.14	39.56	3.72	39.10	3.95	38.44	3.81
Consumer									
Residential Mortgage	0.64	37.45	0.77	40.14	0.85	40.01	0.86	39.25	0.63
Home Equity	1.69	12.69	3.15	13.16	3.49	14.10	3.70	15.13	3.13
Automobile	1.57	4.20	1.13	3.58	1.37	3.48	2.67	3.92	2.59
Other ¹	4.83	4.18	5.50	3.56	5.14	3.31	7.42	3.26	5.47

Total	1.23	58.52	1.59	60.44	1.72	60.90	2.02	61.56	1.70
Consumer									
Total	1.89	% 100.00	% 2.20	% 100.00	% 2.50	% 100.00	% 2.76	% 100.00	% 2.49

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

As of December 31, 2013, the Allowance was \$115.5 million or 1.89% of total loans and leases outstanding, compared with an Allowance of \$128.9 million or 2.20% of total loans and leases outstanding as of December 31, 2012. The level of the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and an improving Hawaii economy.

Net charge-offs of loans and leases were \$13.4 million or 0.23% of total average loans and leases in 2013 compared to \$10.7 million or 0.19% of total average loans and leases in 2012. Net charge-offs in our commercial portfolios were \$5.5 million in 2013 compared to net recoveries of \$0.2 million in 2012. This increase was primarily due to a \$6.6 million partial charge-off related to the previously noted commercial and industrial loan in Guam. Net charge-offs in our consumer portfolios were \$7.9 million in 2013 compared to \$11.0 million in 2012. This decrease was primarily reflected in our consumer real estate portfolios, reflective of improving trends in our higher risk loan segments.

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Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of December 31, 2013 based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The allocation of the Allowance to our commercial portfolio segment decreased by \$1.3 million or 2% from December 31, 2012. This decrease was primarily due to a \$10.8 million or 71% decrease in the allocation of the Allowance to our air transportation lease exposure due to reduced risk related to one of our aircraft leveraged leases. Also contributing to the decrease was a \$3.7 million or 11% decrease in the allocation of the Allowance to the commercial mortgage class due to lower levels of classified assets. This was partially offset by a \$11.2 million or 54% increase in the allocation of the Allowance to the commercial and industrial class due to the previously noted commercial and industrial loan in Guam.

The allocation of the Allowance to our consumer portfolio segment decreased by \$12.1 million or 22% from December 31, 2012. This decrease was primarily due to a \$3.4 million or 19% decrease in the allocation of the Allowance to residential mortgage loans and an \$11.2 million or 46% decrease in the allocation of the Allowance to home equity loans due to lower levels of risk in these portfolios. This was partially offset by a \$1.6 million or 69% increase in the allocation of the Allowance to automobile loans and a \$0.8 million or 7% increase in the allocation of the Allowance to other consumer loans primarily due to loan growth in these portfolios.

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

Reserve for Unfunded Commitments

The Unfunded Reserve was \$6.1 million as of December 31, 2013, an increase of \$0.6 million or 12% from December 31, 2012. The increase in the Unfunded Reserve was primarily due to growth in commercial commitments to lend. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

Other Credit Risks

In the normal course of business, we serve the needs of state and political subdivisions in multiple capacities, including traditional banking products such as deposit services, and by investing in municipal debt securities. The carrying value of our municipal debt securities was \$939.8 million as of December 31, 2013 and \$782.4 million as of December 31, 2012. We also maintained investments in corporate bonds with a carrying value of \$463.7 million as of December 31, 2013 and \$108.4 million as of December 31, 2012. We are exposed to credit risk in these investments should the issuer of a security be unable to meet its financial obligations. This may result in the issuer failing to make scheduled interest payments and/or being unable to repay the principal upon maturity. See the "Analysis of Statements of Condition - Investment Securities" section in MD&A for more information.

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

Market Risk

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

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity. The potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our core business activities of extending loans and accepting deposits. Our investment securities portfolio is also subject to significant interest rate risk.

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Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments. Our earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the U.S. and its agencies, particularly the Federal Reserve Bank (the “FRB”). The monetary policies of the FRB can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

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

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

Our use of derivative financial instruments, as detailed in Note 17 to the Consolidated Financial Statements, has generally been limited. This is due to natural on-balance sheet hedges arising out of offsetting interest rate exposures from loans and investment securities with deposits and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by the ALCO. We utilize natural and offsetting economic hedges in an effort to reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

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

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 21 presents, for the twelve months subsequent to December 31, 2013 and 2012, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. With the recent rise in interest rates and changes to our balance sheet mix, our net interest income simulations indicated that the base case scenario as of December 31, 2013 was approximately 6.8% higher compared to December 31, 2012. As a result, our net interest income sensitivity to changes in interest rates for the twelve months subsequent to December 31, 2013 was less sensitive compared to the sensitivity profile for the twelve months subsequent to December 31, 2012. Also contributing to the reduced sensitivity profile as of December 31, 2013 was the diversification of our investment securities portfolio into securities which were less rate-sensitive, such as municipal and corporate bonds, and the reduction of our positions in mortgage-related assets in order to reduce extension risk in rising interest rate environments. As a result of our strategy to maintain a relatively short investment portfolio duration, net interest income is expected to increase as

interest rates rise.

Net Interest Income Sensitivity Profile

(dollars in thousands)

Gradual Change in Interest Rates (basis points)

	Table 21 Impact on Future Annual Net Interest Income					
	December 31, 2013			December 31, 2012		
+200	\$2,580	0.7	%	\$9,396	2.6	%
+100	1,000	0.3		4,893	1.4	
-100	(4,086	) (1.1	)	(8,387	) (2.4)

Immediate Change in Interest Rates (basis points)

+200	\$11,113	2.9	%	\$26,050	7.3	%
+100	4,874	1.3		14,449	4.1	
-100	(15,014) (4.0)	(25,931) (7.3)

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

Other Market Risks

In addition to interest rate risk, we are exposed to other forms of market risk in our normal business transactions. Foreign currency and foreign exchange contracts expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our trust and asset management income are at risk to fluctuations in the market values of underlying assets, particularly debt and equity securities. Also, our share-based compensation expense is dependent on the fair value of the stock options and restricted stock at the date of grant. The fair value of both stock options and restricted stock is impacted by the market price of the Parent's common stock on the date of grant and is at risk to changes in equity markets, general economic conditions, and other factors.

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Liquidity Risk Management

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

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

Maturities and payments on outstanding loans also provide a steady flow of funds. Additionally, as of December 31, 2013, investment securities with a carrying value of \$136.9 million were due to mature or expected to prepay in 2014. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and FRB. As of December 31, 2013, we could have borrowed an additional \$1.1 billion from the FHLB and an additional \$657.8 million from the FRB based on the amount of collateral pledged.

We continued to maintain a strong liquidity position during 2013. As of December 31, 2013, cash and cash equivalents were \$463.7 million, the carrying value of our available-for-sale investment securities were \$2.2 billion, and total deposits were \$11.9 billion. As of December 31, 2013, we continued to maintain our excess liquidity primarily in mortgage-backed securities issued by Ginnie Mae, corporate and municipal bond holdings, and in U.S. Treasury Notes. As of December 31, 2013, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately three years.

Capital Management

We actively manage capital, commensurate with our risk profile, to enhance shareholder value. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory "well-capitalized" thresholds. Periodically, we may respond to market conditions by implementing changes to our overall balance sheet positioning to manage our capital position.

The Company and the Bank are each subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could cause certain mandatory and discretionary actions by regulators that, if undertaken, would likely have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation to ensure capital adequacy. As of December 31, 2013, the Company and the Bank were "well capitalized" under this regulatory framework. The Company's regulatory capital ratios are presented in Table 22 below. There have been no conditions or events since December 31, 2013 that management believes have changed either the Company's or the

Bank's capital classifications.

As of December 31, 2013, shareholders' equity was \$1.0 billion, a decrease of \$9.7 million or 1% from December 31, 2012. Earnings for 2013 of \$150.5 million, common stock issuances of \$15.5 million, and shared-based compensation of \$5.5 million were offset by cash dividends paid of \$80.5 million and other comprehensive loss of \$61.0 million. In 2013, we also repurchased 0.7 million shares of our common stock under our share repurchase program at an average cost per share of \$51.33 and a total cost of \$35.5 million. From the beginning of our share repurchase program in July 2001 through December 31, 2013, we repurchased a total of 50.9 million shares of common stock and returned a total of \$1.86 billion to our shareholders at an average cost of \$36.54 per share. As of December 31, 2013, remaining buyback authority under our share repurchase program was \$34.0 million of the total \$1.9 billion repurchase amount authorized by our Board of Directors.

From January 1, 2014 through February 14, 2014, the Parent repurchased an additional 113,500 shares of common stock at an average cost of \$57.85 per share and a total cost of \$6.6 million. Remaining buyback authority was \$27.4 million as of

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February 14, 2014. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

In January 2014, the Parent's Board of Directors declared a quarterly cash dividend of \$0.45 per share on the Parent's outstanding shares. The dividend will be payable on March 14, 2014 to shareholders of record at the close of business on February 28, 2014.

We continue to evaluate the potential impact that regulatory proposals may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act, as they continue to progress through the final rule-making process. See further discussion below on the potential impact that these regulatory proposals may have on our liquidity and capital requirements.

Table 22 presents a five-year history of activities and balances in our capital accounts, along with key capital ratios. Shareholders' Equity and Regulatory

Capital	Table 22					
	December 31, 2013	2012	2011	2010	2009	
(dollars in thousands)						
Change in Shareholders' Equity						
Net Income	\$ 150,502	\$ 166,076	\$ 160,043	\$ 183,942	\$ 144,033	
Cash Dividends Paid	(80,534)	(81,645)	(84,891)	(86,823)	(86,236)	
Dividend Reinvestment Program	4,656	4,721	5,008	5,034	5,154	
Common Stock Repurchased	(39,655)	(81,444)	(111,544)	(24,981)	(1,337)	
Other ¹	(44,658)	11,290	22,918	37,988	43,655	
Increase (Decrease) in Shareholders' Equity	\$(9,689)	\$ 18,998	\$(8,466)	\$ 115,160	\$ 105,269	
Regulatory Capital						
Shareholders' Equity	\$ 1,011,976	\$ 1,021,665	\$ 1,002,667	\$ 1,011,133	\$ 895,973	
Less: Goodwill	31,517	31,517	31,517	31,517	31,517	
Postretirement Benefit Liability	3,046	1,442	2,815	2,597	5,644	
Adjustments						
Net Unrealized Gains (Losses) on Investment Securities	(9,429)	59,777	62,932	46,521	26,290	
Other	2,614	2,326	2,230	2,340	2,398	
Tier 1 Capital	984,228	926,603	903,173	928,158	830,124	
Allowable Reserve for Credit Losses	79,655	72,580	68,624	64,564	70,909	
Total Regulatory Capital	\$ 1,063,883	\$ 999,183	\$ 971,797	\$ 992,722	\$ 901,033	
Risk-Weighted Assets	\$ 6,330,532	\$ 5,744,722	\$ 5,414,481	\$ 5,076,909	\$ 5,594,532	
Key Regulatory Capital Ratios						
Tier 1 Capital Ratio	15.55	% 16.13	% 16.68	% 18.28	% 14.84	%
Total Capital Ratio	16.81	17.39	17.95	19.55	16.11	
Tier 1 Leverage Ratio	7.07	6.83	6.73	7.15	6.76	

¹ Includes changes in unrealized gains and losses on investment securities, minimum pension liability adjustments, and common stock issuances under share-based compensation and related tax benefits.

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Regulatory Initiatives Affecting the Banking Industry

Basel III

On July 2, 2013, the FRB approved the final rules implementing the Basel Committee on Banking Supervision's ("BCBS") capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that the Company's capital levels will remain characterized as "well-capitalized" under the new rules. The final rules approved by the FRB and the interim final rules approved by the FDIC in July 2013, did not address the proposed liquidity coverage ratio test and the net stable funding ratio test called for by the Basel III liquidity framework. Management will continue to monitor the developments related to these proposals and their potential impact to the Company's liquidity requirements.

Stress Testing

The Dodd-Frank Act also required federal banking agencies to issue regulations that require banks with total consolidated assets of more than \$10.0 billion to conduct and publish self-administered annual stress tests to assess the potential impact of different scenarios on the consolidated earnings and capital of each bank and certain related items over a nine-quarter forward-looking planning horizon, taking into account all relevant exposures and activities. On October 9, 2012, the FRB published final rules implementing the stress testing requirements for banks, such as the Company, with total consolidated assets of more than \$10.0 billion but less than \$50.0 billion, but delayed the initial stress test until the fall of 2013 (utilizing data as of September 30, 2013). The final stress testing rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

On July 30, 2013, the FRB, OCC, and FDIC proposed supervisory guidance for these stress tests. The joint proposed guidance discusses supervisory expectations for stress test practices, provides examples of practices that would be consistent with those expectations, and offers additional details about stress test methodologies. It also emphasizes the importance of stress testing as an ongoing risk management practice. Comments on this joint proposed guidance were due in September 2013. Additionally, under an interim final rule adopted by the FRB on September 24, 2013, the Company must incorporate the more stringent Basel III capital rules into its stress tests, but has been given a one-year transition period until October 2014 to begin that incorporation.

We are required to submit our initial stress testing results, utilizing data as of September 30, 2013, to the FRB by March 31, 2014. In addition, we are also required to make our first stress test-related public disclosure between June 15 and June 30, 2015 by disclosing summary results of our stress testing utilizing data as of September 30, 2014.

Debit Card Interchange Fees

On July 31, 2013, a U.S. District Court judge declared invalid provisions of the rule issued by the FRB under the Durbin Amendment of the Dodd-Frank Act, regarding the amount of the debit card interchange fee cap and the network non-exclusivity provisions, which was effective October 1, 2011. The court ruled that the FRB, when determining the amount of the fee cap, erred in using criteria outside the scope Congress intended to determine the fee cap, thereby causing the fee cap to be set higher than warranted. The court also ruled that the Durbin Amendment required merchants to be given a choice between multiple unaffiliated networks (signature and PIN networks) for each debit card transaction, as opposed to the FRB's rule allowing debit card networks and issuers to make only one network available for each type of debit transaction. In September 2013, the U.S. District Court judge agreed to the FRB's request to leave the existing rules in place until an appeals court rules on the case. If not overturned on appeal, this ruling could adversely affect debit card interchange fees for the banking industry, including the Company. However, these developments are preliminary and the impact on the Company's statements of income is not determinable at this time.

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Operational Risk

Operational risk represents the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, errors relating to transaction processing and technology, failure to adhere to compliance requirements, and the risk of cyber security attacks. The risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. Operational risk is inherent in all business activities, and management of this risk is important to the achievement of Company goals and objectives.

The Operating Risk Committee (the "ORC") provides oversight and assesses the most significant operational risks facing the Company. We have developed a framework that provides for a centralized operating risk management function through the ORC, supplemented by business unit responsibility for managing operational risks specific to their business units. Our internal audit department also validates the system of internal controls through ongoing risk-based audit procedures and reports on the effectiveness of internal controls to executive management and the Audit and Risk Committee of the Board of Directors.

While we believe that internal controls have been designed to minimize operational risks, there is no assurance that business disruption or operational losses will not occur. On an ongoing basis, management reassesses operational risks, implements appropriate process changes, and invests in enhancements to its systems of internal controls.

Off-Balance Sheet Arrangements and Guarantees

Off-Balance Sheet Arrangements

We hold interests in several unconsolidated variable interest entities ("VIEs"). These unconsolidated VIEs are primarily low-income housing partnerships. Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value. The primary beneficiary consolidates the VIE. We have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs. See discussion of our accounting policy related to VIEs in Note 1 to the Consolidated Financial Statements.

Guarantees

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

We also service substantially all of the loans we sell to investors in the secondary market. Each agreement under which we act as servicer generally specifies a standard of responsibility for our actions and provides protection against expenses and liabilities incurred by us when acting in compliance with the respective servicing agreements. However, if we commit a material breach of obligations as servicer, we may be subject to various penalties which may include the repurchase of an affected loan or a reimbursement to the respective investor.

See discussion of our risks related to representation and warranty provisions as well as our risks related to residential mortgage loan servicing activities in Note 19 to the Consolidated Financial Statements.

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Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations as of December 31, 2013 were as follows:

Credit Commitments and Contractual Obligations ¹					Table 23
(dollars in thousands)	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
Credit Commitments					
Unfunded Commitments to Extend Credit	\$611,044	\$484,677	\$293,235	\$925,936	\$2,314,892
Standby Letters of Credit	58,197	10	—	—	58,207
Commercial Letters of Credit	16,387	—	—	—	16,387
Total Credit Commitments	685,628	484,687	293,235	925,936	2,389,486
Contractual Obligations					
Deposits	11,585,608	254,681	54,832	19,535	11,914,656
Funds Purchased	9,982	—	—	—	9,982
Securities Sold Under Agreements to Repurchase	90,429	179,620	200,000	300,000	770,049
Long-Term Debt ²	3,867	157,291	449	8,730	170,337
Banker's Acceptances Outstanding	102	—	—	—	102
Capital Lease Obligations	665	1,330	1,330	5,504	8,829
Non-Cancelable Operating Leases	14,199	23,438	17,312	124,968	179,917
Purchase Obligations	15,823	8,810	3,653	—	28,286
Pension and Postretirement Benefit Contributions ³	1,814	4,030	4,333	11,980	22,157
Total Contractual Obligations	11,722,489	629,200	281,909	470,717	13,104,315
Total Credit Commitments and Contractual Obligations	\$12,408,117	\$1,113,887	\$575,144	\$1,396,653	\$15,493,801

Our liability for unrecognized tax benefits ("UTBs") as of December 31, 2013 was \$11.8 million. We are unable to ¹ reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not included in this disclosure.

² Includes interest on non-recourse debt.

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

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

See discussion of credit, lease, and other contractual commitments in Note 19 to the Consolidated Financial Statements which is incorporated herein by reference.

Future Application of Accounting Pronouncements

See discussion of the expected impact of accounting pronouncements recently issued but that we have not adopted as of December 31, 2013 in Note 1 to the Consolidated Financial Statements.

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Selected Quarterly Consolidated Financial Data

Table 24 presents our selected quarterly financial data for 2013 and 2012.

Condensed Statements of Income

Table 24

	Three Months Ended 2013				Three Months Ended 2012				
(dollars in thousands, except per share amounts)	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	
Interest Income	\$101,709	\$100,574	\$97,351	\$98,871	\$100,695	\$104,213	\$106,353	\$109,228	
Interest Expense	9,589	9,687	10,011	10,311	10,385	10,581	10,972	11,280	
Net Interest Income	92,120	90,887	87,340	88,560	90,310	93,632	95,381	97,948	
Provision for Credit Losses	—	—	—	—	—	—	628	351	
Investment Securities Gains (Losses), Net	—	—	—	—	—	13	—	(90))
Noninterest Income	45,278	45,126	48,041	47,778	52,982	52,361	46,848	48,172	
Noninterest Expense	82,424	82,977	81,181	84,387	83,456	84,878	80,747	85,207	
Income Before Provision for Income Taxes	54,974	53,036	54,200	51,951	59,836	61,128	60,854	60,472	
Provision for Income Taxes	15,919	15,332	16,437	15,971	19,549	19,896	20,107	16,662	
Net Income	\$39,055	\$37,704	\$37,763	\$35,980	\$40,287	\$41,232	\$40,747	\$43,810	
Per Common Share									
Basic Earnings Per Share	\$0.88	\$0.85	\$0.85	\$0.81	\$0.90	\$0.92	\$0.90	\$0.96	
Diluted Earnings Per Share	\$0.88	\$0.85	\$0.85	\$0.81	\$0.90	\$0.92	\$0.90	\$0.95	
Dividends Declared Per Share	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	\$0.45	
Performance Ratios									
Net Income to Average Total Assets (ROA)	1.12	% 1.09	% 1.12	% 1.08	% 1.19	% 1.22	% 1.19	% 1.29	%
Net Income to Average Shareholders' Equity (ROE)	15.36	15.02	14.64	14.10	15.47	16.02	16.19	17.26	
Efficiency Ratio ¹	59.99	61.01	59.96	61.90	58.24	58.13	56.77	58.35	
Net Interest Margin ²	2.85	2.83	2.77	2.82	2.87	2.98	2.98	3.06	

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

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

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Fourth Quarter Results and Other Matters

Net Income

Net income for the fourth quarter of 2013 was \$39.1 million, a decrease of \$1.2 million or 3% compared to the fourth quarter of 2012. Diluted earnings per share were \$0.88 for the fourth quarter of 2013, a decrease of \$0.02 or 2% compared to the fourth quarter of 2012.

Net Interest Income

Net interest income, on a taxable-equivalent basis, for the fourth quarter of 2013 was \$94.8 million, an increase of \$2.1 million or 2% compared to the fourth quarter of 2012. The net interest margin was 2.85% for the fourth quarter of 2013, a decrease of 2 basis points compared to the fourth quarter of 2012. Although we had higher average loan and lease balances in the fourth quarter of 2013 compared to the fourth quarter of 2012, loans continued to reprice at lower yields in 2013. Our funding costs decreased 4 basis points in the fourth quarter of 2013 compared to the same period in 2012. This decrease was due in part to modifications on some of our repurchase agreements which involved extending the maturity dates and lowering the interest rates.

Provision for Credit Losses

We recorded no Provision in the fourth quarters of 2013 and 2012, while recording net charge-offs of loans and leases of \$8.2 million and \$2.1 million in the fourth quarters of 2013 and 2012, respectively. Our decision to not record a Provision in the fourth quarter of 2013 was reflective of our evaluation as to the adequacy of the Allowance.

Noninterest Income

Noninterest income was \$45.3 million in the fourth quarter of 2013, a decrease of \$7.7 million or 15% compared to the fourth quarter of 2012. This decrease was primarily due to an \$8.4 million decrease in mortgage banking income, as rising interest rates during 2013 adversely impacted the amount of refinance activity and its related loan sales margins in the fourth quarter of 2013 compared to the fourth quarter of 2012. This decrease was partially offset by higher trust and asset management income and fees, debit card income and credit card fees in the fourth quarter of 2013 compared to the fourth quarter of 2012.

Noninterest Expense

Noninterest expense was \$82.4 million in the fourth quarter of 2013, a decrease of \$1.0 million or 1% compared to the fourth quarter of 2012. This decrease was primarily due to a \$2.5 million decrease in salaries and benefits expense as a result of lower base salaries, commission expense, and stock option expense compared to the fourth quarter of 2012. This decrease was partially offset by a \$1.5 million credit for the reduction in insurance reserves recorded in the fourth quarter of 2012.

Provision for Income Taxes

The provision for income taxes was \$15.9 million in the fourth quarter of 2013, a decrease of \$3.6 million or 19% compared to the fourth quarter of 2012. The effective tax rate for the fourth quarter of 2013 was 28.96% compared with an effective tax rate of 32.67% for the fourth quarter of 2012. The lower effective tax rate in the fourth quarter of 2013 was primarily due to a \$0.8 million release of a valuation allowance for the expected utilization of capital losses due to the sale of a low-income housing investment.

Common Stock Repurchase Program

In the fourth quarter of 2013, we repurchased 86,275 shares of common stock at an average cost per share of \$57.87 and a total cost of \$5.0 million. See Note 11 to the Consolidated Financial Statements for more information related to our common stock repurchase program.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Bank of Hawaii Corporation and subsidiaries

We have audited the accompanying consolidated statements of condition of Bank of Hawaii Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of Bank of Hawaii Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank of Hawaii Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bank of Hawaii Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 25, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 25, 2014

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Consolidated Statements of Income

(dollars in thousands, except per share amounts)	Year Ended December 31,		
	2013	2012	2011
Interest Income			
Interest and Fees on Loans and Leases	\$253,276	\$257,896	\$262,239
Income on Investment Securities			
Available-for-Sale	53,570	65,972	103,363
Held-to-Maturity	90,062	94,952	72,138
Deposits	10	9	8
Funds Sold	415	533	828
Other	1,172	1,127	1,117
Total Interest Income	398,505	420,489	439,693
Interest Expense			
Deposits	10,143	12,376	18,321
Securities Sold Under Agreements to Repurchase	26,837	28,897	29,171
Funds Purchased	44	21	20
Short-Term Borrowings	2	—	—
Long-Term Debt	2,572	1,924	1,973
Total Interest Expense	39,598	43,218	49,485
Net Interest Income	358,907	377,271	390,208
Provision for Credit Losses	—	979	12,690
Net Interest Income After Provision for Credit Losses	358,907	376,292	377,518
Noninterest Income			
Trust and Asset Management	47,932	45,229	45,046
Mortgage Banking	19,186	35,644	14,664
Service Charges on Deposit Accounts	37,124	37,621	38,733
Fees, Exchange, and Other Service Charges	50,469	48,965	60,227
Investment Securities Gains (Losses), Net	—	(77	) 6,366
Insurance	9,190	9,553	10,957
Bank-Owned Life Insurance	5,892	6,805	6,330
Other	16,430	16,546	15,332
Total Noninterest Income	186,223	200,286	197,655
Noninterest Expense			
Salaries and Benefits	184,211	184,408	182,816
Net Occupancy	38,745	42,965	43,169
Net Equipment	18,366	19,723	18,849
Data Processing	13,840	13,202	14,067
Professional Fees	9,405	9,623	8,623
FDIC Insurance	7,765	7,873	9,346
Other	58,637	56,494	71,323
Total Noninterest Expense	330,969	334,288	348,193
Income Before Provision for Income Taxes	214,161	242,290	226,980
Provision for Income Taxes	63,659	76,214	66,937
Net Income	\$150,502	\$166,076	\$160,043
Basic Earnings Per Share	\$3.39	\$3.68	\$3.40
Diluted Earnings Per Share	\$3.38	\$3.67	\$3.39
Dividends Declared Per Share	\$1.80	\$1.80	\$1.80

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Basic Weighted Average Shares	44,380,948	45,115,441	47,064,925
Diluted Weighted Average Shares	44,572,725	45,249,300	47,224,981

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

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Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

(dollars in thousands)	Year Ended December 31,		
	2013	2012	2011
Net Income	\$ 150,502	\$ 166,076	\$ 160,043
Other Comprehensive Income (Loss), Net of Tax:			
Net Unrealized Gains (Losses) on Investment Securities	(69,206)	(3,155)	16,411)
Defined Benefit Plans	8,175	(2,900)	(8,113)
Other Comprehensive Income (Loss)	(61,031)	(6,055)	8,298)
Comprehensive Income	\$ 89,471	\$ 160,021	\$ 168,341

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

Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition

(dollars in thousands)	December 31, 2013	December 31, 2012
Assets		
Interest-Bearing Deposits	\$3,617	\$3,393
Funds Sold	271,414	185,682
Investment Securities		
Available-for-Sale	2,243,697	3,367,557
Held-to-Maturity (Fair Value of \$4,697,587 and \$3,687,676)	4,744,519	3,595,065
Loans Held for Sale	6,435	21,374
Loans and Leases	6,095,387	5,854,521
Allowance for Loan and Lease Losses	(115,454)	(128,857)
Net Loans and Leases	5,979,933	5,725,664
Total Earning Assets	13,249,615	12,898,735
Cash and Noninterest-Bearing Deposits	188,715	163,786
Premises and Equipment	108,636	105,005
Accrued Interest Receivable	43,930	43,077
Foreclosed Real Estate	3,205	3,887
Mortgage Servicing Rights	28,123	25,240
Goodwill	31,517	31,517
Other Assets	430,539	457,125
Total Assets	\$14,084,280	\$13,728,372
Liabilities		
Deposits		
Noninterest-Bearing Demand	\$3,681,128	\$3,367,185
Interest-Bearing Demand	2,355,608	2,163,473
Savings	4,560,150	4,399,316
Time	1,317,770	1,599,508
Total Deposits	11,914,656	11,529,482
Funds Purchased	9,982	11,296
Securities Sold Under Agreements to Repurchase	770,049	758,947
Long-Term Debt	174,706	128,055
Retirement Benefits Payable	34,965	47,658
Accrued Interest Payable	4,871	4,776
Taxes Payable and Deferred Taxes	34,907	88,014
Other Liabilities	128,168	138,479
Total Liabilities	13,072,304	12,706,707
Commitments, Contingencies, and Guarantees (Note 19)		
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: December 31, 2013 - 57,480,846 / 44,490,385 and December 31, 2012 - 57,319,352 / 44,754,835)	572	571
Capital Surplus	522,505	515,619
Accumulated Other Comprehensive Income (Loss)	(31,823)	29,208)
Retained Earnings	1,151,754	1,084,477
	(631,032)	(608,210)

Treasury Stock, at Cost (Shares: December 31, 2013 - 12,990,461
and December 31, 2012 - 12,564,517)

Total Shareholders' Equity	1,011,976	1,021,665
Total Liabilities and Shareholders' Equity	\$14,084,280	\$13,728,372

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

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

(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, 2010	48,097,672	\$570	\$500,888	\$ 26,965	\$932,629	\$(449,919)	\$1,011,133
Net Income	—	—	—	—	160,043	—	160,043
Other Comprehensive Income	—	—	—	8,298	—	—	8,298
Share-Based Compensation	—	—	6,216	—	—	—	6,216
Common Stock Issued under Purchase and Equity							
Compensation Plans and Related Tax Benefits	389,470	1	454	—	(3,843)	16,800	13,412
Common Stock Repurchased	(2,540,026)	—	—	—	—	(111,544)	(111,544)
Cash Dividends Paid (\$1.80 per share)	—	—	—	—	(84,891)	—	(84,891)
Balance as of December 31, 2011	45,947,116	\$571	\$507,558	\$ 35,263	\$1,003,938	\$(544,663)	\$1,002,667
Net Income	—	\$—	\$—	\$ —	\$166,076	\$—	\$166,076
Other Comprehensive Loss	—	—	—	(6,055)	—	—	(6,055)
Share-Based Compensation	—	—	7,537	—	—	—	7,537
Common Stock Issued under Purchase and Equity							
Compensation Plans and Related Tax Benefits	565,956	—	524	—	(3,892)	17,897	14,529
Common Stock Repurchased	(1,758,237)	—	—	—	—	(81,444)	(81,444)
Cash Dividends Paid (\$1.80 per share)	—	—	—	—	(81,645)	—	(81,645)
Balance as of December 31, 2012	44,754,835	\$571	\$515,619	\$ 29,208	\$1,084,477	\$(608,210)	\$1,021,665
Net Income	—	\$—	\$—	\$ —	\$150,502	\$—	\$150,502
Other Comprehensive Loss	—	—	—	(61,031)	—	—	(61,031)
Share-Based Compensation	—	—	5,546	—	—	—	5,546
Common Stock Issued under Purchase and Equity							
Compensation Plans and Related Tax Benefits	505,691	1	1,340	—	(2,691)	16,833	15,483
Common Stock Repurchased	(770,141)	—	—	—	—	(39,655)	(39,655)
Cash Dividends Paid (\$1.80 per share)	—	—	—	—	(80,534)	—	(80,534)
Balance as of December 31, 2013	44,490,385	\$572	\$522,505	\$ (31,823)	\$1,151,754	\$(631,032)	\$1,011,976

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

Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(dollars in thousands)	Year Ended December 31,		
	2013	2012	2011
Operating Activities			
Net Income	\$ 150,502	\$ 166,076	\$ 160,043
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Credit Losses	—	979	12,690
Depreciation and Amortization	12,128	13,826	14,624
Amortization of Deferred Loan and Lease Fees	(3,275)	(3,467)	(2,709)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	58,575	58,506	49,728
Share-Based Compensation	5,546	7,537	6,216
Benefit Plan Contributions	(1,229)	(6,166)	(1,261)
Deferred Income Taxes	503	(16,784)	198
Net Gain on Sale of Proprietary Mutual Funds	—	—	(1,956)
Net Gains on Sales of Loans and Leases	(19,952)	(19,302)	(6,792)
Net Losses (Gains) on Investment Securities	—	77	(6,366)
Proceeds from Sales of Loans Held for Sale	683,772	616,872	439,999
Originations of Loans Held for Sale	(652,821)	(603,321)	(427,066)
Tax Benefits from Share-Based Compensation	(948)	(904)	(884)
Net Change in Other Assets and Other Liabilities	9,162	8,559	(6,741)
Net Cash Provided by Operating Activities	241,963	222,488	229,723
Investing Activities			
Investment Securities Available-for-Sale:			
Proceeds from Prepayments and Maturities	919,579	1,016,364	1,006,397
Proceeds from Sales	—	44,844	723,556
Purchases	(510,548)	(994,840)	(1,809,249)
Investment Securities Held-to-Maturity:			
Proceeds from Prepayments and Maturities	1,054,466	959,557	374,520
Purchases	(1,661,874)	(942,602)	(760,086)
Proceeds from Sale of Proprietary Mutual Funds	—	—	1,956
Net Change in Loans and Leases	(257,158)	(329,436)	(235,215)
Premises and Equipment, Net	(15,759)	(15,281)	(10,004)
Net Cash Used in Investing Activities	(471,294)	(261,394)	(708,125)
Financing Activities			
Net Change in Deposits	385,174	936,859	703,628
Net Change in Short-Term Borrowings	9,788	(1,166,546)	20,027
Proceeds from Long-Term Debt	50,000	100,000	—
Tax Benefits from Share-Based Compensation	948	904	884
Proceeds from Issuance of Common Stock	14,495	13,730	12,660
Repurchase of Common Stock	(39,655)	(81,444)	(111,544)
Cash Dividends Paid	(80,534)	(81,645)	(84,891)
Net Cash Provided by (Used in) Financing Activities	340,216	(278,142)	540,764

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Net Change in Cash and Cash Equivalents	110,885	(317,048)	62,362
Cash and Cash Equivalents at Beginning of Period	352,861	669,909	607,547
Cash and Cash Equivalents at End of Period	\$463,746	\$352,861	\$669,909
Supplemental Information			
Cash Paid for Interest	\$38,424	\$42,487	\$47,735
Cash Paid for Income Taxes	75,166	78,667	85,144
Non-Cash Investing and Financing Activities:			
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	579,888	—	3,167,839
Transfer from Loans to Foreclosed Real Estate	5,429	5,406	3,089
Transfers from Loans to Loans Held for Sale	—	—	8,555

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

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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 majority of the Company's operations consist of customary commercial and consumer banking services including, but not limited to, lending, leasing, deposit services, trust and investment activities, brokerage services, and trade financing.

The accounting and reporting principles of the Company conform to U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the financial services industry. 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.

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

The following is a summary of the Company's significant accounting policies:

Consolidation

The Consolidated Financial Statements include the accounts of the Parent and its subsidiaries. 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.

Variable Interest Entities

Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value. The primary beneficiary consolidates the variable interest entity ("VIE"). The primary beneficiary is defined as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

The Company has a limited partnership interest in several low-income housing partnerships. These partnerships provide funds for the construction and operation of apartment complexes that provide affordable housing to that segment of the population with lower family income. If these developments successfully attract a specified percentage of residents falling in that lower income range, state and/or federal income tax credits are made available to the partners. The tax credits are generally recognized over 10 years. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained.

These entities meet the definition of a VIE; however, the Company is not the primary beneficiary of the entities, as the general partner has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership agreements allow the limited partners, through a majority vote, to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause.

The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. The balance of the Company's investments in these entities was \$48.2 million and \$47.2 million as of December 31, 2013 and 2012, respectively, and is included in other assets in the consolidated statements of condition. Under the effective yield method, the Company recognizes tax credits generally over 10 years and amortizes the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the Company.

Unfunded commitments to fund these low-income housing partnerships were \$18.1 million and \$15.9 million as of December 31, 2013 and 2012, respectively. These unfunded commitments are unconditional and legally binding and are recorded in other liabilities in the consolidated statements of condition.

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Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Company held no trading securities as of December 31, 2013 and 2012. Available-for-sale investment securities, comprised of debt and mortgage-backed securities, are those that may be sold before maturity due to changes in the Company's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held-to-maturity investment securities, comprised of debt and mortgage-backed securities, are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost.

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual 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 as an adjustment of yield using the interest method over the estimated life of the security. Unrealized holding gains or losses that remain in accumulated other comprehensive income are also amortized or accreted over the estimated life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

Other-Than-Temporary-Impairments of Investment Securities

The Company conducts an other-than-temporary-impairment ("OTTI") analysis of investment securities on a quarterly basis or more often if a potential loss-triggering event occurs. A write-down of a debt security is recorded when fair value is below amortized cost in circumstances where: (1) the Company has the intent to sell a security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell a security or if it is more likely than not that the Company will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. To determine the amount related to credit loss on a debt security, the Company applies a methodology similar to that used for evaluating the impairment of loans. As of December 31, 2013, management determined that the Company did not own any investment securities that were other-than-temporarily-impaired.

Loans Held for Sale

Residential mortgage loans originated prior to October 1, 2011, with the intent to be sold in the secondary market, were valued on an aggregate basis at the lower-of-cost-or-fair value. Residential mortgage loans originated on or after October 1, 2011, with the intent to be sold in the secondary market, are accounted for under the fair value option. Non-refundable fees and direct loan origination costs related to residential mortgage loans held for sale are recognized as part of the cost basis of the loan at the time of sale. Fair value is primarily determined based on quoted prices for similar loans in active markets. Gains and losses on sales of residential mortgage loans (sales proceeds minus carrying

value) are recorded in the mortgage banking component of noninterest income.

Commercial loans that management has an active plan to sell are valued on an individual basis at the lower-of-cost-or-fair value. Fair value is primarily determined based on quoted prices for similar loans in active markets or agreed upon sales prices. Any reduction in the loan's value, prior to being transferred to the held for sale category, is reflected as a charge-off of the recorded investment in the loan resulting in a new cost basis, with a corresponding reduction in the allowance for loan and lease losses. Further decreases in the fair value of the loan are recognized in noninterest expense.

Loans and Leases

Loans are reported at the principal amount outstanding, net of unearned income including unamortized deferred loan fees and costs, and cumulative net charge-offs. Interest income is recognized on an accrual basis. Loan origination fees, certain direct

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costs, and unearned discounts and premiums, if any, are deferred and are generally amortized into interest income as yield adjustments using the interest method over the contractual life of the loan. Loan commitment fees are generally recognized into noninterest income. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Direct financing leases are carried at the aggregate of lease payments receivable plus the estimated residual value of leased property, less unearned income. Leveraged leases, which are a form of direct financing leases, are carried net of non-recourse debt. Unearned income on direct financing and leveraged leases is amortized over the lease term by methods that approximate the interest method. Residual values on leased assets are periodically reviewed for impairment.

Portfolio segments are defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan and lease losses (the "Allowance"). Management has determined that the Company has two portfolio segments of loans and leases (commercial and consumer) in determining the Allowance. Both quantitative and qualitative factors are used by management at the portfolio segment level in determining the adequacy of the Allowance for the Company. Classes of loans and leases are a disaggregation of a Company's portfolio segments. Classes are defined as a group of loans and leases which share similar initial measurement attributes, risk characteristics, and methods for monitoring and assessing credit risk. Management has determined that the Company has eight classes of loans and leases (commercial and industrial, commercial mortgage, construction, lease financing, residential mortgage, home equity, automobile, and other). The "other" class of loans and leases is comprised of revolving credit, credit cards, installment, and lease financing arrangements.

Non-Performing Loans and Leases

Generally, all classes of commercial loans and leases are placed on non-accrual status upon becoming contractually past due 90 days as to principal or interest (unless loans and leases are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), when terms are renegotiated below market levels, or where substantial doubt about full repayment of principal or interest is evident. For residential mortgage and home equity loan classes, loans past due 120 days as to principal or interest may be placed on non-accrual status, and a partial charge-off may be recorded, depending on the collateral value and/or the collectability of the loan. For automobile and other consumer loan classes, the entire outstanding balance of the loan is charged off when the loan becomes 120 days past due as to principal or interest.

When a loan or lease is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. A loan or lease may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan or lease agreement and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For the pooled segment of the Company's commercial and industrial loan class, which consists of small business loans, the entire outstanding balance of the loan is charged off during the month that the loan becomes 120 days past due as to principal or interest. As previously mentioned, for residential mortgage and home equity loan classes, a partial charge-off may be recorded at 120 days past due as to principal or interest depending on the collateral value and/or the collectability of the loan. In the event that loans or lines in the home equity loan class is behind another financial institution's first mortgage, the entire outstanding balance of the loan is charged off when the

loan becomes 120 days past due as to principal or interest, unless the combined loan-to-value ratio is 60% or less. As noted above, loans in the automobile and other consumer loan classes are charged off in its entirety upon the loan becoming 120 days past due as to principal or interest.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans include all classes of commercial non-accruing loans (except lease financing and small business loans), and all loans modified in a troubled debt restructuring. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment.

For all classes of commercial loans, a quarterly evaluation of individual commercial borrowers is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans

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specifically identified by management as exhibiting above average levels of risk.

When a loan has been identified as being impaired, the amount of impairment 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. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), an impairment is recognized by establishing or adjusting an existing allocation of the Allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified in a Troubled Debt Restructuring

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Company makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a troubled debt restructuring remains on non-accrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the "Unfunded Reserve").

Allowance for Loan and Lease Losses

The Company maintains an Allowance adequate to cover management's estimate of probable credit losses as of the balance sheet date. Loans and leases that are charged off reduce the Allowance while recoveries of loans and leases previously charged off increase the Allowance. Other changes to the level of the Allowance are recognized through charges or credits to the provision for credit losses (the "Provision"). The Allowance considers both unimpaired and impaired loans and is developed and documented at the portfolio segment level (commercial and consumer).

The level of the Allowance related to the Company's commercial portfolio segment is generally based on the credit risk ratings and historical loss experience of individual borrowers. This is supplemented as necessary by credit judgment to address observed changes in trends and conditions, and other relevant environmental and economic factors that may affect the collectability of loans and leases. Excluding those loans and leases evaluated individually for impairment, the Company's remaining commercial loans and leases are pooled and collectively evaluated for impairment based on business unit and internal risk rating segmentation.

The level of the Allowance related to the Company's consumer portfolio segment is generally based on analyses of homogeneous pools of loans and leases. Loans and leases are pooled based on similar loan and lease risk characteristics for collective evaluation of impairment. Loss estimates are calculated based on historical rolling average loss rates and average delinquency flows to loss. Consumer loans that have been individually evaluated for

impairment or modified in a troubled debt restructuring are excluded from the homogeneous pools. Impairment related to such loans is generally determined based on the present value of expected future cash flows discounted at the loan's original effective interest rate.

The Allowance also includes an estimate for inherent losses not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of net charge-offs. In addition, the Company uses a variety of other tools to estimate probable credit losses including, but not limited to, a rolling quarterly forecast of asset quality metrics; stress testing; and performance indicators based on the Company's own experience, peers, or other industry sources.

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Reserve for Unfunded Commitments

The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include banker's acceptances, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities or loan and lease equivalency factors. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Cash and Cash Equivalents

Cash and cash equivalents include cash and noninterest-bearing deposits, interest-bearing deposits, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives range up to 30 years for buildings and up to 10 years for equipment. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Capitalized leased assets are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. Repairs and maintenance are charged to expense as incurred, while improvements which extend the estimated useful life of the asset are capitalized and depreciated over the estimated remaining life of the asset.

Premises and equipment are periodically evaluated for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of premises and equipment are less than its carrying amount. In that event, the Company records a loss for the difference between the carrying amount and the fair value of the asset based on quoted market prices, if applicable, or a discounted cash flow analysis.

Foreclosed Real Estate

Foreclosed real estate consists of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure. These properties are recorded at fair value less estimated costs to sell the property. If the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the Allowance. If the fair value of the property at the time of acquisition exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the Allowance if a charge-off had previously been recorded, or as a gain on initial transfer in other noninterest income. Subsequent decreases in the property's fair value and operating expenses of the property are recognized through charges to other noninterest expense. The fair value of the property acquired is based on third party appraisals, broker price opinions, recent sales activity, or a combination thereof, subject to management judgment.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as assets when mortgage loans are sold and the rights to service those loans are retained. Mortgage servicing rights are initially recorded at fair value by using a discounted cash flow model to calculate the present value of estimated future net servicing income.

The Company's mortgage servicing rights accounted for under the fair value method are carried on the statements of condition at fair value with changes in fair value recorded in mortgage banking income in the period in which the change occurs. Changes in the fair value of mortgage servicing rights are primarily due to changes in valuation inputs, assumptions, and the collection and realization of expected cash flows.

The Company's mortgage servicing rights accounted for under the amortization method are initially recorded at fair value. However, these mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the mortgage servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these mortgage servicing rights exceeds fair value.

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Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is assigned to reporting units, which are operating segments or one level below an operating segment. Goodwill is assigned to the Company's reporting units that are expected to benefit from the business combination. Goodwill is assessed annually for impairment, and more frequently if events or changes in circumstances indicate that there may be an impairment. If the implied fair value of goodwill is less than the carrying amount, a loss would be recognized in other noninterest expense to reduce the carrying amount to the implied fair value of goodwill. The first step of the Company's goodwill impairment analysis is to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors considered include, but are not limited to, industry and market conditions and trends, the Company's financial performance and any Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that an impairment exists, no further testing is performed. If there is an indication that impairment exists, a quantitative test is performed to first determine whether the fair value of each reporting unit, including goodwill, is less than the carrying amount of the reporting unit. In such an event, a second step is performed to measure the amount of impairment. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that reporting unit's goodwill, an impairment loss is recognized in an amount equal to that excess. Subsequent reversals of goodwill impairment are prohibited. During the fourth quarter of 2013, the Company performed its annual evaluation for goodwill impairment. This evaluation indicated no impairment of the Company's goodwill.

Non-Marketable Equity Securities

The Company is required to hold non-marketable equity securities, comprised of Federal Home Loan Bank of Seattle ("FHLB") and Federal Reserve Bank ("FRB") stock, as a condition of membership. These securities are accounted for at cost which equals par or redemption value. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. 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 which are periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts. See Note 18 to the Consolidated Financial Statements for more information.

Pension and Postretirement Benefit Plans

The Company incurs certain employment-related expenses associated with its two frozen pension plans and a postretirement benefit plan (the "Plans"). In order to measure the expense associated with the Plans, various assumptions are made including the discount rate, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. The Company uses a December 31 measurement date for its Plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

Net periodic pension benefit costs include interest costs based on an assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and the amortization of net actuarial losses. Net periodic postretirement benefit costs include service costs, interest costs based on an assumed discount rate, and the amortization of prior service credits and net actuarial gains. Differences between expected and actual results in each year are included in the net actuarial gain or loss amount, which is recognized in other comprehensive income. The net actuarial gain or loss in excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining expected lives of the pension plan participants. The prior

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service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits.

The Company recognizes in its statement of condition an asset for a plan's overfunded status or a liability for a plan's underfunded status. The Company also measures the Plans' assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Income Taxes

The Parent files a consolidated federal income tax return with the Bank and its subsidiaries. Calculation of the Company's provision for income taxes requires the interpretation of income tax laws and regulations and the use of estimates and judgments in its determination. The Company is subject to examination by governmental authorities that may give rise to income tax issues due to differing interpretations. Changes to the liability for income taxes also occur due to changes in income tax rates, implementation of new business strategies, resolution of issues with taxing authorities, and newly enacted statutory, judicial, and regulatory guidance.

Deferred income taxes are provided to reflect the tax effect of temporary differences between financial statement carrying amounts and the corresponding tax basis of assets and liabilities. Deferred income taxes are calculated by applying enacted statutory tax rates and tax laws to future years in which temporary differences are expected to reverse. The impact on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that the tax rate change is enacted. A deferred tax valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized.

The Company's tax sharing policy provides for the settlement of income taxes between each relevant subsidiary as if the subsidiary had filed a separate return. Payments are made to the Parent by subsidiaries with tax liabilities and subsidiaries that generate tax benefits receive payments for those benefits as used.

The Company maintains reserves for certain tax positions that arise in the normal course of business. As of December 31, 2013, these positions were evaluated based on an assessment of probabilities as to the likelihood of whether a liability had been incurred. Such assessments are reviewed as events occur and adjustments to the reserves are made as appropriate.

In evaluating a tax position for recognition, the Company judgmentally evaluates whether it is more likely than not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, the tax position is measured and recognized in the Company's Consolidated Financial Statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

Treasury Stock

Shares of the Parent's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on a first-in, first-out basis.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of all potentially dilutive common stock

equivalents.

Derivative Financial Instruments

In the ordinary course of business, the Company enters into derivative financial instruments as an end-user in connection with its risk management activities and to accommodate the needs of its customers. The Company has elected not to qualify for hedge accounting methods addressed under current provisions of GAAP. Derivative financial instruments are stated at fair value on the consolidated statements of condition with changes in fair value reported in current period earnings.

Share-Based Compensation

The Company may grant share-based compensation to employees and non-employee directors in the form of restricted stock, restricted stock units and stock options. Share-based compensation expense is measured based on the fair value of the award at

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the date of grant and is recognized in the statement of income on a straight-line basis over the requisite service period for service-based awards. The fair value of restricted stock is determined based on the closing price of the Parent's common stock on the date of grant. The Company recognizes compensation expense related to restricted stock on a straight-line basis over the vesting period for service-based awards, plus additional recognition of costs associated with accelerated vesting based on the projected attainment of Company performance measures. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model and related assumptions. The Company uses historical data to predict option exercise and employee termination behavior. Expected volatilities are based on the historical volatility of the Parent's common stock. The expected term of options granted is derived from actual historical exercise activity and represents the period of time that options granted are expected to be outstanding. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant based on the expected life of the option. The dividend yield is equal to the dividend yield of the Parent's common stock at the time of grant. The amortization of share-based compensation reflects estimated forfeitures, adjusted for actual forfeiture experience. Share-based compensation is recorded in the statements of income as a component of salaries and benefits for employees and as a component of other noninterest expense for non-employee directors, with a corresponding increase to capital surplus in shareholders' equity. As share-based compensation expense is recognized, a deferred tax asset is established that represents an estimate of future income tax deductions from the release of restrictions or the exercise of stock options.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$5.0 million, \$4.7 million, and \$5.5 million for the years ended December 31, 2013, 2012, and 2011, respectively.

International Operations

The Bank has operations that are conducted in certain Pacific Islands that are denominated in U.S. dollars. These operations are classified as domestic.

Fair Value Measurements

Fair value measurements apply whenever GAAP requires or permits assets or liabilities to be measured at fair value either on a recurring or nonrecurring basis. 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. Fair value is based on the assumptions that management believes market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance established a three-level fair value hierarchy that prioritizes the use of inputs used in valuation methodologies. 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. The three-level fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.
- Level 3:

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

In determining fair value measurements, management assesses whether the volume and level of activity for an asset or liability have significantly decreased. In such instances, management determines whether recent quoted prices are associated with illiquid or inactive markets. If management concludes that quoted prices are associated with illiquid or inactive markets, adjustments to quoted prices may be necessary or management may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an asset or liability's fair value. See Note 14 and Note 20 to the Consolidated Financial Statements for the required fair value measurement disclosures.

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Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions. The Company adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. As the provisions of ASU No. 2011-11 and ASU No. 2013-01 only impacted the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial position, the adoption had no impact on the Company's consolidated statements of income and condition. See Note 18 to the Consolidated Financial Statements for the disclosures required by ASU No. 2011-11 and ASU No. 2013-01.

Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the transparency of reporting these reclassifications. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities) and the income statement line item affected by the reclassification (e.g., realized gains (losses) on sales of investment securities). If a component is not required to be reclassified to net income in its entirety (e.g., amortization of defined benefit plan items), entities would instead cross reference to the related note to the financial statements for additional information (e.g., pension footnote). The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2013. As the provisions of ASU No. 2013-02 only amended the disclosure requirements for accumulated other comprehensive income, the adoption had no impact on the Company's consolidated statements of income and condition. See Note 11 to the Consolidated Financial Statements for the disclosures required by ASU No. 2013-02.

Future Application of Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU No.

2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. ASU No. 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all

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periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to continue to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to elect that accounting policy. The adoption of ASU No. 2014-01 is not expected to have 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 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. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 2. Restrictions on Cash

The Company is required to maintain cash on hand or on deposit with the Federal Reserve Bank based on the amount of certain customer deposits, mainly checking accounts. The Bank's average required reserve balances were \$94.2 million and \$93.6 million as of December 31, 2013 and 2012, respectively.

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Note 3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$390,873	\$6,640	\$(234)	\$397,279
Debt Securities Issued by States and Political Subdivisions	691,861	8,396	(13,455)	686,802
Debt Securities Issued by Corporations	280,172	1,165	(7,836)	273,501
Mortgage-Backed Securities:				
Residential - Government Agencies	641,227	13,816	(1,849)	653,194
Residential - U.S. Government-Sponsored Enterprises	21,865	1,403	—	23,268
Commercial - Government Agencies	219,859	—	(10,206)	209,653
Total Mortgage-Backed Securities	882,951	15,219	(12,055)	886,115
Total	\$2,245,857	\$31,420	\$(33,580)	\$2,243,697
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$433,987	\$3,045	\$(3,667)	\$433,365
Debt Securities Issued by States and Political Subdivisions	253,039	817	(133)	253,723
Debt Securities Issued by Corporations	190,181	—	(5,708)	184,473
Mortgage-Backed Securities:				
Residential - Government Agencies	3,523,343	31,786	(66,572)	3,488,557
Residential - U.S. Government-Sponsored Enterprises	21,602	1,423	—	23,025
Commercial - Government Agencies	322,367	—	(7,923)	314,444
Total Mortgage-Backed Securities	3,867,312	33,209	(74,495)	3,826,026
Total	\$4,744,519	\$37,071	\$(84,003)	\$4,697,587
December 31, 2012				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$855,070	\$14,936	\$(17)	\$869,989
Debt Securities Issued by States and Political Subdivisions	753,207	30,159	(955)	782,411
Debt Securities Issued by Corporations	82,450	1,984	—	84,434
Mortgage-Backed Securities:				
Residential - Government Agencies	1,041,669	27,283	(292)	1,068,660
Residential - U.S. Government-Sponsored Enterprises	35,234	2,064	—	37,298
Commercial - Government Agencies	524,055	1,907	(1,197)	524,765
Total Mortgage-Backed Securities	1,600,958	31,254	(1,489)	1,630,723
Total	\$3,291,685	\$78,333	\$(2,461)	\$3,367,557
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$190,168	\$5,198	\$—	\$195,366
Debt Securities Issued by Corporations	24,000	4	—	24,004
Mortgage-Backed Securities:				

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Residential - Government Agencies	3,349,403	86,673	(1,366) 3,434,710
Residential - U.S. Government-Sponsored Enterprises	31,494	2,102	—	33,596
Total Mortgage-Backed Securities	3,380,897	88,775	(1,366	) 3,468,306
Total	\$3,595,065	\$93,977	\$(1,366	) \$3,687,676

December 31, 2011

Available-for-Sale:

Debt Securities Issued by the U.S. Treasury and Government Agencies	\$1,220,282	\$11,204	\$(468) \$1,231,018
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Debt Securities Issued by States and Political Subdivisions	391,276	15,783	—	407,059
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Debt Securities Issued by Corporations	97,917	607	(2,137) 96,387
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Mortgage-Backed Securities:

Residential - Government Agencies	1,618,913	38,066	(1,107) 1,655,872
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Residential - U.S. Government-Sponsored Enterprises	58,548	3,001	—	61,549
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Total Mortgage-Backed Securities	1,677,461	41,067	(1,107) 1,717,421
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Total	\$3,386,936	\$68,661	\$(3,712) \$3,451,885
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Held-to-Maturity:

Debt Securities Issued by the U.S. Treasury and Government Agencies	\$179,474	\$6,704	\$—	\$186,178
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Mortgage-Backed Securities:

Residential - Government Agencies	3,429,038	89,801	(2,918) 3,515,921
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Residential - U.S. Government-Sponsored Enterprises	49,284	2,823	—	52,107
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Total Mortgage-Backed Securities	3,478,322	92,624	(2,918) 3,568,028
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Total	\$3,657,796	\$99,328	\$(2,918) \$3,754,206
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The table below presents an analysis of the contractual maturities of the Company's investment securities as of December 31, 2013. 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	\$33,351	\$33,551
Due After One Year Through Five Years	265,417	270,362
Due After Five Years Through Ten Years	621,917	607,263
Due After Ten Years	119,702	119,820
	1,040,387	1,030,996
Debt Securities Issued by Government Agencies	322,519	326,586
Mortgage-Backed Securities:		
Residential - Government Agencies	641,227	653,194
Residential - U.S. Government-Sponsored Enterprises	21,865	23,268
Commercial - Government Agencies	219,859	209,653
Total Mortgage-Backed Securities	882,951	