

BANK OF HAWAII CORP
Form 10-K
February 24, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark
One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____

Commission File Number 1-6887

BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)
Delaware
(State of incorporation)
130 Merchant Street, Honolulu, Hawaii
(Address of principal executive offices)
1-888-643-3888
(Registrant's telephone number, including area code)

99-0148992
(I.R.S. Employer Identification No.)
96813
(Zip Code)

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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

Large accelerated filer x

Accelerated filer o

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

Smaller reporting company o

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

Yes o No x

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of \$58.69, was approximately \$2,546,420,650.

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

As of February 13, 2015, there were 43,666,990 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2015 Annual Meeting of Shareholders to be held on April 24, 2015, are incorporated by reference into Part III of this Report.

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2014 Form 10-K Annual Report
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Part I

Item 1. Business

General

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

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

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

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

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

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

Competition

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

Supervision and Regulation

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

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The Parent

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

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

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

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

Bank of Hawaii

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

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

The Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has broadly affected the financial services industry and significantly restructured the financial regulatory regime since its passage in July 2010. The Dodd-Frank Act and its regulations have implemented sweeping changes to the financial regulatory

landscape aimed at strengthening the sound operation of the financial services sector by requiring ongoing stress testing of banks' capital, mandating higher capital and liquidity requirements, establishing new standards for mortgage lenders, increasing regulation of executive and incentive-based compensation and numerous other provisions. Additional provisions in the Dodd-Frank Act also limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds. All of these new rules and regulations may result in increased compliance and other costs, increased legal risk and decreased product offerings.

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

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continue to have on the Company, our customers, our financial condition and results of operations, or the financial industry in general.

Capital Requirements

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

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

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Under regulations established by the federal banking agencies, a "well capitalized" institution must have a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2014, the Bank was classified as "well capitalized." The classification of a depository institution under FDICIA is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of that financial institution.

In December 2010, the oversight body of the Basel Committee on Banking Supervision finalized a set of international guidelines for determining regulatory capital known as "Basel III," which includes reforms regarding capital, leverage, and liquidity. In July 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC") and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule to be fully phased-in by January 1, 2019.

As part of implementing the provisions of the Dodd-Frank Act, in October 2012, the FRB published final rules requiring banks with total consolidated assets of more than \$10.0 billion to conduct and publish annual stress tests. Compliance with these requirements began in October 2013, with the first public disclosure of the annual stress testing results to be made between June 15 and June 30, 2015.

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

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Dividend Restrictions

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

Transactions with Affiliates and Insiders

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

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

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

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

Volcker Rule

On December 10, 2013, the final "Volcker Rule" under the Dodd-Frank Act was approved by the FRB, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission. The Volcker Rule prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The final rule may limit or restrict the Company's activities related to proprietary trading and private equity investing. In connection with the issuance of the regulations, the FRB exercised its authority to extend the conformance period for compliance with the Volcker Rule by one year from July 21, 2014 to July 21, 2015. During the remaining conformance period, each banking entity is expected to engage in

good faith efforts that will result in conformance of all its activities and investments with the requirements of the Volcker Rule by July 21, 2015. On December 18, 2014, the FRB issued an order extending, for an additional year to July 21, 2016, the Volcker Rule conformance period for banking entities to conform their investments in and relationships with covered funds subject to the Volcker Rule that were in place prior to December 31, 2013. No extension was granted for the conformance period for proprietary trading which will expire on July 21, 2015. The Company does not anticipate that the Volcker Rule will have a material impact on the Company's Consolidated Financial Statements, but continues to evaluate its application to our current and future operations.

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund (the "DIF"), which the FDIC maintains by assessing depository institutions an insurance premium. Pursuant to the Dodd-Frank Act, the amount of deposit

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insurance coverage for deposits increased permanently from \$100,000 to \$250,000, per depositor, for each account ownership category. The Company pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC.

On February 7, 2011, as required by the Dodd-Frank Act, the FDIC approved final rules on assessments which became effective on April 1, 2011. These final rules redefined the base for FDIC insurance assessments from the amount of insured deposits to an institution's "average consolidated total assets minus average tangible equity." Our FDIC insurance assessment was \$7.9 million in 2014, \$7.8 million in 2013, and \$7.9 million in 2012.

On November 18, 2014, the FDIC published a final rule, effective January 1, 2015, modifying certain elements of its deposit insurance assessment system for insured depository institutions. The final rule amends the FDIC's 2011 revised methodology for determining insurance assessment rates. The final rule also revises the ratios and ratio thresholds for "well-capitalized," "adequately capitalized," and "undercapitalized" evaluation categories used in the FDIC's risk-based deposit insurance assessment system to conform to the prompt corrective action capital ratio thresholds adopted as part of the U.S. Basel III capital rules.

Other Safety and Soundness Regulations

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

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

Community Reinvestment and Consumer Protection Laws

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

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

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

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

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and equitable access to the entire spectrum of financial products and services, including credit cards, student and auto lending, to all consumers and businesses in the marketplace it serves, and strives to be clear and transparent in all communications with customers, treating them fairly in all circumstances.

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

Bank Secrecy Act / Anti-Money Laundering Laws

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

Employees

As of December 31, 2014, we had approximately 2,200 employees.

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Executive Officers of the Registrant

Listed below are executive officers of the Parent as of December 31, 2014.

Peter S. Ho, 49

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

Kent T. Lucien, 61

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

Peter M. Biggs, 63

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

Sharon M. Crofts, 49

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

Wayne Y. Hamano, 60

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

Mark A. Rossi, 65

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

Mary E. Sellers, 58

Vice Chairman and Chief Risk Officer since July 2005.

Donna A. Tanoue, 60

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

Derek J. Norris, 65

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

Dean Y. Shigemura, 51

Senior Executive Vice President and Controller since August 2014; Senior Executive Vice President and Treasurer since May 2008.

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Item 1A. Risk Factors

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

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

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

General economic conditions in Hawaii continued to be healthy in 2014, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an accelerating construction industry. However, deterioration of economic conditions, either locally or nationally, could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings. The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be negatively impacted by a decline in the value of collateral.

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

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

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

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

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

Credit losses could increase if economic conditions stagnate or deteriorate.

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

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

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

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

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

The CFPB has begun to exercise its broad rule-making, supervisory, and examination authority of consumer products, as well as expanded data collecting and enforcement powers, over depository institutions with more than \$10.0 billion in assets. The CFPB has recently focused its rulemaking in several areas, particularly in the areas of mortgage reform involving the Real Estate Settlement Procedures Act (Reg X), the Truth-in-Lending Act (Reg Z), the Equal Credit Opportunity Act (Reg B), and the Fair Debt Collection Practices Act. On January 10, 2014, several mortgage-related rules went into effect involving, among other things, new Ability-to-Repay requirements, standards for the "Qualified Mortgage" safe harbor, a new regulatory framework for mortgage servicing, and changes to loan originator compensation arrangements. All of these rules have created challenges for product and service offerings, operations and compliance programs for the Company.

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

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

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

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

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

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

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

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

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

Competition may adversely affect our business.

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

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

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

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

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. These third parties with which we do business or that facilitate our business activities, including exchanges, clearing firms, financial intermediaries or vendors that provide services or security solutions for

our operations, could also be sources of operational and information security risk to us, including breakdowns or failures of their own systems or capacity constraints. Although we have safeguards and business continuity plans in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses, loss of customers, or damage to our reputation.

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

Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and

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

Our business requires the collection and retention of large volumes of customer data, including credit card numbers and other personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. Our collection of such customer and company data is subject to extensive regulation by private groups such as the payment card industry, as well as governmental authorities.

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

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

to do business with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our results of operations, financial condition, and cash flows as well as damage our brand and reputation.

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

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

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

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

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

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

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

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

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

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

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

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

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our derivative financial instruments and mortgage servicing rights. Mortgage banking income may also be impacted by changes in

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our strategy to manage our residential mortgage portfolio. For example, we may occasionally change the proportion of our loan originations that are sold in the secondary market and added to our loan portfolio.

Our mortgage banking income decreased in 2014 compared to 2013 primarily due to lower mortgage application and production volume as refinancing activity declined. Also contributing to the decrease was our decision to add more conforming saleable loans to our portfolio in 2014 which reduced our gains on sales of residential mortgage loans. Further decreases in mortgage banking income could adversely affect our results of operations.

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

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

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

During 2014, the Parent repurchased 1.1 million shares of the Parent's common stock at a total cost of \$60.7 million under its share repurchase program. The Parent also paid cash dividends of \$79.7 million during 2014. In January 2015, the Parent's Board of Directors declared a quarterly cash dividend of \$0.45 per share on the Parent's outstanding shares. In addition, from January 1, 2015 through February 13, 2015, the Parent repurchased an additional 149,048 shares of common stock at an average cost of \$57.16 per share and a total cost of \$8.5 million. As of February 13, 2015, remaining buyback authority was \$64.7 million of the total \$2.0 billion repurchase amount authorized by our Board of Directors.

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable.

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Part II

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

Market Information, Shareholders, and Dividends

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

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

Year/Period	Market Price Range			Book Value	Dividends Declared
	High	Low	Close		
2014	\$61.73	\$52.70	\$59.31	\$24.13	\$1.80
First Quarter	61.36	54.16	60.61		0.45
Second Quarter	61.73	53.45	58.69		0.45
Third Quarter	60.75	55.55	56.81		0.45
Fourth Quarter	61.00	52.70	59.31		0.45
2013	\$59.92	\$44.88	\$59.14	\$22.75	\$1.80
First Quarter	50.91	44.88	50.81		0.45
Second Quarter	52.17	46.04	50.32		0.45
Third Quarter	57.13	50.50	54.45		0.45
Fourth Quarter	59.92	53.16	59.14		0.45

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 13, 2015, there were 6,425 common shareholders of record.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ²
October 1 - 31, 2014	184,563	\$55.96	184,000	\$78,926,775
November 1 - 30, 2014	65,297	59.10	64,000	75,139,195
December 1 - 31, 2014	50,360	58.58	32,530	73,246,588
Total	300,220	\$57.08	280,530	

¹ During the fourth quarter of 2014, 19,690 shares were purchased from employees and/or directors in connection with shares purchased for a deferred compensation plan, and income tax withholdings related to the vesting of restricted stock. These shares were not purchased as part of the publicly announced program. The shares were purchased at the

closing price of the Parent's common stock on the dates of purchase.

² The share repurchase program was first announced in July 2001. As of December 31, 2014, \$73.2 million remained of the total \$2.0 billion total repurchase

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

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Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that \$100 was invested on December 31, 2009 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.

	2009	2010	2011	2012	2013	2014
Bank of Hawaii Corporation	\$100	\$104	\$103	\$106	\$147	\$152
S&P 500 Index	\$100	\$115	\$117	\$136	\$180	\$205
S&P Banks Index	\$100	\$113	\$83	\$116	\$157	\$178

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)

	2014	2013	2012	2011	2010	
Year Ended December 31,						
Operating Results						
Net Interest Income	\$379.7	\$358.9	\$377.3	\$390.2	\$406.5	
Provision for Credit Losses	(4.9	) —	1.0	12.7	55.3	
Total Noninterest Income	180.0	186.2	200.3	197.7	255.3	
Total Noninterest Expense	326.9	331.0	334.3	348.2	346.2	
Net Income	163.0	150.5	166.1	160.0	183.9	
Basic Earnings Per Share	3.71	3.39	3.68	3.40	3.83	
Diluted Earnings Per Share	3.69	3.38	3.67	3.39	3.80	
Dividends Declared Per Share	1.80	1.80	1.80	1.80	1.80	
Performance Ratios						
Net Income to Average Total Assets (ROA)	1.14	% 1.10	% 1.22	% 1.22	% 1.45	%
Net Income to Average Shareholders' Equity (ROE)	15.50	14.78	16.23	15.69	18.16	
Efficiency Ratio ¹	58.41	60.71	57.88	59.23	52.32	
Net Interest Margin ²	2.85	2.81	2.97	3.13	3.41	
Dividend Payout Ratio ³	48.52	53.10	48.91	52.94	47.00	
Average Shareholders' Equity to Average Assets	7.35	7.44	7.52	7.78	7.98	
Average Balances						
Average Loans and Leases	\$6,405.4	\$5,883.7	\$5,680.3	\$5,349.9	\$5,472.5	
Average Assets	14,317.5	13,692.1	13,609.2	13,105.0	12,687.7	
Average Deposits	12,122.1	11,396.8	10,935.0	9,924.7	9,509.1	
Average Shareholders' Equity	1,052.2	1,018.3	1,023.3	1,020.1	1,012.7	
Weighted Average Shares Outstanding						
Basic Weighted Average Shares	43,899,208	44,380,948	45,115,441	47,064,925	48,055,025	
Diluted Weighted Average Shares	44,125,456	44,572,725	45,249,300	47,224,981	48,355,965	
As of December 31,						
Balance Sheet Totals						
Loans and Leases	\$6,897.6	\$6,095.4	\$5,854.5	\$5,538.3	\$5,335.8	
Total Assets	14,787.2	14,084.3	13,728.4	13,846.4	13,126.8	
Total Deposits	12,633.1	11,914.7	11,529.5	10,592.6	9,889.0	
Long-Term Debt	173.9	174.7	128.1	30.7	32.7	
Total Shareholders' Equity	1,055.1	1,012.0	1,021.7	1,002.7	1,011.1	
Asset Quality						
Allowance for Loan and Lease Losses	\$108.7	\$115.5	\$128.9	\$138.6	\$147.4	
Non-Performing Assets	30.1	39.7	37.1	40.8	37.8	

Financial Ratios

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Allowance to Loans and Leases Outstanding	1.58	% 1.89	% 2.20	% 2.50	% 2.76	%
Tier 1 Capital Ratio ⁴	14.69	16.05	17.18	17.90	18.96	
Total Capital Ratio ⁴	15.94	17.31	18.45	19.17	20.23	
Tier 1 Leverage Ratio ⁴	7.13	7.24	7.25	7.20	7.45	
Total Shareholders' Equity to Total Assets	7.14	7.19	7.44	7.24	7.70	
Tangible Common Equity to Tangible Assets ⁵	6.94	6.98	7.23	7.03	7.48	
Tangible Common Equity to Risk-Weighted Assets ^{4, 5}	14.46	15.67	17.46	18.17	19.49	

Non-Financial Data

Full-Time Equivalent Employees	2,161	2,196	2,276	2,370	2,399
Branches and Offices	74	74	76	81	82
ATMs	459	466	494	506	502
Common Shareholders of Record	6,421	6,564	6,775	6,977	7,128

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

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

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

⁴ Financial ratios for prior periods were revised to conform to the current period calculation.

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

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Use of Non-GAAP Financial Measures

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

GAAP to Non-GAAP Reconciliation

	December 31,					
(dollars in thousands)	2014	2013	2012	2011	2010	
Total Shareholders' Equity	\$1,055,086	\$1,011,976	\$1,021,665	\$1,002,667	\$1,011,133	
Less: Goodwill	31,517	31,517	31,517	31,517	31,517	
Intangible Assets	—	—	33	83	154	
Tangible Common Equity	\$1,023,569	\$980,459	\$990,115	\$971,067	\$979,462	
Total Assets	\$14,787,208	\$14,084,280	\$13,728,372	\$13,846,391	\$13,126,787	
Less: Goodwill	31,517	31,517	31,517	31,517	31,517	
Intangible Assets	—	—	33	83	154	
Tangible Assets	\$14,755,691	\$14,052,763	\$13,696,822	\$13,814,791	\$13,095,116	
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	\$7,077,035	\$6,258,143	\$5,671,774	\$5,345,740	\$5,024,916	
Total Shareholders' Equity to Total Assets	7.14	% 7.19	% 7.44	% 7.24	% 7.70	%
Tangible Common Equity to Tangible Assets (Non-GAAP)	6.94	% 6.98	% 7.23	% 7.03	% 7.48	%
Tier 1 Capital Ratio ¹	14.69	% 16.05	% 17.18	% 17.90	% 18.96	%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP) ¹	14.46	% 15.67	% 17.46	% 18.17	% 19.49	%

¹ Financial ratios for prior periods were revised to conform to the current period calculation.

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) competitive pressures in the markets for financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"); 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any failure in or breach of our operational systems, information systems or infrastructure, or those of our merchants, third party vendors and other service providers; 14) any interruption or breach of security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 15) changes to the amount and timing of proposed common stock repurchases; and 16) natural disasters, public unrest or adverse weather, public health, and other conditions impacting us and our customers' operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part I of this report. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances.

Critical Accounting Policies

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

Reserve for Credit Losses

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

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

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

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

Fair Value Measurements

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

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

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2014 and 2013, \$2.3 billion or 16% of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in either Levels 1 or 2 of the fair

value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2014 and 2013, \$16.8 million and \$22.0 million, respectively, or less than 1% of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2014 and 2013, Level 3 financial assets recorded at fair value on a recurring basis were \$19.0 million and \$25.3 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2014 and 2013, Level 3 financial liabilities recorded at fair value on a recurring basis were \$16.3 million and \$21.0 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

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

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valuation methodologies used to place securities into the appropriate level of the fair value hierarchy. This documentation is periodically updated by our third-party pricing service. Accordingly, transfers of securities within the fair value hierarchy are made if deemed necessary. 2) On a quarterly basis, management reviews the pricing information received from our third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by our third-party pricing service. We also identify investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades relative to historic levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2014 and 2013, management did not make adjustments to prices provided by our third-party pricing service as a result of illiquid or inactive markets. 3) On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. 4) On an annual basis, to the extent available, we obtain and review independent auditor's reports from our third-party pricing service related to controls placed in operation and tests of operating effectiveness. We did not note any significant control deficiencies in our review of the independent auditor's reports related to services rendered by our third-party pricing service. 5) Our third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. Our third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. Our third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

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

Leased Asset Residual Values

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

Income Taxes

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

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. As of December 31, 2014 and 2013, we carried a valuation allowance of \$4.7 million and \$4.2 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

We are also required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2014 and 2013, our liabilities for UTBs were \$12.2 million and \$11.8 million, respectively. See Note 16 to the Consolidated Financial Statements for more information on income taxes.

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In 2014, the Company recognized federal and State of Hawaii investment tax credits from energy investments. The Company uses the deferral method of accounting for its investment tax credit with the benefit recognized in the provision for income taxes. These credits reduced the Company's provision for income taxes by \$2.9 million in 2014.

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Overview

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

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

Hawaii Economy

General economic conditions in Hawaii continued to be healthy during 2014, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and accelerating construction activity. In 2014, a record 8.3 million visitors arrived in Hawaii, surpassing the 2013 record of 8.2 million visitors by 1.3%. Total visitor spending for 2014 increased by 2.3% compared to the same period in 2013. The statewide seasonally-adjusted unemployment rate was 4.0% in December 2014 compared to 5.6% nationally. Real estate prices on Oahu reached new records in 2014, even as number of sales declined slightly mainly due to limited inventory of available properties on the market. The volume of single-family home sales on Oahu decreased 0.8% in 2014 compared to 2013, while the volume of condominium sales on Oahu decreased 1.3% in 2014 compared to 2013. The median price of single-family home sales and condominium sales on Oahu increased 3.8% and 5.4%, respectively, in 2014 compared to 2013. As of December 31, 2014, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 2.6 months and 3.0 months, respectively.

Earnings Summary

Net income for 2014 was \$163.0 million, an increase of \$12.5 million or 8% compared to 2013. Diluted earnings per share were \$3.69 in 2014, an increase of \$0.31 or 9% compared to 2013. Our return on average assets was 1.14% in 2014, an increase of 4 basis points from 2013, and our return on average shareholders' equity was 15.50% in 2014, an increase of 72 basis points from 2013.

Our higher net income in 2014 was primarily due to the following:

Net interest income was \$379.7 million in 2014, an increase of \$20.7 million or 6% compared to 2013. Our net interest margin was 2.85% in 2014, an increase of 4 basis points compared to 2013. The higher margin in 2014 was primarily due to continued loan growth and lower premium amortization in our investment securities portfolio.

- Net gains on sales of investment securities totaled \$8.1 million in 2014 compared to no sales of investment securities in 2013. The net gain was primarily due to the sale of 90,500 Visa Class B restricted shares which resulted in a net gain of \$7.9 million. We also contributed 21,600 Visa Class B restricted shares to the Bank of Hawaii Foundation in 2014. The contribution had no impact on noninterest expense; however, the contribution favorably impacted our effective tax rate in 2014.

• We recorded a negative provision for credit losses of \$4.9 million in 2014 compared to no provision in 2013. The negative provision reflects the continued strength of our credit risk profile, several large commercial loan recoveries

in 2014, as well as a reduction in the specific reserve related to one commercial loan during 2014.

Noninterest expense was \$326.9 million, a decrease of \$4.1 million or 1% in 2014 compared to 2013. This decrease was primarily due to an insurance reserve reduction coupled with lower net occupancy expense and lower separation expense.

These items were partially offset by the following:

- Mortgage banking income was \$7.6 million in 2014, a decrease of \$11.6 million or 61% compared to 2013. This decrease was primarily due to lower mortgage application and production volume as refinancing activity declined. Also contributing to the decrease was our decision to add more conforming saleable loans to our portfolio in 2014 which reduced our gains on sales of residential mortgage loans.

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The provision for income taxes was \$74.6 million in 2014, an increase of \$10.9 million or 17% compared to 2013 due to higher pretax income and a higher effective income tax rate mainly resulting from a larger release of tax reserves in 2013.

We continued our focus on maintaining a strong balance sheet throughout 2014, with adequate reserves for credit losses, and high levels of liquidity and capital. In particular:

Total loans and leases were \$6.9 billion as of December 31, 2014, an increase of \$802.2 million or 13% from December 31, 2013 primarily due to growth in our commercial lending portfolio and residential mortgage portfolio.

The allowance for loan and lease losses (the "Allowance") was \$108.7 million as of December 31, 2014, a decrease of \$6.8 million or 6% from December 31, 2013. The ratio of our Allowance to total loans and leases outstanding decreased to 1.58% as of December 31, 2014, compared to 1.89% as of December 31, 2013. This decrease was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and an improving Hawaii economy.

We continued to invest excess liquidity in high-grade investment securities. The total carrying value of our investment securities portfolio was \$6.8 billion and \$7.0 billion as of December 31, 2014 and 2013, respectively. In 2014, we continued to reduce our positions in mortgage-backed securities issued by Ginnie Mae. We re-invested these proceeds, in part, into mortgage-backed securities issued by Fannie Mae and into higher yielding lending activities.

Total deposits were \$12.6 billion as of December 31, 2014, an increase of \$718.4 million or 6% from December 31, 2013. This growth was primarily in our commercial and consumer core deposits. Public time deposits also increased due in part to local government entities shifting funds previously held in repurchase agreements.

Total shareholders' equity was \$1.1 billion as of December 31, 2014, an increase of \$43.1 million or 4% from December 31, 2013. We continued to return capital to our shareholders in the form of share repurchases and dividends. During 2014, we repurchased 1.1 million shares of common stock at a total cost of \$64.0 million under our share repurchase program and from employees and/or directors in connection with stock swaps and income tax withholdings related to the vesting of restricted stock. We also paid cash dividends of \$79.7 million during 2014.

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Analysis of Statements of Income

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

Average Balances and Interest Rates – Taxable-Equivalent Basis

Table 1

(dollars in millions)	2014			2013			2012			
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	
Earning Assets										
Interest-Bearing										
Deposits in Other Banks	\$4.3	\$—	0.21 %	\$4.0	\$—	0.26 %	\$3.7	\$—	0.26 %	
Funds Sold	316.2	0.7	0.21	221.2	0.4	0.19	263.5	0.5	0.20	
Investment Securities										
Available-for-Sale										
Taxable	1,536.5	27.7	1.80	2,138.3	38.7	1.81	2,708.3	49.1	1.82	
Non-Taxable	699.6	22.7	3.24	684.2	22.9	3.35	638.0	25.9	4.05	
Held-to-Maturity										
Taxable	4,412.5	99.4	2.25	3,955.8	86.7	2.19	3,636.7	95.0	2.61	
Non-Taxable	251.3	10.0	3.95	130.8	5.1	3.94	—	—	—	
Total Investment Securities	6,899.9	159.8	2.32	6,909.1	153.4	2.22	6,983.0	170.0	2.43	
Loans Held for Sale	3.2	0.1	4.31	16.4	0.7	4.18	14.7	0.6	4.29	
Loans and Leases ¹										
Commercial and Industrial	970.3	33.3	3.43	865.8	30.9	3.57	800.2	31.3	3.91	
Commercial Mortgage	1,331.5	52.5	3.94	1,152.9	46.9	4.06	988.2	42.9	4.34	
Construction	109.4	4.8	4.40	114.6	5.4	4.75	101.9	5.1	5.04	
Commercial Lease Financing	237.6	7.0	2.96	261.6	6.0	2.31	283.3	6.8	2.39	
Residential Mortgage	2,377.9	101.6	4.27	2,275.8	101.7	4.47	2,349.6	111.3	4.74	
Home Equity	815.6	31.9	3.91	761.5	31.4	4.12	773.2	33.4	4.31	
Automobile	288.8	15.4	5.32	232.3	12.7	5.48	196.8	11.7	5.96	
Other ²	274.3	20.8	7.58	219.2	18.0	8.21	187.1	15.2	8.11	
Total Loans and Leases	6,405.4	267.3	4.17	5,883.7	253.0	4.30	5,680.3	257.7	4.54	
Other	72.7	1.2	1.66	78.3	1.2	1.50	79.9	1.1	1.41	
Total Earning Assets ³	13,701.7	429.1	3.13	13,112.7	408.7	3.12	13,025.1	429.9	3.30	
Cash and Due from Banks										
	143.4			138.9			137.2			
Other Assets										
	472.4			440.5			446.9			
Total Assets	\$14,317.5			\$13,692.1			\$13,609.2			
Interest-Bearing Liabilities										
Interest-Bearing Deposits										
Demand	\$2,390.8	\$0.7	0.03 %	\$2,140.5	\$0.6	0.03 %	\$1,938.6	\$0.5	0.03 %	
Savings	4,592.6	3.9	0.09	4,461.4	3.9	0.09	4,447.8	4.5	0.10	

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Time	1,450.3	4.9	0.34	1,406.2	5.6	0.40	1,524.6	7.4	0.48
Total Interest-Bearing Deposits	8,433.7	9.5	0.11	8,008.1	10.1	0.13	7,911.0	12.4	0.16
Short-Term Borrowings	9.3	—	0.14	31.7	—	0.15	15.1	—	0.14
Securities Sold Under Agreements to Repurchase	747.9	25.9	3.46	809.4	26.9	3.32	1,335.7	28.9	2.16
Long-Term Debt	174.4	2.6	1.45	171.0	2.6	1.50	31.5	1.9	6.10
Total Interest-Bearing Liabilities	9,365.3	38.0	0.41	9,020.2	39.6	0.44	9,293.3	43.2	0.47
Net Interest Income		\$391.1			\$369.1			\$386.7	
Interest Rate Spread			2.72 %			2.68 %			2.83 %
Net Interest Margin			2.85 %			2.81 %			2.97 %
Noninterest-Bearing Demand Deposits	3,688.4			3,388.7			3,024.0		
Other Liabilities	211.6			264.9			268.6		
Shareholders' Equity	1,052.2			1,018.3			1,023.3		
Total Liabilities and Shareholders' Equity	\$14,317.5			\$13,692.1			\$13,609.2		

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

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

³ Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$11.5 million for 2014, \$10.2 million for 2013, and \$9.5 million for 2012.

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Analysis of Change in Net Interest Income – Taxable-Equivalent Basis (dollars in millions)	Year Ended December 31, 2014 Compared to 2013			Table 2 Year Ended December 31, 2013 Compared to 2012		
	Volume ¹	Rate ¹	Total	Volume ¹	Rate ¹	Total
Change in Interest Income:						
Funds Sold	\$0.2	\$0.1	\$0.3	\$(0.1)	\$0.0	\$(0.1)
Investment Securities						
Available-for-Sale						
Taxable	(10.9)	(0.1)	(11.0)	(10.3)	(0.1)	(10.4)
Non-Taxable	0.6	(0.8)	(0.2)	1.8	(4.8)	(3.0)
Held-to-Maturity						
Taxable	10.2	2.5	12.7	7.9	(16.2)	(8.3)
Non-Taxable	4.9	—	4.9	5.1	—	5.1
Total Investment Securities	4.8	1.6	6.4	4.5	(21.1)	(16.6)
Loans Held for Sale	(0.6)	—	(0.6)	0.1	—	0.1
Loans and Leases						
Commercial and Industrial	3.6	(1.2)	2.4	2.5	(2.9)	(0.4)
Commercial Mortgage	7.0	(1.4)	5.6	6.9	(2.9)	4.0
Construction	(0.2)	(0.4)	(0.6)	0.6	(0.3)	0.3
Commercial Lease Financing	(0.6)	1.6	1.0	(0.6)	(0.2)	(0.8)
Residential Mortgage	4.4	(4.5)	(0.1)	(3.4)	(6.2)	(9.6)
Home Equity	2.2	(1.7)	0.5	(0.5)	(1.5)	(2.0)
Automobile	3.0	(0.3)	2.7	2.0	(1.0)	1.0
Other ²	4.3	(1.5)	2.8	2.6	0.2	2.8
Total Loans and Leases	23.7	(9.4)	14.3	10.1	(14.8)	(4.7)
Other	(0.1)	0.1	—	—	0.1	0.1
Total Change in Interest Income	28.0	(7.6)	20.4	14.6	(35.8)	(21.2)
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	0.1	—	0.1	0.1	—	0.1
Savings	0.1	(0.1)	—	0.0	(0.6)	(0.6)
Time	0.2	(0.9)	(0.7)	(0.6)	(1.2)	(1.8)
Total Interest-Bearing Deposits	0.4	(1.0)	(0.6)	(0.5)	(1.8)	(2.3)
Securities Sold Under Agreements to Repurchase	(2.1)	1.1	(1.0)	(13.9)	11.9	(2.0)
Long-Term Debt	0.1	(0.1)	—	3.1	(2.4)	0.7
Total Change in Interest Expense	(1.6)	—	(1.6)	(11.3)	7.7	(3.6)
Change in Net Interest Income	\$29.6	\$(7.6)	\$22.0	\$25.9	\$(43.5)	\$(17.6)

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

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

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Net Interest Income

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

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

Yields on our earning assets increased by one basis point in 2014 compared to 2013. Yields on our investment securities portfolio increased by 10 basis points in 2014 compared to 2013, due in part to lower premium amortization. The increase in the yields on our investment securities portfolio was partially offset by the lower yields in nearly every category of our loan and lease portfolio. Yields on our residential mortgage portfolio decreased by 20 basis points in 2014 compared to 2013 primarily due to continued payoff activity of higher rate mortgage loans and the addition to our portfolio of lower rate mortgage loans. Also contributing to the increase in our net interest margin in 2014 compared to 2013 were slightly lower funding costs due to marginally lower rates paid on our time deposits, partially offset by higher rates paid on our securities sold under agreements to repurchase. Rates of our securities sold under agreements to repurchase increased by 14 basis points primarily due to local government entities transferring much of their funds previously invested in short-term (and therefore low-yielding) repurchase agreements into public time deposits, leaving the balance in our repurchase agreements consisting mainly of those with private entities. These agreements with private entities have longer terms at relatively higher interest rates.

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

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

Net interest income was \$358.9 million in 2013, a decrease of \$18.4 million or 5% compared to 2012. On a taxable-equivalent basis, net interest income was \$369.1 million in 2013, a decrease of \$17.6 million or 5% compared to 2012. Net interest margin decreased by 16 basis points in 2013 compared to 2012. The lower margin in 2013 was primarily due to the reinvestment of investment securities and the origination of new loans at lower yields.

Yields on our earning assets decreased by 18 basis points in 2013 compared to 2012, reflective of lower yields on investment securities and loans. Yields on our investment securities portfolio decreased by 21 basis points in 2013

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

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long-term debt decreased by 460 basis points in 2013 compared to 2012 primarily due to \$150.0 million in FHLB advances received since the fourth quarter of 2012 at relatively low interest rates.

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

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

Provision for Credit Losses

The provision for credit losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of our loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of our credit quality. We recorded a negative Provision of \$4.9 million in 2014, no Provision in 2013, and a Provision of \$1.0 million in 2012. Our decision to record a negative Provision in 2014 was reflective of our evaluation as to the adequacy of the Allowance. For further discussion on the Allowance, see the "Corporate Risk Profile – Credit Risk" section in MD&A.

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Noninterest Income

Table 3 presents the major components of noninterest income for 2014, 2013, and 2012.

Noninterest Income (dollars in thousands)	Year Ended December 31,			Dollar Change		Table 3 Percent Change	
	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012
Trust and Asset Management	\$47,798	\$47,932	\$45,229	\$(134)	\$2,703	—	% 6
Mortgage Banking	7,571	19,186	35,644	(11,615)	(16,458)	(61)	(46)
Service Charges on Deposit Accounts	35,669	37,124	37,621	(1,455)	(497)	(4)	(1)
Fees, Exchange, and Other Service Charges	53,401	50,469	48,965	2,932	1,504	6	3
Investment Securities Gains (Losses), Net	8,063	—	(77)	8,063	77	n.m.	(100)
Annuity and Insurance	8,065	9,190	9,553	(1,125)	(363)	(12)	(4)
Bank-Owned Life Insurance	6,639	5,892	6,805	747	(913)	13	(13)
Other	12,811	16,430	16,546	(3,619)	(116)	(22)	(1)
Total Noninterest Income	\$180,017	\$186,223	\$200,286	\$(6,206)	\$(14,063)	(3)%	(7)%

n.m. - not meaningful.

Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets that we manage and the fee rate charged to customers. Total trust assets under administration were \$10.2 billion, \$10.4 billion, and \$9.9 billion as of December 31, 2014, 2013, and 2012, respectively. Trust and asset management income remained relatively unchanged in 2014 compared to 2013. Special service fees decreased by \$0.7 million mainly due to two large trust termination fees recorded in 2013. This was partially offset by a \$0.5 million increase in agency fees in 2014 primarily due to higher market values of assets under management. Trust and asset management income increased by \$2.7 million or 6% in 2013 compared to 2012. This increase was primarily due to a \$1.1 million increase in agency fees mainly due to higher market values of assets under management. Special service fees increased by \$0.6 million mainly due to the higher trust termination fees in 2013 mentioned above. In addition, management fees increased by \$0.5 million.

Mortgage banking income is highly influenced by mortgage interest rates and the housing market. Mortgage banking income decreased by \$11.6 million or 61% in 2014 compared to 2013. This decrease was primarily due to lower mortgage application and production volume as refinancing activity declined. Also contributing to the decrease was our decision to add more conforming saleable loans to our portfolio in 2014 which reduced our gains on sales of residential mortgage loans. Mortgage banking income decreased by \$16.5 million or 46% in 2013 compared to 2012 as rising interest rates during 2013 adversely impacted the amount of refinance activity and the related loan sales margins. In particular, rising interest rates caused our refinance activity to decrease, particularly in the fourth quarter of 2013, in comparison to the high volume experienced in 2012.

Service charges on deposit accounts decreased by \$1.5 million or 4% in 2014 compared to 2013. This decrease was primarily due to a \$0.8 million decrease in overdraft fees resulting mainly from Company policy changes as well as higher customer deposit balances. In addition, account analysis fees decreased by \$0.5 million due to higher investable balances resulting in larger earnings credit rates granted to our customers. Service charges on deposit accounts decreased by \$0.5 million or 1% in 2013 compared to 2012. This decrease was primarily due to a \$0.3 million decline in account analysis fees due to higher investable balances resulting in larger earnings credit rates granted to our

customers. In addition, overdraft fees decreased by \$0.3 million primarily due to a reduction in American Samoa deposit accounts.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges increased by \$2.9 million or 6% in 2014 compared to 2013. This increase was primarily due to a \$3.5 million increase in commissions and fees related to our credit card business. This increase was partially offset by a \$0.5 million decrease in merchant income, particularly in Guam and American Samoa. Fees, exchange, and other service charges increased by \$1.5 million or 3% in 2013 compared to 2012. This increase was partially due to a \$0.7 million increase in fees from our consumer credit cards, introduced in late 2012. Also contributing to the increase was a \$0.7 million increase in other loan fees, primarily prepayment penalty fees and syndication and administration fees.

Net gains on sales of investment securities totaled \$8.1 million in 2014 primarily due to a \$7.9 million gain on the sale of 90,500 Visa Class B restricted shares. We received these Class B shares in 2008 as part of Visa's initial public offering. These shares are

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transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with the sale of these Visa Class B shares, we entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. In September 2014, Visa announced a reduction of the conversion ratio from 0.4206 to 0.4121 effective September 24, 2014. As a result, the Company accrued \$0.1 million in September 2014 for the amount due to the buyer in October 2014. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 397,514 Visa Class B shares (163,816 Class A equivalents) that we own are carried at a zero cost basis. We also contributed 21,600 Visa Class B shares to the Bank of Hawaii Foundation during 2014.

Annuity and insurance income decreased by \$1.1 million or 12% in 2014 compared to 2013 primarily due to lower sales of our annuity products. In general, variable annuity product sales have been affected by the Company's implementation of additional due-diligence and business practice enhancements to align with desired risk management and industry-wide regulatory scrutiny regarding the sale of these products. Fixed annuity product sales declined primarily due to the low interest rate environment making this product less appealing to customers. Annuity and insurance income decreased by \$0.4 million or 4% in 2013 compared to 2012 primarily due to lower sales of our annuity products.

Bank-owned life insurance increased by \$0.7 million or 13% in 2014 compared to 2013. This increase was primarily due to new policies in 2014 combined with improved yields. Bank-owned life insurance decreased by \$0.9 million or 13% in 2013 compared to 2012. This decrease was primarily due to a \$0.6 million one-time bonus adjustment on one of our policies in 2012 combined with lower yields received in 2013.

Other noninterest income decreased by \$3.6 million or 22% in 2014 compared to 2013. This decrease was primarily due to a \$2.6 million decrease in gains on sales of leased assets resulting mainly from sales of equipment leases in 2013. In addition, mutual fund commissions decreased by \$0.4 million due to reduced sales volume. We also recognized an additional \$0.2 million in fees during 2013 related to our customer interest rate swap derivative program. Other noninterest income decreased by \$0.1 million or 1% in 2013 compared to 2012. This decrease was primarily due to a \$0.5 million contingent payment received in the third quarter of 2012 related to the 2010 sale of our proprietary mutual funds. This decrease was offset by a \$0.5 million increase in fees from safe deposit box rentals.

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Noninterest Expense

Table 4 presents the major components of noninterest expense for 2014, 2013, and 2012.

Noninterest Expense

(dollars in thousands)	Year Ended December 31,			Dollar Change		Table 4 Percent Change			
	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012		
Salaries and Benefits:									
Salaries	\$114,199	\$115,389	\$115,208	\$(1,190)	\$181	(1)	%	—	%
Incentive Compensation	17,471	16,568	16,926	903	(358)	5		(2)	
Share-Based Compensation	8,808	4,932	6,961	3,876	(2,029)	79		(29)	
Commission Expense	4,831	6,874	6,993	(2,043)	(119)	(30)		(2)	
Retirement and Other Benefits	16,800	15,289	16,014	1,511	(725)	10		(5)	
Payroll Taxes	9,916	11,242	10,593	(1,326)	649	(12)		6	
Medical, Dental, and Life Insurance	10,555	9,431	9,319	1,124	112	12		1	
Separation Expense	448	4,486	2,394	(4,038)	2,092	(90)		87	
Total Salaries and Benefits	183,028	184,211	184,408	(1,183)	(197)	(1)		—	
Net Occupancy	37,296	38,745	42,965	(1,449)	(4,220)	(4)		(10)	
Net Equipment	18,479	18,366	19,723	113	(1,357)	1		(7)	
Data Processing	14,979	13,840	13,202	1,139	638	8		5	
Professional Fees	9,794	9,405	9,623	389	(218)	4		(2)	
FDIC Insurance	7,936	7,765	7,873	171	(108)	2		(1)	
Other Expense:									
Delivery and Postage Services	8,764	8,423	8,612	341	(189)	4		(2)	
Mileage Program Travel	5,615	6,190	6,741	(575)	(551)	(9)		(8)	
Merchant Transaction and Card Processing Fees	4,372	4,569	4,895	(197)	(326)	(4)		(7)	
Advertising	5,273	5,021	4,659	252	362	5		8	
Other	31,363	34,434	31,587	(3,071)	2,847	(9)		9	
Total Other Expense	55,387	58,637	56,494	(3,250)	2,143	(6)		4	
Total Noninterest Expense	\$326,899	\$330,969	\$334,288	\$(4,070)	\$(3,319)	(1)	%	(1)	%

Total salaries and benefits decreased \$1.2 million or 1% in 2014 compared to 2013. This decrease was primarily due to a \$4.0 million decrease in separation expense. Commission expense decreased by \$2.0 million primarily due to a reduction in mortgage banking production volume as refinancing activity declined. These decreases were partially offset by a \$3.9 million increase in share-based compensation primarily due to an increase in the amortization expense related to restricted stock and an increase in restricted stock and restricted stock unit grants. Total salaries and benefits remained relatively unchanged in 2013 compared to 2012. Share-based compensation decreased by \$2.0 million primarily due to amortization expense recorded in 2012 related to stock options granted during that year. These stock options were fully amortized in 2012 and there were no stock options granted in 2013. Retirement and other benefits decreased by \$0.7 million primarily due to credit adjustments related to retirement plan participants' forfeitures. These decreases were offset by a \$2.1 million increase in separation expense coupled with a \$0.6 million increase in payroll taxes mainly due to higher Hawaii unemployment tax rates in 2013.

Net occupancy decreased by \$1.4 million or 4% in 2014 compared to 2013. This decrease was primarily due to higher sublease revenue combined with lower rental expense. Net occupancy decreased by \$4.2 million or 10% in 2013 compared to 2012. This decrease was primarily due to branch closures during 2012, combined with higher sublease revenue in 2013. As a result, net rental expense decreased by \$2.4 million and depreciation and amortization expense

decreased by \$0.8 million. In addition, we recorded impairment charges of \$1.1 million in 2012 related to several of the Company's branch premises.

Net equipment expense remained relatively unchanged in 2014 compared to 2013 and decreased by \$1.4 million or 7% in 2013 compared to 2012 primarily due to a \$1.2 million purchase of technology equipment in 2012.

Data processing expense increased by \$1.1 million or 8% in 2014 compared to 2013 primarily due to fees related to additional services, including services for security enhancements related to our online banking service. Data processing expense increased by \$0.6 million or 5% in 2013 compared to 2012 primarily due to new services provided in 2013 including improvements to our online and mobile banking systems.

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Professional fees increased by \$0.4 million or 4% in 2014 compared to 2013 primarily due to an increase in outside consulting services related mainly to compliance matters. Professional fees decreased by \$0.2 million or 2% in 2013 compared to 2012 primarily due to lower legal fees.

Other noninterest expense decreased by \$3.3 million or 6% in 2014 compared to 2013. Insurance expense decreased by \$1.8 million primarily due to a reserve reduction in the fourth quarter of 2014. Directors' Fees decreased by \$1.4 million as a result of fair value changes in their deferred compensation plan. Operating losses, which include losses as a result of bank error, fraud, items processing, or theft, decreased by \$1.3 million. These decreases were partially offset by a \$1.2 million increase in amortization expense related to our solar energy partnership investments. Other noninterest expense increased by \$2.1 million or 4% in 2013 compared to 2012. This increase was primarily due to a \$1.7 million increase in operating losses. In addition, insurance expense increased by \$1.4 million mainly due to a reserve reduction in the fourth quarter of 2012. These increases were partially offset by a \$1.0 million decrease in donation expense.

Income Taxes

Table 5 presents our provision for income taxes and effective tax rates for 2014, 2013, and 2012:

Provision for Income Taxes and Effective Tax Rates

(dollars in thousands)	Provision for Income Taxes	Table 5 Effective Tax Rates	
2014	\$74,596	31.39	%
2013	63,659	29.73	%
2012	76,214	31.46	%

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

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

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Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. Table 6 summarizes net income from our business segments for 2014, 2013, and 2012. Additional information about segment performance is presented in Note 13 to the Consolidated Financial Statements.

Business Segment Net Income (dollars in thousands)	Year Ended December 31,		Table 6
	2014	2013	2012
Retail Banking	\$39,187	\$27,242	\$39,741
Commercial Banking	51,070	37,931	49,515
Investment Services	9,309	9,843	8,923
Total	99,566	75,016	98,179
Treasury and Other	63,476	75,486	67,897
Consolidated Total	\$163,042	\$150,502	\$166,076

Retail Banking

Net income increased by \$11.9 million or 44% in 2014 compared to 2013 primarily due to an increase in net interest income, as well as decreases in the Provision and noninterest expense. This was partially offset by a decrease in noninterest income. The increase in net interest income was primarily due to higher average balances and higher margins in both the loan and deposit portfolios. The decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment combined with improving credit trends and the underlying risk profile of the loan portfolio. The decrease in noninterest expense was primarily due to lower commission expense as a result of a reduction in mortgage banking production volume as refinancing activity declined. This decrease was partially offset by higher expense related to our credit card business. The decrease in noninterest income was primarily due to lower mortgage banking income which was also due to lower mortgage application and production volume, as well as our decision to add more conforming saleable loans to our portfolio in 2014 which reduced our gains on sales of residential mortgage loans. This decrease was partially offset by higher commissions and fees income related to our credit card business.

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

Commercial Banking

Net income increased by \$13.1 million or 35% in 2014 compared to 2013 primarily due to an increase in net interest income and a decrease in the Provision. This was partially offset by a decrease in noninterest income and an increase in noninterest expense. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment's deposit portfolio. The decrease in the Provision was due to higher net recovery of loans and leases in the current period. The decrease in noninterest income was primarily due to lower nonrecurring loan fees and net gains on the sale of leased assets. The increase in

noninterest expense was primarily due to higher allocated expenses.

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

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Investment Services

Net income decreased by \$0.5 million or 5% in 2014 compared to 2013 primarily due to a decrease in noninterest income, partially offset by decreases in the Provision and noninterest expense. The decrease in noninterest income was primarily due to lower annuity, mutual fund, and securities income in the segment's full service brokerage. The decrease in the Provision was due to higher net recovery of loans in the current period. The decrease in noninterest expense was due to lower salaries and other operating expense, partially offset by an increase in allocated expense.

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

Treasury and Other

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

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

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

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Analysis of Statements of Condition

Investment Securities

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

Maturities and Average Yield on Securities

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year-5 Years	Weighted Average Yield	After 5 Years-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Total Weighted Average Yield
As of December 31, 2014										
Available-for-Sale Debt Securities Issued by the U.S. Treasury and Government Agencies ²	\$59.8	2.3	% \$162.8	1.7	% \$102.7	1.7	% \$—	—	% \$325.3	1.8
Debt Securities Issued by States and Political Subdivisions ¹	22.1	2.3	155.4	2.7	445.0	3.3	101.0	5.8	723.5	3.5
Debt Securities Issued by Corporations	10.0	2.9	88.3	1.6	200.0	1.6	—	—	298.3	1.7
Mortgage-Backed Securities ²										
Residential - Government Agencies	59.8	2.7	387.9	2.1	4.8	3.6	—	—	452.5	2.2
Residential - U.S. Government-Sponsored Enterprises	—	—	276.4	2.2	—	—	—	—	276.4	2.2
Commercial - Government Agencies	—	—	38.7	1.8	148.1	1.7	—	—	186.8	1.8
Total Mortgage-Backed Securities	59.8	2.7	703.0	2.2	152.9	1.8	—	—	915.7	2.1
Total	\$151.7	2.5	% \$1,109.5	2.1	% \$900.6	2.4	% \$101.0	5.8	% \$2,262.8	2.4
Held-to-Maturity Debt Securities Issued by the U.S. Treasury and Government Agencies ²	\$99.7	2.0	% \$399.1	1.2	% \$—	—	% \$—	—	% \$498.8	1.4
Debt Securities Issued by States and Political Subdivisions ¹	—	—	10.9	3.0	133.1	4.3	105.5	5.7	249.5	4.8
Debt Securities Issued by Corporations	—	—	—	—	87.4	1.9	79.3	2.4	166.7	2.1
Mortgage-Backed Securities ²										
Residential - Government Agencies	52.2	2.0	2,645.7	2.3	164.4	3.2	—	—	2,862.3	2.3

Residential - U.S. Government-Sponsored Enterprises	—	—	379.4	2.2	—	—	—	—	379.4	2.2
Commercial - Government Agencies	—	—	—	—	309.9	2.9	—	—	309.9	2.9
Total Mortgage-Backed Securities	52.2	2.0	3,025.1	2.3	474.3	3.0	—	—	3,551.6	2.4
Total	\$151.9	2.0	% \$3,435.1	2.2	% \$694.8	3.1	% \$184.8	4.2	% \$4,466.6	2.4
Total Investment Securities										
As of December 31, 2014	\$303.6		\$4,544.6		\$1,595.4		\$285.8		\$6,729.4	
As of December 31, 2013	\$136.1		\$3,725.9		\$2,701.5		\$426.9		\$6,990.4	

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

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

The carrying value of our investment securities portfolio was \$6.8 billion as of December 31, 2014, a decrease of \$232.3 million or 3% compared to December 31, 2013. As of December 31, 2014, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.4 years.

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

In 2014, we reduced our positions in mortgage-backed securities issued by Ginnie Mae and re-invested these proceeds, in part, into mortgage-backed securities issued by Fannie Mae. However, Ginnie Mae mortgage-backed securities remain our largest investment type. As of December 31, 2014, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of December 31, 2014, the credit ratings of these mortgage-backed securities were all AAA-rated, with a low probability of a change in ratings in the near future. As of December 31, 2014, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.9 years.

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Gross unrealized gains in our investment securities portfolio were \$108.5 million as of December 31, 2014 and \$68.5 million as of December 31, 2013. Gross unrealized losses on our temporarily impaired investment securities were \$44.3 million as of December 31, 2014 and \$117.6 million as of December 31, 2013. This decrease in our gross unrealized loss positions on our temporarily impaired investment securities was primarily due to market interest rates declining during 2014. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae and corporate bonds.

As of December 31, 2014, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of \$596.2 million, representing 59% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 92% were credit-rated Aa2 or better by Moody's while most of the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 76% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of December 31, 2014, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

The Company's corporate bond holdings as of December 31, 2014 had a fair value of \$458.2 million. Of this total, \$163.4 million or 36% was fully guaranteed by the Export-Import Bank of the United States, an agency of the U.S. government. Of the remaining \$294.8 million of corporate bonds, 95% were credit-rated A or better by Standard & Poor's while the remaining corporate bonds were credit-rated A- or better by at least one nationally recognized statistical rating organization.

Loans and Leases

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

Loans and Leases	Table 8				
	December 31,		2012	2011	2010
(dollars in thousands)	2014	2013			
Commercial					
Commercial and Industrial	\$1,055,243	\$911,367	\$829,512	\$817,170	\$772,624
Commercial Mortgage	1,437,513	1,247,510	1,097,425	938,250	863,385
Construction	109,183	107,349	113,987	98,669	80,325
Lease Financing	226,189	262,207	274,969	311,928	334,997
Total Commercial	2,828,128	2,528,433	2,315,893	2,166,017	2,051,331
Consumer					
Residential Mortgage	2,571,090	2,282,894	2,349,916	2,215,892	2,094,189
Home Equity	866,688	773,385	770,376	780,691	807,479
Automobile	323,848	255,986	209,832	192,506	209,008
Other ¹	307,835	254,689	208,504	183,198	173,785
Total Consumer	4,069,461	3,566,954	3,538,628	3,372,287	3,284,461
Total Loans and Leases	\$6,897,589	\$6,095,387	\$5,854,521	\$5,538,304	\$5,335,792

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

Total loans and leases were \$6.9 billion as of December 31, 2014. This represents an \$802.2 million or 13% increase from December 31, 2013.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses for the purpose of financing equipment acquisition, expansion, working capital, and

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

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Commercial loans and leases were \$2.8 billion as of December 31, 2014, an increase of \$299.7 million or 12% from December 31, 2013. Commercial and industrial loans increased by \$143.9 million or 16% from December 31, 2013 due to an increase in corporate demand for funding from new and existing customers. Commercial mortgage loans increased by \$190.0 million or 15% from December 31, 2013 primarily due to increased demand from new and existing customers as both investors and owner occupants looked to refinance and/or acquire new real estate assets, reflective of the strong Hawaii real estate market. Also contributing to the increase in commercial mortgage loans was the transfer of construction loans upon project completion into the commercial mortgage loan portfolio. Construction loans increased by \$1.8 million or 2% from December 31, 2013 primarily due to increased activity in construction projects such as condominiums and low-income housing. This increase was partially offset by the aforementioned loans transferred to the commercial mortgage loan portfolio. Lease financing decreased by \$36.0 million or 14% from December 31, 2013 due to continued paydowns and a lessee exercising its early buy-out option on an aircraft leveraged lease in the first quarter of 2014 which resulted in a nominal after-tax loss.

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

Consumer loans and leases were \$4.1 billion as of December 31, 2014, an increase of \$502.5 million or 14% from December 31, 2013. Residential mortgage loans increased by \$288.2 million or 13% from December 31, 2013 primarily due to our decision to add more conforming saleable loans to our portfolio and a decrease in payoffs resulting from lower refinancing activity. Home equity loans increased by \$93.3 million or 12% from December 31, 2013 primarily due to lower paydowns and an increase in loan production and higher line utilization. Automobile loans increased by \$67.9 million or 27% from December 31, 2013 primarily due to increased customer demand combined with market share gains. Other consumer loans increased by \$53.1 million or 21% from December 31, 2013 primarily due to our successful installment loan campaign in 2014 as well as growth in our consumer credit card balances.

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

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

Geographic Distribution of Loan and Lease Portfolio
December 31, 2014

Table 9

(dollars in thousands)	Hawaii	U.S. Mainland ¹	Guam	Other Pacific Islands	Foreign ²	Total
Commercial						
Commercial and Industrial	\$935,258	\$67,367	\$50,699	\$897	\$1,022	\$1,055,243
Commercial Mortgage	1,318,413	27,060	92,040	—	—	1,437,513
Construction	109,183	—	—	—	—	109,183
Lease Financing	44,238	176,618	647	—	4,686	226,189
Total Commercial	2,407,092	271,045	143,386	897	5,708	2,828,128
Consumer						
Residential Mortgage	2,460,353	—	107,714	3,023	—	2,571,090
Home Equity	831,722	3,909	29,377	1,680	—	866,688
Automobile	248,598	285	69,985	4,980	—	323,848
Other ³	233,396	—	34,885	39,547	7	307,835
Total Consumer	3,774,069	4,194	241,961	49,230	7	4,069,461
Total Loans and Leases	\$6,181,161	\$275,239	\$385,347	\$50,127	\$5,715	\$6,897,589
Percentage of Total Loans and Leases	90	% 4	% 5	% 1	% 0	% 100

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

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

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

Our commercial and consumer lending activities are concentrated primarily in Hawaii and the Pacific Islands. Our commercial loan and lease portfolio to borrowers based on the U.S. Mainland includes leveraged lease financing and participation in Shared National Credits. Our consumer loan and lease portfolio includes limited lending activities on the U.S. Mainland.

Table 10 presents a maturity distribution for selected loan categories.

Maturities for Selected Loan Categories ¹

Table 10

(dollars in thousands)	December 31, 2014			Total
	Due in One Year or Less	Due After One to Five Years ²	Due After Five Years ²	
Commercial and Industrial	\$282,992	\$326,654	\$445,597	\$1,055,243
Construction	45,891	17,764	45,528	109,183
Total	\$328,883	\$344,418	\$491,125	\$1,164,426

¹ Based on contractual maturities.

² As of December 31, 2014, loans maturing after one year consisted of \$549.7 million in variable rate loans and \$285.8 million in fixed rate loans.

Goodwill

Goodwill was \$31.5 million as of December 31, 2014 and 2013. As of December 31, 2014, based on our qualitative assessment, there were no reporting units where we believed that it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

Other Assets

Other assets were \$225.9 million as of December 31, 2014, an increase of \$18.6 million or 9% from December 31, 2013. This increase was primarily due to a \$28.6 million increase in commitments to fund low-income housing and solar energy partnership investments. This was partially offset by a \$10.9 million redemption of a portion of our FHLB stock and a \$6.1 million decrease in state tax deposits due to the settlement of prior year tax issues. See Note 7 to the Consolidated Financial Statements for more information on the composition of our other assets.

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Deposits

Table 11 presents the components of our deposits by major customer categories as of December 31, 2014 and 2013.

Deposits	Table 11	
	December 31,	
(dollars in thousands)	2014	2013
Consumer	\$6,092,929	\$5,829,352
Commercial	5,163,352	4,814,076
Public and Other	1,376,808	1,271,228
Total Deposits	\$12,633,089	\$11,914,656

Total deposits were \$12.6 billion as of December 31, 2014, a \$718.4 million or 6% increase from December 31, 2013. This increase was primarily due to a \$349.3 million increase in commercial deposits, mainly reflecting core deposit growth. In addition, consumer deposits increased by \$263.6 million, mainly reflecting core deposit growth primarily resulting from our efforts to grow our relationship checking and savings deposits products. Also contributing to the increase was a \$149.6 million increase in public time deposits mainly due to local government entities shifting funds previously held in repurchase agreements.

Table 12 presents the components of our savings deposits as of December 31, 2014 and 2013.

Savings Deposits	Table 12	
	December 31,	
(dollars in thousands)	2014	2013
Money Market	\$1,766,173	\$1,654,435
Regular Savings	3,040,402	2,905,715
Total Savings Deposits	\$4,806,575	\$4,560,150

Securities Sold Under Agreements to Repurchase

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

Securities Sold Under Agreements to Repurchase	Table 13	
	December 31,	
(dollars in thousands)	2014	2013
Government Entities	\$88,601	\$170,049
Private Institutions	600,000	600,000
Total Securities Sold Under Agreements to Repurchase	\$688,601	\$770,049

Securities sold under agreements to repurchase were \$688.6 million as of December 31, 2014, a decrease of \$81.4 million or 11% from December 31, 2013. This decrease was due in part to local government entities shifting funds to time deposits. As of December 31, 2014, the weighted-average maturity was 288 days for our repurchase agreements with government entities and 4.4 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted-average maturity for our repurchase agreements with private institutions would decrease to 1.7 years. As of December 31, 2014 and 2013, the weighted-average interest rate for repurchase agreements with government entities was 0.31% and 0.19%, respectively, while the weighted-average interest rate for repurchase agreements with private institutions as of December 31, 2014 and 2013 was 4.21%, with all rates being fixed. Each of our repurchase agreements is accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. See Note 9 and 18 to the Consolidated

Financial Statements for more information.

Long-Term Debt

Long-term debt was \$173.9 million as of December 31, 2014, relatively unchanged from December 31, 2013. This balance was mainly comprised of \$150.0 million in FHLB advances with a stated interest rate of 0.60% and maturity dates in 2015 and 2016.

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These advances were primarily for asset/liability management purposes. As of December 31, 2014, our remaining line of credit with the FHLB was \$788.9 million.

Pension and Postretirement Plan Obligations

Retirement benefits payable were \$55.5 million as of December 31, 2014, a \$20.5 million or 59% increase from December 31, 2013. Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on a number of key assumptions, including the discount rate, the expected return on plan assets, and the health-care cost trend rate. The accounting for pension and postretirement benefit plans reflect the long-term nature of the obligations and the investment horizon of the plan assets. The increase in retirement benefits payable was primarily due to utilizing a lower discount rate and updated mortality assumptions.

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

Discount Rate Sensitivity Analysis

Table 14

(dollars in thousands)	Base Discount Rate	Impact of Discount Rate 25 Basis Point Increase			Discount Rate 25 Basis Point Decrease	
		Pension Benefits	Postretirement Benefits	Base Discount Rate	Pension Benefits	Postretirement Benefits
2014 Net Periodic Benefit Cost	5.22	% \$—	\$ (74	) 5.22	% \$(7	) \$ 75
Benefit Plan Obligations as of December 31, 2014	4.25	%(3,224	)(927	) 4.28	% 3,317	956
Estimated 2015 Net Periodic Benefit Cost	4.25	% 26	4	4.28	%(36	)(6)

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

Foreign Activities

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2014, 2013 and 2012, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets.

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Corporate Risk Profile

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

Credit Risk

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

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

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

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

generally do not exceed 75%.

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

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

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

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

General economic conditions in Hawaii continued to be healthy during 2014, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and accelerating construction activity. Our overall credit risk position reflects this positive trend, with decreasing levels of higher risk loans and leases and credit losses compared to 2013.

Higher Risk Loans and Leases

Although asset quality has improved in recent years, we remain vigilant in light of the uncertainties in the U.S. economy as well as concerns related to specific segments of our lending portfolio that present a higher risk profile. As of December 31, 2014, the higher risk segments within our loan and lease portfolio continue to be concentrated in residential land loans, certain home equity loans, and air transportation leases. In addition, loans and leases based on Hawaiian islands other than Oahu (the "neighbor islands") may present a higher risk profile as the neighbor islands have continued to experience higher levels of unemployment and have shown signs of slower economic recovery when compared to Oahu.

We continue to monitor our loan and lease portfolio to identify higher risk segments. We also actively manage exposures with deteriorating asset quality to reduce levels of potential loss exposure and have systematically built our reserves and capital base to address both anticipated and unforeseen issues. Risk management activities have included curtailing activities in some higher risk segments. We have also conducted detailed analysis of portfolio segments and stress tested those segments to ensure that reserve and capital levels are appropriate. We are also performing frequent loan and lease-level risk monitoring and risk rating review which provides opportunities for early interventions to allow for credit exits or restructuring, loan and lease sales, and voluntary workouts and liquidations.

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

Higher Risk Loans and Leases Outstanding

(dollars in thousands)

Residential Land Loans

Table 15

December 31,

2014

2013

\$8,565

\$11,922

Home Equity Loans	11,128	12,594
Air Transportation Leases	16,752	26,152
Total	\$36,445	\$50,668

As of December 31, 2014, our higher risk loans and leases outstanding decreased by \$14.2 million or 28% from December 31, 2013, with improvements in each category.

Residential land loans in our residential mortgage portfolio consist of consumer loans secured by unimproved lots. These loans often represent higher risk due to the volatility in the value of the underlying collateral. Our residential land loan portfolio was \$8.6 million as of December 31, 2014, of which \$7.1 million related to properties on the neighbor islands. The decrease in our higher risk exposure in this portfolio in 2014 was primarily due to \$3.1 million in payments and \$0.3 million in gross loan charge-offs. Residential land loans are collectively evaluated for impairment in connection with the evaluation of our residential mortgage portfolio. As of December 31, 2014, there was one residential land loan that was modified as a troubled debt

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restructuring with no associated Allowance. As of December 31, 2014, there was a nominal Allowance associated with our residential land loan portfolio. As of December 31, 2014, \$0.3 million of our residential land loans were on non-accrual status and we have previously recorded partial charge-offs of \$0.4 million on these loans.

The higher risk segment within our Hawaii home equity lending portfolio was \$11.1 million or 1% of our total home equity loans outstanding as of December 31, 2014, a decrease of \$1.5 million or 12% from December 31, 2013. This decrease was primarily due to an improvement in credit scores. The higher risk segment within our Hawaii home equity portfolio includes those loans originated in 2005 or later, with current monitoring credit scores below 600, and with original LTV ratios greater than 70%. The decrease in our higher risk exposure in this portfolio segment in 2014 was primarily due to improved credit score migration from our Oahu owner occupants, which account for 69% of this higher risk segment. Higher risk loans in our Hawaii home equity portfolio are collectively evaluated for impairment in connection with the evaluation of our entire home equity portfolio. As of December 31, 2014, there was no specific Allowance associated with the balance of our higher risk home equity loans. These loans had a 90 day past due delinquency ratio of 5% and \$1.7 million in gross charge-offs were recorded during 2014.

We consider all of our air transportation leases to be of higher risk due to the volatile financial profile of the industry. Air transportation carriers continue to demonstrate a higher risk profile due to fluctuations in fuel costs, pension plan obligations, consumer demand, and marginal pricing power. Carriers are migrating to newer generations of more fuel efficient fleets, which are negatively impacting older generation aircraft valuations. We believe that these risks could place additional pressure on the financial health of air transportation carriers for the foreseeable future. Outstanding credit exposure related to our air transportation leases was \$16.8 million as of December 31, 2014, a decrease of \$9.4 million or 36% from December 31, 2013. As of December 31, 2014, included in our commercial leasing portfolio were two leveraged leases on aircraft that were originated in the 1990's and prior. As of December 31, 2014, the Allowance associated with our air transportation leases was \$0.3 million, a decrease of \$2.2 million from December 31, 2013 due to ongoing assessments of industry conditions. During 2014, there were no delinquencies in our air transportation lease portfolio and no charge-offs were recorded.

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

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

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More	Table 16				
	December 31,				
(dollars in thousands)	2014	2013	2012	2011	2010
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	\$9,088	\$11,929	\$5,534	\$6,243	\$1,642
Commercial Mortgage	745	2,512	3,030	2,140	3,503
Construction	—	—	833	2,080	288
Lease Financing	—	—	—	5	19
Total Commercial	9,833	14,441	9,397	10,468	5,452
Consumer					
Residential Mortgage	14,841	20,264	21,725	25,256	28,152
Home Equity	3,097	1,740	2,074	2,024	2,254
Total Consumer	17,938	22,004	23,799	27,280	30,406
Total Non-Accrual Loans and Leases	27,771	36,445	33,196	37,748	35,858
Foreclosed Real Estate	2,311	3,205	3,887	3,042	1,928
Total Non-Performing Assets	\$30,082	\$39,650	\$37,083	\$40,790	\$37,786
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	\$2	\$1,173	\$27	\$1	\$—
Total Commercial	2	1,173	27	1	—
Consumer					
Residential Mortgage	4,506	4,564	6,908	6,422	5,399
Home Equity	2,596	3,009	2,701	2,194	1,067
Automobile	616	322	186	170	410
Other ¹	941	790	587	435	707
Total Consumer	8,659	8,685	10,382	9,221	7,583
Total Accruing Loans and Leases Past Due 90 Days or More	\$8,661	\$9,858	\$		