UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2012

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**99-0148992**

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

1-888-643-3888

(Registrant s telephone number, including area code)

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

Yes x No o

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

Yes x No o

Indicate by check mark 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 Exchange Act).

Yes o No x

As of July 20, 2012, there were 45,193,551 shares of common stock outstanding.

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Bank of Hawaii Corporation

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Interest Income				
Interest and Fees on Loans and Leases	$ 63,910	$ 65,542	$ 128,601	$ 132,135
Income on Investment Securities				
Available-for-Sale	16,988	23,490	34,701	61,159
Held-to-Maturity	25,054	20,553	51,467	28,186
Deposits	1	2	3	-
Funds Sold	119	297	248	548
Other	281	279	561	558
Total Interest Income	106,353	110,163	215,581	222,586
Interest Expense				
Deposits	3,219	4,792	6,692	10,024
Securities Sold Under Agreements to Repurchase	7,250	7,338	14,554	14,379
Funds Purchased	5	5	10	11
Long-Term Debt	498	529	996	976
Total Interest Expense	10,972	12,664	22,252	25,390
Net Interest Income	95,381	97,499	193,329	197,196
Provision for Credit Losses	628	3,600	979	8,291
Net Interest Income After Provision for Credit Losses	94,753	93,899	192,350	188,905
Noninterest Income				
Trust and Asset Management	11,195	11,427	22,113	23,233
Mortgage Banking	7,581	2,661	12,631	5,783
Service Charges on Deposit Accounts	9,225	9,375	18,816	19,307
Fees, Exchange, and Other Service Charges	12,326	16,662	24,725	31,607
Investment Securities Gains (Losses), Net	-	-	(90)	6,084
Insurance	2,399	3,210	4,677	5,981
Other	4,122	6,128	12,058	11,390
Total Noninterest Income	46,848	49,463	94,930	103,385
Noninterest Expense				
Salaries and Benefits	44,037	46,800	91,061	93,582
Net Occupancy	10,058	10,476	20,574	20,803
Net Equipment	4,669	4,741	10,495	9,439
Professional Fees	2,386	2,294	4,518	4,452
FDIC Insurance	2,088	2,010	4,159	5,254
Other	17,509	27,453	35,147	46,326
Total Noninterest Expense	80,747	93,774	165,954	179,856
Income Before Provision for Income Taxes	60,854	49,588	121,326	112,434
Provision for Income Taxes	20,107	14,440	36,769	34,926
Net Income	$ 40,747	$ 35,148	$ 84,557	$ 77,508
Basic Earnings Per Share	$ 0.90	$ 0.74	$ 1.86	$ 1.63
Diluted Earnings Per Share	$ 0.90	$ 0.74	$ 1.85	$ 1.62
Dividends Declared Per Share	$ 0.45	$ 0.45	$ 0.90	$ 0.90
Basic Weighted Average Shares	45,221,293	47,428,718	45,465,910	47,638,752
Diluted Weighted Average Shares	45,347,368	47,607,814	45,610,489	47,837,778

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

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net Income	$ 40,747	$ 35,148	$ 84,557	$ 77,508
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	3,387	19,265	(3,067)	(235)
Defined Benefit Plans	153	577	306	1,048
Other Comprehensive Income (Loss)	3,540	19,842	(2,761)	813
Comprehensive Income	$ 44,287	$ 54,990	$ 81,796	$ 78,321

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

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Condition (Unaudited)

(dollars in thousands)		**June 30, 2012**		**December 31, 2011**
Assets				
Interest-Bearing Deposits	$	3,057	$	3,036
Funds Sold		499,338		512,384
Investment Securities				
Available-for-Sale		3,339,472		3,451,885
Held to Maturity (Fair Value of $3,828,954 and $3,754,206)		3,729,665		3,657,796
Loans Held for Sale		14,223		18,957
Loans and Leases		5,671,483		5,538,304
Allowance for Loan and Lease Losses		(132,443)		(138,606)
Net Loans and Leases		5,539,040		5,399,698
Total Earning Assets		13,124,795		13,043,756
Cash and Noninterest-Bearing Deposits		131,845		154,489
Premises and Equipment		107,421		103,550
Customers Acceptances		176		476
Accrued Interest Receivable		45,044		43,510
Foreclosed Real Estate		2,569		3,042
Mortgage Servicing Rights		23,254		24,279
Goodwill		31,517		31,517
Other Assets		449,005		441,772
Total Assets	$	13,915,626	$	13,846,391
Liabilities				
Deposits				
Noninterest-Bearing Demand	$	3,105,798	$	2,850,923
Interest-Bearing Demand		2,063,070		2,005,983
Savings		4,435,894		4,398,638
Time		1,943,231		1,337,079
Total Deposits		11,547,993		10,592,623
Funds Purchased		13,756		10,791
Securities Sold Under Agreements to Repurchase		1,065,653		1,925,998
Long-Term Debt		28,075		30,696
Banker s Acceptances		176		476
Retirement Benefits Payable		41,812		46,949
Accrued Interest Payable		5,114		5,330
Taxes Payable and Deferred Taxes		86,095		95,840
Other Liabilities		123,127		135,021
Total Liabilities		12,911,801		12,843,724
Shareholders Equity				
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: June 30, 2012 - 57,301,892 / 45,248,277 and December 31, 2011 - 57,134,470 / 45,947,116)		571		571
Capital Surplus		511,729		507,558
Accumulated Other Comprehensive Income		32,502		35,263
Retained Earnings		1,044,588		1,003,938
Treasury Stock, at Cost (Shares: June 30, 2012 - 12,053,615 and December 31, 2011 - 11,187,354)		(585,565)		(544,663)
Total Shareholders Equity		1,003,825		1,002,667
Total Liabilities and Shareholders Equity	$	13,915,626	$	13,846,391

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

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Shareholders Equity (Unaudited)

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2011	45,947,116	$ 571	$ 507,558	$ 35,263	$ 1,003,938	$ (544,663)	$ 1,002,667
Net Income	-	-	-	-	84,557	-	84,557
Other Comprehensive Loss	-	-	-	(2,761)	-	-	(2,761)
Share-Based Compensation	-	-	3,723	-	-	-	3,723
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	400,094	-	448	-	(2,758)	10,684	8,374
Common Stock Repurchased	(1,098,933)	-	-	-	-	(51,586)	(51,586)
Cash Dividends Paid ($0.90 per share)	-	-	-	-	(41,149)	-	(41,149)
Balance as of June 30, 2012	45,248,277	$ 571	$ 511,729	$ 32,502	$ 1,044,588	$ (585,565)	$ 1,003,825
Balance as of December 31, 2010	48,097,672	$ 570	$ 500,888	$ 26,965	$ 932,629	$ (449,919)	$ 1,011,133
Net Income	-	-	-	-	77,508	-	77,508
Other Comprehensive Income	-	-	-	813	-	-	813
Share-Based Compensation	-	-	1,360	-	-	-	1,360
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	237,619	1	529	-	(2,752)	10,051	7,829
Common Stock Repurchased	(1,109,988)	-	-	-	-	(52,228)	(52,228)
Cash Dividends Paid ($0.90 per share)	-	-	-	-	(42,965)	-	(42,965)
Balance as of June 30, 2011	47,225,303	$ 571	$ 502,777	$ 27,778	$ 964,420	$ (492,096)	$ 1,003,450

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

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)	Six Months Ended June 30, 2012	2011
Operating Activities		
Net Income	$ 84,557	$ 77,508
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	979	8,291
Depreciation and Amortization	6,883	7,076
Amortization of Deferred Loan and Lease Fees	(1,548)	(1,330)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	28,147	23,367
Share-Based Compensation	3,723	1,360
Benefit Plan Contributions	(5,574)	(651)
Deferred Income Taxes	(11,358)	(12,455)
Net Gains on Sales of Leases	(2,841)	(602)
Net Losses (Gains) on Investment Securities	90	(6,084)
Proceeds from Sales of Loans Held for Sale	195,368	234,984
Originations of Loans Held for Sale	(190,634)	(222,022)
Tax Benefits from Share-Based Compensation	(623)	(633)
Net Change in Other Assets and Other Liabilities	(11,543)	(12,981)
Net Cash Provided by Operating Activities	95,626	95,828
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	468,489	490,602
Proceeds from Sales	34,831	682,283
Purchases	(401,944)	(982,759)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	446,346	110,989
Purchases	(540,472)	(281,936)
Net Change in Loans and Leases	(141,526)	(36,718)
Premises and Equipment, Net	(10,755)	(4,691)
Net Cash Used in Investing Activities	(145,031)	(22,230)
Financing Activities		
Net Change in Deposits	955,370	90,039
Net Change in Short-Term Borrowings	(857,380)	(26,794)
Tax Benefits from Share-Based Compensation	623	633
Proceeds from Issuance of Common Stock	7,858	7,334
Repurchase of Common Stock	(51,586)	(52,228)
Cash Dividends Paid	(41,149)	(42,965)
Net Cash Provided by (Used in) Financing Activities	13,736	(23,981)
Net Change in Cash and Cash Equivalents	(35,669)	49,617
Cash and Cash Equivalents at Beginning of Period	669,909	607,547
Cash and Cash Equivalents at End of Period	$ 634,240	$ 657,164
Supplemental Information		
Cash Paid for Interest	$ 21,785	$ 24,279
Cash Paid for Income Taxes	41,775	48,057
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-for-Sale to Investment Securities Held-to-Maturity	-	2,220,814
Transfer from Loans to Foreclosed Real Estate	2,309	1,159
Transfers from Loans to Loans Held for Sale	-	8,555

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

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Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Use of Estimates in the Preparation of Financial Statements

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

Investment Securities

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

Securities Sold Under Agreements to Repurchase

In April 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements.* The provisions of ASU No. 2011-03 modify the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The Company adopted the provisions of ASU No. 2011-03 prospectively for transactions or modifications of existing transactions that occurred on or after January 1, 2012. As the Company accounted for all of its repurchase agreements as collateralized financing arrangements prior to the adoption of ASU No. 2011-03, the adoption had no impact on the Company s Consolidated Financial Statements.

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Fair Value Measurements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The provisions of ASU No. 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity s shareholders equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012. The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company s Consolidated Financial Statements. See Note 12 to the Consolidated Financial Statements for the enhanced disclosures required by ASU No. 2011-04.

Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Under either method, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU No. 2011-05 also eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 was effective for the Company s interim reporting period beginning on or after January 1, 2012, with retrospective application required. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* The provisions of ASU No. 2011-12 defer indefinitely the requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU No. 2011-12, which shares the same effective date as ASU No. 2011-05, does not defer the requirement for entities to present components of comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the provisions of ASU No. 2011-05 and ASU No. 2011-12 which resulted in a new statement of comprehensive income for the interim period ended March 31, 2012. The adoption of ASU No. 2011-05 and ASU No. 2011-12 had no impact on the Company s statements of income and condition.

Future Application of Accounting Pronouncements

In December 2011, the FASB issued 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 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. ASU No. 2011-11 is effective for interim and annual reporting periods beginning on or after January 1, 2013. As the provisions of ASU No. 2011-11 only impact the disclosure requirements related to the offsetting of assets and liabilities, the adoption will have no impact on the Company s Consolidated Financial Statements.

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Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company s investment securities as of June 30, 2012 and December 31, 2011 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 1,104,936	$ 12,089	$ (7)	$ 1,117,018
Debt Securities Issued by States and Political Subdivisions	684,958	21,906	(3,124)	703,740
Debt Securities Issued by Corporations	92,684	1,511	(710)	93,485
Mortgage-Backed Securities Issued by				
[redacted]				
U.S. Government-Sponsored Enterprises	44,690	2,549	-	47,239
Total Mortgage-Backed Securities	1,388,950	37,027	(748)	1,425,229
Total	$ 3,271,528	$ 72,533	$ (4,589)	$ 3,339,472
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 179,459	$ 5,813	$ -	$ 185,272
Mortgage-Backed Securities Issued by				
[redacted]				
U.S. Government-Sponsored Enterprises	39,037	2,467	-	41,504
Total Mortgage-Backed Securities	3,550,206	93,776	(300)	3,643,682
Total	$ 3,729,665	$ 99,589	$ (300)	$ 3,828,954
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
Debt Securities Issued by States and Political Subdivisions	391,276	15,783	-	407,059
Debt Securities Issued by Corporations	97,917	607	(2,137)	96,387
Mortgage-Backed Securities Issued by				
[redacted]				
U.S. Government-Sponsored Enterprises	58,548	3,001	-	61,549
Total Mortgage-Backed Securities	1,677,461	41,067	(1,107)	1,717,421
Total	$ 3,386,936	$ 68,661	$ (3,712)	$ 3,451,885
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 179,474	$ 6,704	$ -	$ 186,178
Mortgage-Backed Securities Issued by				
[redacted]				
U.S. Government-Sponsored Enterprises	49,284	2,823	-	52,107
Total Mortgage-Backed Securities	3,478,322	92,624	(2,918)	3,568,028
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 June 30, 2012. 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	$ 506,168	$ 507,766
Due After One Year Through Five Years	350,223	357,482
Due After Five Years Through Ten Years	297,872	305,803
Due After Ten Years	728,315	743,192
	1,882,578	1,914,243
Mortgage-Backed Securities Issued by Government Agencies	1,344,260	1,377,990
U.S. Government-Sponsored Enterprises	44,690	47,239
Total Mortgage-Backed Securities	1,388,950	1,425,229
Total	$ 3,271,528	$ 3,339,472
Held-to-Maturity:		
Due After One Year Through Five Years	$ 179,459	$ 185,272
Mortgage-Backed Securities Issued by		
[redacted]		
U.S. Government-Sponsored Enterprises	39,037	41,504
Total Mortgage-Backed Securities	3,550,206	3,643,682
Total	$ 3,729,665	$ 3,828,954

Investment securities with carrying values of $3.5 billion and $3.6 billion as of June 30, 2012 and December 31, 2011, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase. As of June 30, 2012 and December 31, 2011, the Company did not have any investment securities pledged where the secured party had the right to sell or repledge the collateral.

There were no sales of investment securities for the three months ended June 30, 2012 and 2011. Gross gains on the sales of investment securities were $0.2 million and $10.3 million for the six months ended June 30, 2012 and 2011, respectively. Gross losses on the sales of investment securities were $0.3 million and $4.2 million for the six months ended June 30, 2012 and 2011, respectively.

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

	Less Than 12 Months		**12 Months or Longer**		**Total**	
(dollars in thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
June 30, 2012						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 285	$ (1)	$ 3,387	$ (6)	$ 3,672	$ (7)
Debt Securities Issued by States and Political Subdivisions	235,567	(3,124)	-	-	235,567	(3,124)
Debt Securities Issued by Corporations	19,290	(710)	-	-	19,290	(710)
Mortgage-Backed Securities Issued by Government Agencies	188,909	(903)	13,290	(145)	202,199	(1,048)
Total	$ 444,051	$ (4,738)	$ 16,677	$ (151)	$ 460,728	$ (4,889)

December 31, 2011												
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	127,644	$	(464)	$	920	$	(4)	$	128,564	$	(468)
Debt Securities Issued by Corporations		38,059		(2,137)		-		-		38,059		(2,137)
Mortgage-Backed Securities Issued by Government Agencies		727,726		(3,751)		34,824		(274)		762,550		(4,025)
Total	$	893,429	$	(6,352)	$	35,744	$	(278)	$	929,173	$	(6,630)

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The Company does not believe that the investment securities that were in an unrealized loss position as of June 30, 2012, which was comprised of 44 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of June 30, 2012 and December 31, 2011, the gross unrealized losses reported for mortgage-backed securities related to investment securities issued by the Government National Mortgage Association.

As of June 30, 2012, the carrying value of the Company s Federal Home Loan Bank and Federal Reserve Bank stock was $61.3 million and $18.8 million, respectively. These securities can only be redeemed or sold at their par value and only to the respective issuing government-supported institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and periodically evaluates these securities for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

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

Loans and Leases

The Company s loan and lease portfolio was comprised of the following as of June 30, 2012 and December 31, 2011:

(dollars in thousands)		**June 30, 2012**		**December 31, 2011**
Commercial				
Commercial and Industrial	$	781,688	$	817,170
Commercial Mortgage		961,984		938,250
Construction		97,668		98,669
Lease Financing		281,020		311,928
Total Commercial		2,122,360		2,166,017
Consumer				
Residential Mortgage		2,401,331		2,215,892
Home Equity		766,839		780,691
Automobile		194,339		192,506
Other [1]		186,614		183,198
Total Consumer		3,549,123		3,372,287
Total Loans and Leases	$	5,671,483	$	5,538,304

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

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Allowance for Loan and Lease Losses (the Allowance)

The following presents by portfolio segment, the activity in the Allowance for the three and six months ended June 30, 2012 and 2011. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company s impairment measurement method and the related recorded investment in loans and leases as of June 30, 2012 and 2011.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended June 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 78,174	$ 57,432	$ 135,606
Loans and Leases Charged-Off	(1,078)	(4,858)	(5,936)
Recoveries on Loans and Leases Previously Charged-Off	545	1,600	2,145
Net Loans and Leases Charged-Off	(533)	(3,258)	(3,791)
Provision for Credit Losses	371	257	628
Balance at End of Period	$ 78,012	$ 54,431	$ 132,443
Six Months Ended June 30, 2012			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 80,562	$ 58,044	$ 138,606
Loans and Leases Charged-Off	(2,839)	(10,856)	(13,695)
Recoveries on Loans and Leases Previously Charged-Off	2,574	3,979	6,553
Net Loans and Leases Charged-Off	(265)	(6,877)	(7,142)
Provision for Credit Losses	(2,285)	3,264	979
Balance at End of Period	$ 78,012	$ 54,431	$ 132,443
As of June 30, 2012			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ 54	$ 4,774	$ 4,828
Collectively Evaluated for Impairment	77,958	49,657	127,615
Total	$ 78,012	$ 54,431	$ 132,443
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 14,131	$ 32,687	$ 46,818
Collectively Evaluated for Impairment	2,108,229	3,516,436	5,624,665
Total	$ 2,122,360	$ 3,549,123	$ 5,671,483
Three Months Ended June 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 87,533	$ 59,825	$ 147,358
Loans and Leases Charged-Off	(1,507)	(7,514)	(9,021)
Recoveries on Loans and Leases Previously Charged-Off	443	2,596	3,039
Net Loans and Leases Charged-Off	(1,064)	(4,918)	(5,982)
Provision for Credit Losses	2,516	1,084	3,600
Balance at End of Period	$ 88,985	$ 55,991	$ 144,976
Six Months Ended June 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 80,977	$ 66,381	$ 147,358
Loans and Leases Charged-Off	(3,164)	(13,217)	(16,381)
Recoveries on Loans and Leases Previously Charged-Off	1,065	4,643	5,708
Net Loans and Leases Charged-Off	(2,099)	(8,574)	(10,673)
Provision for Credit Losses	10,107	(1,816)	8,291
Balance at End of Period	$ 88,985	$ 55,991	$ 144,976
As of June 30, 2011			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ -	$ 3,875	$ 3,875
Collectively Evaluated for Impairment	88,985	52,116	141,101
Total	$ 88,985	$ 55,991	$ 144,976
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 5,109	$ 24,348	$ 29,457
Collectively Evaluated for Impairment	2,081,294	3,240,722	5,322,016

Total	$ 2,086,403	$ 3,265,070	$ 5,351,473

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Credit Quality Indicators

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

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

Pass:	Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely rated. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.
Special Mention:	Loans and leases in the classes within the commercial portfolio segment that have potential weaknesses that deserve management s close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease. The special mention credit quality indicator is not used for classes of loans and leases that are included in the consumer portfolio segment. Management believes that there is a moderate likelihood of some loss related to those loans and leases that are considered special mention.
Classified:	Loans and leases in the classes within the commercial portfolio segment that are inadequately protected by the sound worth and paying capacity of the borrower or of the collateral pledged, if any. Classified loans and leases are also those in the classes within the consumer portfolio segment that are past due 90 days or more as to principal or interest. Residential mortgage loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection and the current loan-to-value ratio is 60% or less. Home equity loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection, the first mortgage is with the Company, and the current combined loan-to-value ratio is 60% or less. Residential mortgage and home equity loans may be current as to principal and interest, but may be considered classified for a period of up to six months following a loan modification. Following a period of demonstrated performance in accordance with the modified contractual terms, the loan may be removed from classified status. Management believes that there is a distinct possibility that the Company will sustain some loss if the deficiencies related to classified loans and leases are not corrected in a timely manner.

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The Company s credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company s loans and leases as of June 30, 2012 and December 31, 2011.

	June 30, 2012				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$ 729,709	$ 883,119	$ 80,888	$ 253,636	$ 1,947,352
Special Mention	24,640	37,066	6,910	25,912	94,528
Classified	27,339	41,799	9,870	1,472	80,480
Total	$ 781,688	$ 961,984	$ 97,668	$ 281,020	$ 2,122,360
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other 1	Total Consumer
Pass	$ 2,374,155	$ 763,187	$ 194,241	$ 186,220	$ 3,517,803
Classified	27,176	3,652	98	394	31,320
Total	$ 2,401,331	$ 766,839	$ 194,339	$ 186,614	$ 3,549,123
Total Recorded Investment in Loans and Leases					$ 5,671,483

	December 31, 2011				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$ 765,339	$ 859,891	$ 83,722	$ 282,081	$ 1,991,033
Special Mention	30,316	43,805	370	26,257	100,748
Classified	21,515	34,554	14,577	3,590	74,236
Total	$ 817,170	$ 938,250	$ 98,669	$ 311,928	$ 2,166,017
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other 1	Total Consumer
Pass	$ 2,186,063	$ 776,473	$ 192,336	$ 182,431	$ 3,337,303
Classified	29,829	4,218	170	767	34,984
Total	$ 2,215,892	$ 780,691	$ 192,506	$ 183,198	$ 3,372,287
Total Recorded Investment in Loans and Leases					$ 5,538,304

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

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

The following presents by class, an aging analysis of the Company s accruing and non-accruing loans and leases as of June 30, 2012 and December 31, 2011.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current 2
As of June 30, 2012								
Commercial								
Commercial and Industrial	$ 685	$ 1,276	$ 1	$ 5,778	$ 7,740	$ 773,948	$ 781,688	$ 5,147
Commercial Mortgage	-	-	-	2,737	2,737	959,247	961,984	2,512
Construction	-	-	-	1,182	1,182	96,486	97,668	1,182
Lease Financing	-	14	-	-	14	281,006	281,020	-
Total Commercial	685	1,290	1	9,697	11,673	2,110,687	2,122,360	8,841
Consumer								
Residential Mortgage	6,280	4,155	4,229	26,803	41,467	2,359,864	2,401,331	4,621
Home Equity	4,337	2,352	2,445	2,425	11,559	755,280	766,839	342
Automobile	2,993	353	98	-	3,444	190,895	194,339	-
Other 1	1,651	1,102	395	-	3,148	183,466	186,614	-
Total Consumer	15,261	7,962	7,167	29,228	59,618	3,489,505	3,549,123	4,963
Total	$ 15,946	$ 9,252	$ 7,168	$ 38,925	$ 71,291	$ 5,600,192	$ 5,671,483	$ 13,804
As of December 31, 2011								
Commercial								
Commercial and Industrial	$ 2,959	$ 743	$ 1	$ 6,243	$ 9,946	$ 807,224	$ 817,170	$ 5,661
Commercial Mortgage	678	-	-	2,140	2,818	935,432	938,250	959
Construction	-	-	-	2,080	2,080	96,589	98,669	-
Lease Financing	-	-	-	5	5	311,923	311,928	5
Total Commercial	3,637	743	1	10,468	14,849	2,151,168	2,166,017	6,625
Consumer								
Residential Mortgage	8,878	9,258	6,422	25,256	49,814	2,166,078	2,215,892	1,856
Home Equity	5,310	2,694	2,194	2,024	12,222	768,469	780,691	97
Automobile	4,095	839	170	-	5,104	187,402	192,506	-
Other 1	1,679	1,528	435	-	3,642	179,556	183,198	-
Total Consumer	19,962	14,319	9,221	27,280	70,782	3,301,505	3,372,287	1,953
Total	$ 23,599	$ 15,062	$ 9,222	$ 37,748	$ 85,631	$ 5,452,673	$ 5,538,304	$ 8,578

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

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

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Impaired Loans

The following presents by class, information related to the Company s impaired loans as of June 30, 2012 and December 31, 2011.

(dollars in thousands)		Recorded Investment		Unpaid Principal Balance		Related Allowance for Loan Losses
June 30, 2012						
Impaired Loans with No Related Allowance Recorded:						
Commercial						
Commercial and Industrial	$	9,033	$	14,283	$	-
Commercial Mortgage		3,029		3,529		-
Construction		1,182		1,512		-
Total Commercial		13,244		19,324		-
Total Impaired Loans with No Related Allowance Recorded	$	13,244	$	19,324	$	-
Impaired Loans with an Allowance Recorded:						
Commercial						
Commercial and Industrial	$	887	$	887	$	54
Total Commercial		887		887		54
Consumer						
Residential Mortgage		26,669		32,565		4,706
Automobile		5,729		5,729		48
Other 1		289		289		20
Total Consumer		32,687		38,583		4,774
Total Impaired Loans with an Allowance Recorded	$	33,574	$	39,470	$	4,828
Impaired Loans:						
Commercial	$	14,131	$	20,211	$	54
Consumer		32,687		38,583		4,774
Total Impaired Loans	$	46,818	$	58,794	$	4,828
December 31, 2011						
Impaired Loans with No Related Allowance Recorded:						
Commercial						
Commercial and Industrial	$	6,176	$	13,526	$	-
Commercial Mortgage		2,140		2,640		-
Total Commercial		8,316		16,166		-
Total Impaired Loans with No Related Allowance Recorded	$	8,316	$	16,166	$	-
Impaired Loans with an Allowance Recorded:						
Commercial						
Commercial and Industrial	$	4,447	$	4,447	$	846
Commercial Mortgage		292		292		19
Construction		2,080		2,080		330
Total Commercial		6,819		6,819		1,195
Consumer						
Residential Mortgage		25,726		30,606		4,138
Home Equity		21		21		1
Automobile		6,190		6,190		75
Other 1		528		528		42
Total Consumer		32,465		37,345		4,256
Total Impaired Loans with an Allowance Recorded	$	39,284	$	44,164	$	5,451
Impaired Loans:						
Commercial	$	15,135	$	22,985	$	1,195
Consumer		32,465		37,345		4,256

Total Impaired Loans	$	47,600	$	60,330	$	5,451

1 Comprised of other revolving credit and installment financing.

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 9,093	$ -	$ 1,329	$ -
Commercial Mortgage	2,571	-	3,272	-
Construction	1,332	-	288	-
Total Commercial	12,996	-	4,889	-
Total Impaired Loans with No Related Allowance Recorded	$ 12,996	$ -	$ 4,889	$ -
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 918	$ 31	$ 2,807	$ 21
Commercial Mortgage	146	4	324	5
Total Commercial	1,064	35	3,131	26
Consumer				
Residential Mortgage	25,133	77	23,595	95
Home Equity	-	-	21	-
Automobile	5,803	149	5,796	145
Other 1	402	3	600	8
Total Consumer	31,338	229	30,012	248
Total Impaired Loans with an Allowance Recorded	$ 32,402	$ 264	$ 33,143	$ 274
Impaired Loans:				
Commercial	$ 14,060	$ 35	$ 8,020	$ 26
Consumer	31,338	229	30,012	248
Total Impaired Loans	$ 45,398	$ 264	$ 38,032	$ 274

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 8,121	$ -	$ 1,407	$ -
Commercial Mortgage	2,427	-	3,307	-
Construction	888	-	192	-
Total Commercial	11,436	-	4,906	-
Total Impaired Loans with No Related Allowance Recorded	$ 11,436	$ -	$ 4,906	$ -
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 2,094	$ 64	$ 3,590	$ 89
Commercial Mortgage	195	8	363	9
Construction	693	-	96	-
Total Commercial	2,982	72	4,049	98
Consumer				
Residential Mortgage	25,330	157	22,749	174

Home Equity		7		-		21		-
Automobile		5,932		303		5,812		288
Other 1		444		10		494		14
Total Consumer		31,713		470		29,076		476
Total Impaired Loans with an Allowance Recorded	$	34,695	$	542	$	33,125	$	574
Impaired Loans:								
Commercial	$	14,418	$	72	$	8,955	$	98
Consumer		31,713		470		29,076		476
Total Impaired Loans	$	46,131	$	542	$	38,031	$	574

1 Comprised of other revolving credit and installment financing.

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For the three and six months ended June 30, 2012 and 2011, the amount of interest income recognized by the Company within the period that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and six months ended June 30, 2012 and 2011, the amount of interest income recognized using a cash-basis method of accounting during the period that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring (TDR) when the Company for economic or legal reasons related to a borrower s financial difficulties grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were $40.0 million and $38.8 million as of June 30, 2012 and December 31, 2011, respectively. There were no commitments to lend additional funds on loans modified in a TDR as of June 30, 2012.

The Company offers various types of concessions when modifying a loan or lease, however, forgiveness of principal is rarely granted. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Lease financing modifications generally involves a short-term forbearance period, usually about three months, after which the missed payments are added to the end of the lease term, thereby extending the maturity date. Interest continues to accrue on the missed payments and as a result, the effective yield on the lease remains unchanged. As the forbearance period usually involves an insignificant payment delay, lease financing modifications typically do not meet the reporting criteria for a TDR. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally two years. During that time, the borrower s entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loans modified in a TDR typically involve extending the balloon payment by one to three years, changing the monthly payments from interest-only to principal and interest, while leaving the interest rate unchanged. Home equity modifications are made infrequently and are offered to borrowers if the Company does not hold the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Borrowers having both a first mortgage and home equity loan with the Company are offered a residential mortgage loan modification. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

The following presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2012.

	Loans Modified as a TDR for the	Loans Modified as a TDR for the

Troubled Debt Restructurings 1 (dollars in thousands)	Three Months Ended June 30, 2012 Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Six Months Ended June 30, 2012 Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	1	$ 45	$ 3	1	$ 45	$ 3
Construction	1	1,182	-	1	1,182	-
Total Commercial	2	1,227	3	2	1,227	3
Consumer						
Residential Mortgage	5	4,367	826	5	4,367	826
Automobile	48	516	4	88	934	8
Total Consumer	53	4,883	830	93	5,301	834
Total	55	$ 6,110	$ 833	95	$ 6,528	$ 837

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

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The following presents by class, loans modified in a TDR that defaulted during the three and six months ended June 30, 2012, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	**Three Months Ended June 30, 2012** Number of Contracts	Recorded Investment (as of period end) 1	**Six Months Ended June 30, 2012** Number of Contracts	Recorded Investment (as of period end) 1
Consumer				
Residential Mortgage	-	$ -	2	$ 702
Automobile	3	27	4	37
Total Consumer	3	27	6	739
Total	3	$ 27	6	$ 739

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

Of the two residential mortgage loans modified in a TDR that subsequently defaulted, one was modified by temporarily lowering monthly payments and applying all payments during this time to principal. The other residential mortgage loan in default pertained to a land loan which was modified from an interest only loan to an amortizing loan, while granting a brief extension on the balloon payment. The automobile loans modified in a TDR that subsequently defaulted were primarily modified by lowering monthly payments by extending the term. There were no other loans modified as a TDR that defaulted during the three and six months ended June 30, 2012, and within twelve months of their modification date.

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

Note 4. Mortgage Servicing Rights

The Company s portfolio of residential mortgage loans serviced for third parties was $3.1 billion and $3.2 billion as of June 30, 2012 and December 31, 2011, respectively. Generally, the Company s residential mortgage loans sold to third parties are sold on a non-recourse basis. The Company s mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was $2.1 million for the three months ended June 30, 2012 and 2011, and $4.2 million for the six months ended June 30, 2012 and 2011. Servicing income is recorded as a component of mortgage banking income in the Company s consolidated statements of income. The Company s residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and six months ended June 30, 2012 and 2011, the change in the carrying value of the Company s mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance at Beginning of Period	$ 6,423	$ 9,692	$ 7,131	$ 10,226
Change in Fair Value:				
Due to Change in Valuation Assumptions 1	(568)	(553)	(881)	(487)
Due to Payoffs	(396)	(287)	(791)	(887)
Total Changes in Fair Value of Mortgage Servicing Rights	(964)	(840)	(1,672)	(1,374)
Balance at End of Period	$ 5,459	$ 8,852	$ 5,459	$ 8,852

1 Principally represents changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.

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For the three and six months ended June 30, 2012 and 2011, the change in the carrying value of the Company s mortgage servicing rights accounted for under the amortization method was as follows:

(dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance at Beginning of Period	$ 17,492	$ 16,227	$ 17,148	$ 15,153
Servicing Rights that Resulted From Asset Transfers	961	473	1,969	1,962
Amortization	(658)	(480)	(1,322)	(895)
Balance at End of Period	$ 17,795	$ 16,220	$ 17,795	$ 16,220
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method				
Beginning of Period	$ 20,406	$ 22,661	$ 17,159	$ 20,340
End of Period	$ 18,937	$ 21,483	$ 18,937	$ 21,483

The key data and assumptions used in estimating the fair value of the Company s mortgage servicing rights as of June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Weighted-Average Constant Prepayment Rate 1	14.49%	15.56%
Weighted-Average Life (in years)	5.40	5.03
Weighted-Average Note Rate	4.77%	4.87%
Weighted-Average Discount Rate 2	5.47%	6.31%

1 Represents annualized loan repayment rate assumption.

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

A sensitivity analysis of the Company s fair value of mortgage servicing rights to changes in certain key assumptions as of June 30, 2012 and December 31, 2011 is presented in the following table.

(dollars in thousands)	June 30, 2012	December 31, 2011
Constant Prepayment Rate		
Decrease in fair value from 25 basis points (bps) adverse change	$ (312)	$ (295)

Decrease in fair value from 50 bps adverse change	(615)	(582)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(351)	(331)
Decrease in fair value from 50 bps adverse change	(692)	(652)

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

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Note 5. 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 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 and are delivered to and held as collateral by third party trustees.

As of June 30, 2012, the contractual maturities of the Company s securities sold under agreements to repurchase were as follows:

(dollars in thousands)		**Amount**
Overnight	$	-
2 to 30 Days		201,100
31 to 90 Days		160,911
Over 90 Days		703,642
Total	$	1,065,653

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Note 6. Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the three and six months ended June 30, 2012 and 2011:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2012			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	$ 9,582	$ 3,808	$ 5,774
Less: Reclassification Adjustment for Gains Realized in Net Income	(3,939)	(1,552)	(2,387)
Net Unrealized Gains on Investment Securities	5,643	2,256	3,387
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	254	101	153
Defined Benefit Plans, Net	254	101	153
Other Comprehensive Income	$ 5,897	$ 2,357	$ 3,540
Three Months Ended June 30, 2011			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	$ 33,440	$ 13,289	$ 20,151
Less: Reclassification Adjustment for Gains Realized in Net Income	(1,431)	(545)	(886)
Net Unrealized Gains on Investment Securities	32,009	12,744	19,265
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	777	200	577
Defined Benefit Plans, Net	777	200	577
Other Comprehensive Income	$ 32,786	$ 12,944	$ 19,842
Six Months Ended June 30, 2012			
Net Unrealized Losses on Investment Securities:			
Net Unrealized Gains Arising During the Period	$ 2,996	$ 1,236	$ 1,760
Less: Reclassification Adjustment for Gains Realized in Net Income	(7,963)	(3,136)	(4,827)
Net Unrealized Losses on Investment Securities	(4,967)	(1,900)	(3,067)
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	505	199	306
Defined Benefit Plans, Net	505	199	306
Other Comprehensive Loss	$ (4,462)	$ (1,701)	$ (2,761)
Six Months Ended June 30, 2011			
Net Unrealized Losses on Investment Securities:			
Net Unrealized Gains Arising During the Period	$ 7,819	$ 3,107	$ 4,712
Less: Reclassification Adjustment for Gains Realized in Net Income	(8,132)	(3,185)	(4,947)
Net Unrealized Losses on Investment Securities	(313)	(78)	(235)
Defined Benefit Plans:			
Amortization of Prior Service Credit and Net Actuarial Losses During the Period	1,554	506	1,048
Defined Benefit Plans, Net	1,554	506	1,048
Other Comprehensive Income	$ 1,241	$ 428	$ 813

Note 7. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Denominator for Basic Earnings Per Share	45,221,293	47,428,718	45,465,910	47,638,752
Dilutive Effect of Stock Options	106,502	166,670	123,706	179,837
Dilutive Effect of Restricted Stock	19,573	12,426	20,873	19,189
Denominator for Diluted Earnings Per Share	45,347,368	47,607,814	45,610,489	47,837,778
Antidilutive Shares Outstanding	537,383	217,209	537,383	217,209

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Note 8. Business Segments

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

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

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, installment loans, and small business loans and leases. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers retail life insurance products. Products and services from Retail Banking are delivered to customers through 66 Hawaii branch locations, 494 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, and deposit products. Commercial lending and deposit products are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders predominantly domiciled in Hawaii. Commercial Banking also includes international banking and operations at the Bank s 11 branches in the Pacific Islands and also provides merchant services to its small business customers.

Investment Services

Investment Services includes private banking, trust services, investment management, and institutional investment advisory services. A significant portion of this segment s income is derived from fees, which are generally based on the market values of assets under management.

The private banking and personal trust group assists individuals and families in building and preserving their wealth by providing investment, credit, and trust services to high-net-worth individuals. The investment management group manages portfolios and creates investment products. Institutional client services offer investment advice to corporations, government entities, and foundations. This segment also provides a full service brokerage offering equities, mutual funds, life insurance, and annuity products.

Treasury and Other

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

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

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Selected business segment financial information as of and for the three months ended June 30, 2012 and 2011 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury and Other	Consolidated Total
Three Months Ended June 30, 2012					
Net Interest Income	$ 38,680	$ 30,817	$ 3,585	$ 22,299	$ 95,381
Provision for Credit Losses	3,334	157	301	(3,164)	628
Net Interest Income After Provision for Credit Losses	35,346	30,660	3,284	25,463	94,753
Noninterest Income	21,389	8,552	15,058	1,849	46,848
Noninterest Expense	(43,797)	(21,597)	(13,875)	(1,478)	(80,747)
Income Before Provision for Income Taxes	12,938	17,615	4,467	25,834	60,854
Provision for Income Taxes	(4,787)	(6,035)	(1,653)	(7,632)	(20,107)
Net Income	$ 8,151	$ 11,580	$ 2,814	$ 18,202	$ 40,747
Total Assets as of June 30, 2012	$ 3,246,917	$ 2,289,516	$ 287,669	$ 8,091,524	$ 13,915,626
Three Months Ended June 30, 2011					
Net Interest Income	$ 43,890	$ 34,686	$ 3,792	$ 15,131	$ 97,499
Provision for Credit Losses	5,585	397	-	(2,382)	3,600
Net Interest Income After Provision for Credit Losses	38,305	34,289	3,792	17,513	93,899
Noninterest Income	21,697	9,741	15,234	2,791	49,463
Noninterest Expense	(52,268)	(24,236)	(15,043)	(2,227)	(93,774)
Income Before Provision for Income Taxes	7,734	19,794	3,983	18,077	49,588
Provision for Income Taxes	(2,861)	(6,946)	(1,474)	(3,159)	(14,440)
Net Income	$ 4,873	$ 12,848	$ 2,509	$ 14,918	$ 35,148
Total Assets as of June 30, 2011	$ 3,058,041	$ 2,266,089	$ 221,347	$ 7,615,727	$ 13,161,204
Six Months Ended June 30, 2012					
Net Interest Income	$ 78,649	$ 62,259	$ 7,131	$ 45,290	$ 193,329
Provision for Credit Losses	7,364	(511)	290	(6,164)	979
Net Interest Income After Provision for Credit Losses	71,285	62,770	6,841	51,454	192,350
Noninterest Income	40,525	20,129	29,132	5,144	94,930
Noninterest Expense	(88,304)	(45,127)	(29,006)	(3,517)	(165,954)
Income Before Provision for Income Taxes	23,506	37,772	6,967	53,081	121,326
Provision for Income Taxes	(8,697)	(9,052)	(2,578)	(16,442)	(36,769)
Net Income	$ 14,809	$ 28,720	$ 4,389	$ 36,639	$ 84,557
Total Assets as of June 30, 2012	$ 3,246,917	$ 2,289,516	$ 287,669	$ 8,091,524	$ 13,915,626
Six Months Ended June 30, 2011					
Net Interest Income	$ 88,314	$ 69,689	$ 7,655	$ 31,538	$ 197,196
Provision for Credit Losses	10,628	209	(140)	(2,406)	8,291
Net Interest Income After Provision for Credit Losses	77,686	69,480	7,795	33,944	188,905
Noninterest Income	41,817	18,797	30,283	12,488	103,385
Noninterest Expense	(96,087)	(48,738)	(30,447)	(4,584)	(179,856)
Income Before Provision for Income Taxes	23,416	39,539	7,631	41,848	112,434
Provision for Income Taxes	(8,664)	(13,748)	(2,824)	(9,690)	(34,926)
Net Income	$ 14,752	$ 25,791	$ 4,807	$ 32,158	$ 77,508
Total Assets as of June 30, 2011	$ 3,058,041	$ 2,266,089	$ 221,347	$ 7,615,727	$ 13,161,204

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Note 9. Pension Plans and Postretirement Benefit Plan

Components of net periodic benefit cost for the Company s pension plans and the postretirement benefit plan are presented in the following table for the three and six months ended June 30, 2012 and 2011.

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2012	2011	2012	2011
Three Months Ended June 30,				
Service Cost	$ -	$ -	$ 145	$ 123
Interest Cost	1,263	1,305	319	359
Expected Return on Plan Assets	(1,449)	(1,612)	-	-
Amortization of:				
Prior Service Credit	-	-	(81)	(53)
Net Actuarial Losses	335	830	-	-
Net Periodic Benefit Cost	$ 149	$ 523	$ 383	$ 429
Six Months Ended June 30,				
Service Cost	$ -	$ -	$ 290	$ 246
Interest Cost	2,526	2,610	639	719
Expected Return on Plan Assets	(3,017)	(3,225)	-	-
Amortization of:				
Prior Service Credit	-	-	(162)	(106)
Net Actuarial Losses (Gains)	667	1,661	-	(1)
Net Periodic Benefit Cost	$ 176	$ 1,046	$ 767	$ 858

The net periodic benefit cost for the Company s pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the consolidated statements of income. For the three and six months ended June 30, 2012, the Company contributed $0.1 million and $5.2 million, respectively, to the pension plans and $0.2 million and $0.3 million, respectively, to the postretirement benefit plan. The Company expects to contribute $5.5 million to the pension plans and $1.3 million to the postretirement benefit plan for the year ending December 31, 2012.

Note 10. Derivative Financial Instruments

The following table presents the Company s derivative financial instruments, their fair values, and balance sheet location as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
Derivative Financial Instruments Not Designated as Hedging Instruments1 (dollars in thousands)	**Asset Derivatives**	**Liability Derivatives**	**Asset Derivatives**	**Liability Derivatives**
Interest Rate Lock Commitments	$ 7,377	$ -	$ 2,344	$ 10
Forward Commitments	37	1,799	8	946
Interest Rate Swap Agreements	35,296	35,567	35,503	35,779
Foreign Exchange Contracts	156	125	230	97

Total	$	42,866	$	37,491	$	38,085	$	36,832

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

The following table presents the Company s derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income for the three and six months ended June 30, 2012 and 2011:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	**Location of Net Gains (Losses) Recognized in the Statement of Income**	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
			2012		**2011**		**2012**		**2011**
Interest Rate Lock Commitments	Mortgage Banking	$	9,363	$	1,908	$	13,066	$	3,389
Forward Commitments	Mortgage Banking		(2,028)		(341)		(1,762)		(105)
Interest Rate Swap Agreements	Other Noninterest Income		(11)		339		5		367
Foreign Exchange Contracts	Other Noninterest Income		713		743		1,580		1,640
Total		$	8,037	$	2,649	$	12,889	$	5,291

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

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

Derivative financial instruments are required to be carried at their fair value on the Company s consolidated statements of condition. As of June 30, 2012 and December 31, 2011, the Company did not designate any derivative financial instruments in formal hedging relationships. The Bank s free-standing derivative financial instruments have been recorded at fair value on the Company s consolidated statements of condition. These financial instruments have been limited to interest rate lock commitments (IRLCs), forward commitments, interest rate swap agreements, and foreign exchange contracts.

The Company enters IRLCs for residential mortgage loans which commit us to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To mitigate this risk, the Company utilizes forward commitments as economic hedges against the potential decreases in the values of the loans held for sale. The IRLCs and forward commitments are free-standing derivatives which are carried at fair value with changes recorded in the mortgage banking component of noninterest income in the Company s consolidated statements of income. Changes in the fair value of IRLCs and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates this risk by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions. The interest rate swap agreements are free-standing derivatives which are carried at fair value with changes included in other noninterest income in the Company s consolidated statements of income. The Company is party to master netting arrangements with its institutional counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of marketable securities, is posted by the counterparty with liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling $35.6 million and $35.8 million as of June 30, 2012 and December 31, 2011, respectively. The collateral posted by the Company for these net liability positions was $2.9 million and $3.6 million as of June 30, 2012 and December 31, 2011, respectively.

The Company s interest rate swap agreements with institutional counterparties contain credit-risk-related contingent features tied to the Company s debt ratings or capitalization levels. Under these provisions, if the Company s debt rating falls below investment grade or if the Company s capitalization levels fall below stipulated thresholds, certain counterparties may require immediate and ongoing collateralization on interest rate swaps in net liability positions, or may require immediate settlement of the contracts. As of June 30, 2012, the Company s debt ratings and capital levels were in excess of these minimum requirements.

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

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Note 11. Credit Commitments

The Company s credit commitments as of June 30, 2012 and December 31, 2011 were as follows:

(dollars in thousands)		June 30, 2012		December 31, 2011
Unfunded Commitments to Extend Credit	$	2,016,176	$	1,975,327
Standby Letters of Credit		65,528		74,082
Commercial Letters of Credit		13,338		18,486
Total Credit Commitments	$	2,095,042	$	2,067,895

Unfunded Commitments to Extend Credit

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

Standby and Commercial Letters of Credit

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

Note 12. Fair Value of Assets and Liabilities

Fair Value Hierarchy

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

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and 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.

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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

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

On a quarterly basis, management reviews the pricing information received from the Company s third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company s third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. As of June 30, 2012 and December 31, 2011, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company s third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company s third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company s third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company s third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Loans Held for Sale

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

Mortgage Servicing Rights

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

Other Assets

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

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Derivative Financial Instruments

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

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2012				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 693,233	$ 423,785	$ -	$ 1,117,018
Debt Securities Issued by States and Political Subdivisions	-	703,740	-	703,740
Debt Securities Issued by Corporations	-	93,485	-	93,485
Mortgage-Backed Securities Issued by Government Agencies	-	1,377,990	-	1,377,990
U.S. Government-Sponsored Enterprises	-	47,239	-	47,239
Total Mortgage-Backed Securities	-	1,425,229	-	1,425,229
Total Investment Securities Available-for-Sale	693,233	2,646,239	-	3,339,472
Loans Held for Sale	-	14,223	-	14,223
Mortgage Servicing Rights	-	-	5,459	5,459
Other Assets	12,091	-	-	12,091
Net Derivative Assets and Liabilities	-	(1,731)	7,106	5,375
Total Assets Measured at Fair Value on a Recurring Basis as of June 30, 2012	$ 705,324	$ 2,658,731	$ 12,565	$ 3,376,620

December 31, 2011								
Investment Securities Available-for-Sale								
Debt Securities Issued by the U.S. Treasury and Government Agencies	$	822,508	$	408,510	$	-	$	1,231,018
Debt Securities Issued by States and Political Subdivisions		-		407,059		-		407,059
Debt Securities Issued by Corporations		-		96,387		-		96,387
Mortgage-Backed Securities Issued by Government Agencies		-		1,655,872		-		1,655,872
U.S. Government-Sponsored Enterprises		-		61,549		-		61,549
Total Mortgage-Backed Securities		-		1,717,421		-		1,717,421
Total Investment Securities Available-for-Sale		822,508		2,629,377		-		3,451,885
Loans Held for Sale		-		18,957		-		18,957
Mortgage Servicing Rights		-		-		7,131		7,131
Other Assets		11,082		-		-		11,082
Net Derivative Assets and Liabilities		-		(805)		2,058		1,253
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2011	$	833,590	$	2,647,529	$	9,189	$	3,490,308

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For the three and six months ended June 30, 2012 and 2011, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)		Mortgage Servicing Rights 1		Net Derivative Assets and Liabilities 2		Total
Three Months Ended June 30, 2012						
Balance as of April 1, 2012	$	6,423	$	2,052	$	8,475
Realized and Unrealized Net Gains (Losses):						
Included in Net Income		(964)		9,352		8,388
Transfers to Loans Held for Sale		-		(4,298)		(4,298)
Balance as of June 30, 2012	$	5,459	$	7,106	$	12,565
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2012	$	(568)	$	7,106	$	6,538
Three Months Ended June 30, 2011						
Balance as of April 1, 2011	$	9,692	$	606	$	10,298
Realized and Unrealized Net Gains (Losses):						
Included in Net Income		(840)		1,877		1,037
Transfers to Loans Held for Sale		-		(2,051)		(2,051)
Balance as of June 30, 2011	$	8,852	$	432	$	9,284
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2011	$	(553)	$	432	$	(121)
Six Months Ended June 30, 2012						
Balance as of January 1, 2012	$	7,131	$	2,058	$	9,189
Realized and Unrealized Net Gains (Losses):						
Included in Net Income		(1,672)		13,071		11,399
Transfers to Loans Held for Sale		-		(8,023)		(8,023)
Balance as of June 30, 2012	$	5,459	$	7,106	$	12,565
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2012	$	(881)	$	7,106	$	6,225
Six Months Ended June 30, 2011						
Balance as of January 1, 2011	$	10,226	$	(332)	$	9,894
Realized and Unrealized Net Gains (Losses):						
Included in Net Income		(1,374)		3,386		2,012
Transfers to Loans Held for Sale		-		(2,622)		(2,622)
Balance as of June 30, 2011	$	8,852	$	432	$	9,284
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2011	$	(487)	$	432	$	(55)

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

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

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For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2012, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Fair Value at June 30, 2012	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Mortgage Servicing Rights	$ 24,396	Discounted Cash Flow	Weighted Average Constant Prepayment Rate 1	14.49 %
			Weighted Average Discount Rate 2	5.47 %
Net Derivative Assets and Liabilities				
Interest Rate Lock Commitments	$ 7,377	Pricing Model	Weighted Average Closing Ratio	86.22 %
Interest Rate Swap Agreements	$ (271)	Discounted Cash Flow	Weighted Average Credit Factor	0.76 %

1 Represents annualized loan repayment rate assumption.

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

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

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

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

The unobservable input used in the fair value measurement of the Company s interest rate swap agreements is the credit factor. This factor represents the risk that a counterparty is either unable or unwilling to settle a transaction in accordance with the underlying contractual terms. A significant increase (decrease) in the credit factor could result in a significantly lower (higher) fair value measurement. The credit factor is determined by the Treasury Division based on the risk rating assigned to each counterparty in which the Company holds a net asset position. The Company s Credit Policy Committee periodically reviews and approves the Expected Default Frequency of the Economic Capital Model for Credit Risk. The Expected Default Frequency is used as the credit factor for the interest rate swap agreements.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets. As of June 30, 2012 and 2011, there were no material adjustments to fair value for the Company s assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

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Fair Value Option

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

The following table reflects the difference between the aggregate fair value and the aggregate unpaid principal balance of the Company s residential mortgage loans held for sale as of June 30, 2012 and December 31, 2011.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
June 30, 2012			
Loans Held for Sale	$ 14,223	$ 13,676	$ 547
December 31, 2011			
Loans Held for Sale	$ 18,957	$ 18,088	$ 869

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company s consolidated statements of income. For the three and six months ended June 30, 2012, the Company recorded a net loss of $0.7 million and $0.9 million, respectively, as a result of the change in fair value of the Company s residential mortgage loans held for sale.

Disclosures about Fair Value of Financial Instruments

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

Investment Securities Held-to-Maturity

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

Loans

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

Time Deposits

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

Securities Sold Under Agreements to Repurchase

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

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Long-Term Debt

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company s financial instruments as of June 30, 2012 and December 31, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

			Fair Value Measurements		
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2012					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$ 3,729,665	$ 3,828,954	$ 185,272	$ 3,643,682	$ -
Loans1	5,220,775	5,572,928	-	-	5,572,928
Financial Instruments - Liabilities					
Time Deposits	1,943,231	1,953,931	-	1,953,931	-
Securities Sold Under Agreements to Repurchase	1,065,653	1,181,110	-	1,181,110	-
Long-Term Debt2	19,185	21,986	-	21,986	-
December 31, 2011					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$ 3,657,796	$ 3,754,206	$ 186,178	$ 3,568,028	$ -
Loans1	5,098,681	5,373,777	-	-	5,373,777
Financial Instruments - Liabilities					
Time Deposits	1,337,079	1,347,576	-	1,347,576	-
Securities Sold Under Agreements to Repurchase	1,925,998	2,031,057	-	2,031,057	-
Long-Term Debt2	21,787	24,076	-	24,076	-

1 Comprised of loans, net of unearned income and the Allowance related to loans.

2 Excludes capitalized lease obligations.

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

Forward-Looking Statements

This report contains forward-looking statements 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) the competitive pressure among financial services and products; 4) the impact of 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 interruption or breach in security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 14) changes to the amount and timing of proposed common stock repurchases; and 15) natural disasters or adverse weather, public unrest, public health and other conditions that impact us and our customers operations. For 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, refer to the section entitled Risk Factors in Part II of this report and Part I of our Annual Report on Form 10-K for the year ended December 31, 2011, and subsequent periodic and current reports, filed with the U.S. Securities and Exchange Commission (the SEC). Words such as believes, anticipates, expects, intends, targeted, and similar expressions are intended to identify forward-lookin statements but are not the exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Reclassifications

Certain prior period information in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) has been reclassified to conform to current period classifications.

Overview

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

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

Exceptional people working together are the foundation for our success and enable us to build exceptional value for our customers, communities, shareholders, and each other. Excellence, integrity, respect, innovation, commitment, and teamwork are the core values for the way we do business. Our business plan is balanced between growth and risk management, including the flexibility to adjust, given the uncertainties of the economy. We remain cautious about the economy, interest rates, and loan demand. We intend to continue to focus on providing customers with a competitive mix of products and services, improving expense management, and efficiently managing capital.

Hawaii Economy

Hawaii s economy was stable during the second quarter of 2012 with continued improvement in tourism, the State s largest industry. For the first five months of 2012, total visitor arrivals increased by 10.0% and visitor spending increased by 16.8% compared to the same period in 2011. The increase in visitor spending was primarily due to strong growth from international visitors. Hotel occupancy and revenue per available room also continued to improve. Statewide seasonally-adjusted unemployment was 6.4% in June 2012, compared to 8.2% nationally. For the first six months of 2012, the volume of single-family home sales on Oahu was relatively unchanged from the same period in 2011, while the median price of single-family homes sold was 8.7% higher compared to the same period in 2011. Single-family home inventory on Oahu continued to shrink and was at approximately four months as of June 30, 2012.

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Earnings Summary

Net income for the second quarter of 2012 was $40.7 million, an increase of $5.6 million or 16% compared to the same period in 2011. Diluted earnings per share were $0.90 for the second quarter of 2012, an increase of $0.16 or 22% compared to the same period in 2011. The change in net income for the second quarter of 2012 was primarily due to the following:

- Net interest income for the second quarter of 2012 was $95.4 million, a decrease of $2.1 million or 2% compared to the same period in 2011. The net interest margin was 2.98% in the second quarter of 2012, a decrease of 18 basis points compared to the same period in 2011. This decrease was primarily due to lower yields on loans and investments, a result of the low interest rate environment.

- The provision for credit losses (the Provision) for the second quarter of 2012 was $0.6 million, a decrease of $3.0 million or 83% compared to the same period in 2011. This decrease was primarily due to improving credit trends and the underlying risk profile of the loan portfolio as economic conditions in Hawaii continued to stabilize.

- Mortgage banking income for the second quarter of 2012 was $7.6 million, an increase of $4.9 million compared to the same period in 2011. This was primarily due to an increase in loan origination volume related to refinancing activity, a result of low interest rates.

- Salaries and benefits expense for the second quarter of 2012 was $44.0 million, a decrease of $2.8 million or 6% compared to the same period in 2011. As of June 30, 2012, we had 4% fewer full-time equivalent employees compared to June 30, 2011. We also recorded lower share-based compensation, retirement plan expense, and separation expense in the second quarter of 2012 compared to the same period in 2011.

- Other noninterest expense for the second quarter of 2012 was $17.5 million, a decrease of $9.9 million or 36% compared to the same period in 2011. This was primarily due to a $9.0 million accrual related to the settlement of overdraft litigation recorded in the second quarter of 2011.

We also experienced lower debit card income and a higher provision for income taxes. Debit card income was $4.1 million for the second quarter of 2012, a decrease of $4.0 million or 49% compared to the same period in 2011. This decrease was primarily due to changes in debit card interchange rules as a result of pricing restrictions imposed by the Durbin Amendment which was effective October 1, 2011. The provision for income taxes was $20.1 million for the second quarter of 2012, an increase of $5.7 million or 39% compared to the same period in 2011. This increase was primarily due to higher pre-tax income in the second quarter of 2012 compared to the same period in 2011 as well as a benefit for the release of reserves recorded in the second quarter of 2011.

Net income for the first six months of 2012 was $84.6 million, an increase of $7.0 million or 9% compared to the same period in 2011. Diluted earnings per share were $1.85 for the first six months of 2012, an increase of $0.23 or 14% compared to the same period in 2011. The change in net income for the first six months of 2012 was primarily due to the following:

- Net interest income was $193.3 million for the first six months of 2012, a decrease of $3.9 million or 2% compared to the same period in 2011. The net interest margin was 3.02% for the first six months of 2012, a decrease of 18 basis points compared to the same period in 2011. This decrease was primarily due to lower yields on loans and investments, a result of the low interest rate environment, and investing conservatively.

- The Provision for the first six months of 2012 was $1.0 million, a decrease of $7.3 million compared to the same period in 2011. Consistent with improvements in our credit quality, the Provision was $6.2 million less than net charge-offs of loans and leases for the first six months of 2012 compared to the same period in 2011.

- Mortgage banking income for the first six months of 2012 was $12.6 million, an increase of $6.8 million compared to the same period in 2011. This was primarily due to increased loan refinancing activity as a result of low interest rates.

- Salaries and benefits expense for the first six months of 2012 was $91.1 million, a decrease of $2.5 million or 3% compared to the same period in 2011. As noted above, we had 4% fewer full-time equivalent employees as of June 30, 2012 compared to June 30, 2011. We also recorded lower retirement plan expense and separation expense for the first six months of 2012 compared to the same period in 2011.

- Other noninterest expense for the first six months of 2012 was $35.1 million, a decrease of $11.2 million or 24% compared to the same period in 2011. As previously noted, our financial results in 2011 were adversely impacted by a $9.0 million accrual related to the settlement of overdraft litigation.

We also experienced lower debit card income and gains from the sale of investment securities. Debit card income was $7.6 million for the first six months of 2012, a decrease of $7.0 million or 48% compared to the same period in 2011. As previously noted, this decrease was primarily due to the provisions of the Durbin Amendment which was effective October 1, 2011. Net losses from the sales of investment securities were $0.1 million for the first six months of 2012 compared to net gains of $6.1 million for the same period in 2011. The amount and timing of our sale of investment securities are dependent on a number of factors, including our efforts to preserve capital levels while managing duration and extension risk.

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Our results for the first six months of 2012 were influenced by a stable and generally improving economy in Hawaii. However, we remained cautious about the slow pace of economic recovery both in Hawaii and on the U.S. Mainland. We also continued to monitor regulatory changes and the associated costs of compliance as well as volatility in the financial markets. As a result of the uncertainties in the economic recovery, we continued to maintain adequate reserves for credit losses and high levels of liquidity and capital. In particular:

- The allowance for loan and lease losses (the Allowance) was $132.4 million as of June 30, 2012, a decrease of $6.2 million or 4% from December 31, 2011. The ratio of our Allowance to total loans and leases outstanding decreased to 2.34% as of June 30, 2012, compared to 2.50% as of December 31, 2011. Absent significant deterioration in the economy and assuming continued improvement and/or stability in credit quality, we may reduce the Allowance in future periods.

- Total deposits were $11.5 billion as of June 30, 2012, an increase of $955.4 million or 9% from December 31, 2011. This increase was primarily due to local government entities transferring funds from repurchase agreements to time deposits. Commercial and consumer deposits also increased over this period as customers remain cautious about investing and spending.

- We continued to invest excess liquidity in high-grade investment securities. As of June 30, 2012, the total carrying value of our investment securities portfolio was $7.1 billion. During the first six months of 2012, we continued to increase our state and municipal bond holdings in an effort to partially offset extension risk associated with our mortgage-backed securities.

- Total shareholders equity was $1.0 billion as of June 30, 2012, relatively unchanged from December 31, 2011. We continued to return capital to our shareholders in the form of share repurchases and dividends. During the first six months of 2012, we repurchased 1.1 million shares of common stock at a total cost of $50.0 million under our share repurchase program. We also paid cash dividends of $41.1 million during the first six months of 2012. In the second quarter of 2012, we reduced our share repurchases to $20.0 million compared to $30.0 million in the first quarter of 2012.

In 2012, should economic conditions continue to stabilize in Hawaii, we may see improving prospects for loan growth in certain portfolios. However, we remain cautious about interest rates, the uncertainties of government regulation, as well as increased pressure on fee-based revenues in future periods. In particular, the full year impact of compliance with the Durbin Amendment in 2012 is expected to significantly reduce debit card income. For the remainder of 2012, we intend to continue to focus on controlling expenses and maintaining adequate levels of liquidity, reserves for credit losses, and capital.

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Our financial highlights are presented in Table 1.

Financial Highlights **Table 1**

(dollars in thousands, except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
For the Period:				
Operating Results				
Net Interest Income	$ 95,381	$ 97,499	$ 193,329	$ 197,196
Provision for Credit Losses	628	3,600	979	8,291
Total Noninterest Income	46,848	49,463	94,930	103,385
Total Noninterest Expense	80,747	93,774	165,954	179,856
Net Income	40,747	35,148	84,557	77,508
Basic Earnings Per Share	0.90	0.74	1.86	1.63
Diluted Earnings Per Share	0.90	0.74	1.85	1.62
Dividends Declared Per Share	0.45	0.45	0.90	0.90
Performance Ratios				
Return on Average Assets	1.19 %	1.09 %	1.24 %	1.21 %
Return on Average Shareholders Equity	16.19	13.86	16.73	15.36
Efficiency Ratio 1	56.77	63.81	57.57	59.84
Net Interest Margin 2	2.98	3.16	3.02	3.20
Dividend Payout Ratio 3	50.00	60.81	48.39	55.21
Average Shareholders Equity to Average Assets	7.36	7.84	7.41	7.85
Average Balances				
Average Loans and Leases	$ 5,641,588	$ 5,326,123	$ 5,602,473	$ 5,318,993
Average Assets	13,750,488	12,967,232	13,715,859	12,966,437
Average Deposits	10,622,420	9,790,349	10,526,317	9,831,809
Average Shareholders Equity	1,012,182	1,016,813	1,016,425	1,017,795
Market Price Per Share of Common Stock				
Closing	$ 45.95	$ 46.52	$ 45.95	$ 46.52
High	49.99	49.26	49.99	49.26
Low	44.02	44.90	44.02	44.32

	June 30, 2012	December 31, 2011
As of Period End:		
Balance Sheet Totals		
Loans and Leases	$ 5,671,483	$ 5,538,304
Total Assets	13,915,626	13,846,391
Total Deposits	11,547,993	10,592,623
Long-Term Debt	28,075	30,696
Total Shareholders Equity	1,003,825	1,002,667
Asset Quality		
Allowance for Loan and Lease Losses	$ 132,443	$ 138,606
Non-Performing Assets	41,494	40,790
Financial Ratios		
Allowance to Loans and Leases Outstanding	2.34 %	2.50 %
Tier 1 Capital Ratio	16.41	16.68
Total Capital Ratio	17.67	17.95
Tier 1 Leverage Ratio	6.57	6.73
Total Shareholders Equity to Total Assets	7.21	7.24
Tangible Common Equity to Tangible Assets 4	7.00	7.03
Tangible Common Equity to Risk-Weighted Assets 4	17.57	17.93

Non-Financial Data		
Full-Time Equivalent Employees	2,312	2,370
Branches and Offices	77	81
ATMs	494	506

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

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

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

4 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. Table 2 provides a reconciliation of these Non-GAAP financial measures with financial measures defined by GAAP.

GAAP to Non-GAAP Reconciliation **Table 2**

(dollars in thousands)	June 30, 2012	December 31, 2011
Total Shareholders Equity	$ 1,003,825	$ 1,002,667
Less: Goodwill	31,517	31,517
Intangible Assets	58	83
Tangible Common Equity	$ 972,250	$ 971,067
Total Assets	$ 13,915,626	$ 13,846,391
Less: Goodwill	31,517	31,517
Intangible Assets	58	83
Tangible Assets	$ 13,884,051	$ 13,814,791
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	$ 5,532,285	$ 5,414,481
Total Shareholders Equity to Total Assets	7.21%	7.24%
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.00%	7.03%
Tier 1 Capital Ratio	16.41%	16.68%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP)	17.57%	17.93%

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Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 3. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 4.

Average Balances and Interest Rates Taxable-Equivalent Basis **Table 3**

	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended