A black and white photograph of a person in a kayak on a body of water. The person is in the lower-left foreground, seen from the side, wearing a dark vest. The water is in the foreground, with a wake behind the kayak. In the background, there are mountains under a bright sky. The overall scene is serene and suggests a sense of balance and achievement.

ACHIEVEMENT IN BALANCE

Bank of Hawaii 2013 Annual Report

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**ACHIEVEMENT IN BALANCE** Always ready for the next new wave on the horizon, Bank of Hawaii continues to set its own course of delivering superior service and products to its customers while providing exceptional value to shareholders, employees and the community. This balanced approach provides sustainable results for generations to come.



## Dear Fellow Shareholders,

2013 was another solid year for Bank of Hawaii. We continued to manage the company with an overarching commitment to building long-term and sustainable value for our shareholders, customers, communities and employees.

Fully diluted earnings per share for the year were \$3.38, down from the \$3.67 recorded in 2012. The year's earnings reflect measured loan and deposit growth, sound expense management, and disciplined management of capital and risk. Earnings, however, were challenged by substantially lower mortgage refinance activity in 2013 as compared to 2012. The prevailing rate environment continued to challenge net interest income again in 2013.

The company remains well capitalized. Credit cost, as measured by net charge-offs for the year to average loans and leases, remained low at 0.23% of average loans and leases. We maintained our dividend of \$1.80 per share annualized and repurchased 692,000 shares of our stock at an average price of \$51.33 in 2013.

From a broader perspective, 2013 marked the conclusion of our latest three-year plan. That plan set goals around five specific strategic initiatives: further enhance our brand, deepen customer relationships, further drive efficiency, more actively engage our employees, and effectively manage our risk and capital positions. I believe the plan worked well and I'll share more detail in the following paragraphs.

### **Further enhance our brand**

Since our founding in 1897, Bank of Hawaii has been committed to the well-being and growth of the communities we serve. The integrity and consistency of this 117-year legacy gives rise to our most precious asset, our brand.

Our brand is committed to providing customers with, above all, a safe and sound institution with which to bank. We are committed to offering best-in-market convenience to support the busy lifestyles of our customers. Finally, we are committed to not only operating in the communities we serve but—as importantly—to truly being *of the community*, by helping to support community needs and aspirations.

Throughout the Great Recession our financial performance helped further define Bank of Hawaii as a financial institution of exceptional safety and soundness. Recognition for quality from publications like *Forbes Magazine* and *U.S. Banker* helped to further enhance this reputation.

Convenience in our core Hawaii market remains unmatched. We are the market leader in number of branches, ATMs and in-store supermarket

branches. Online, mobile and social media channels are increasingly important and we have made substantive investments in each, resulting in award-winning recognition for web design, e-marketing and social media practices.

Finally, our commitment to the community is best summed up by the more than 57,000 hours of community service our employees volunteered over the three-year plan period, during which time Bank of Hawaii sponsored 207 community events. This degree of commitment helped Bank of Hawaii earn the Financial Services Roundtable's annual award of community excellence during the plan period.

### **Deepen customer relationships**

Building on our branding efforts and through investment in eight new branches, 11 remodeled branches and numerous product and delivery enhancements, we meaningfully deepened relationships with our customers. State of Hawaii deposit market share grew substantially over the plan period. We were the top local residential mortgage lender in Hawaii in each year of the three-year plan. During each of those same years, Bank of Hawaii was named Small Business Administration lender of the year. After launching our new credit card product last year, Bank of Hawaii gained more than 13,000 new credit card customers.

### **Drive efficiency**

Through practical and straightforward efficiency initiatives, we reduced non-interest expense sequentially from \$346 million in 2010 to \$331 million in 2013. During the plan period, we reduced energy usage by 15% utilizing energy saving initiatives, including photovoltaic. In addition, we converted more than 100,000 sq. ft. of underutilized or vacant areas to tenant-occupied space creating a net savings in our premises.

And, we installed imaging and other technology devices that resulted in both back-room efficiency and front-line effectiveness.

**More actively engage our employees**

Today's workplace is more challenging than ever, requiring greater and different skill sets, a more rigorous pace and greater tolerance of change for workers in all industries. Our ability to thrive in the future will, in part, be dependent on our ability to develop, train, effectively communicate with and gain true support and buy-in for corporate objectives from our staff.

In 2011, we christened our new 16,000 sq. ft. state-of-the-art Center For Excellence training center allowing us to substantially increase employee training and development hours.

In 2012 we launched an enhanced version of our corporate intranet called BlueFlash. The new site embraces popular social media conventions providing employees not only a vehicle to obtain information, but a way to interact and build relationships through shared videos, photos, celebrations, and human interest stories. Since the refresh, "hits" to the site have grown by 112%.

Our Thrive program continues to offer employees opportunities to interact during non-work periods in areas like lifestyle tips, health and fitness, and hobbies and interests. To date the program has held 1,738 sessions.

**Actively manage risk and capital**

Long a hallmark of the organization, risk and capital stewardship remained a core strategic initiative for 2011-2013.

We made substantial investment in our risk infrastructure, particularly in compliance risk, enterprise risk and information technology risk, in addition to standard credit risk. Our net charge-off ratio for 2013 was 0.23% compared to 0.94% in 2010. This highlights a successful transition in both the credit and economic cycle.

We returned substantial capital to shareholders after taking account for what we need to grow the business and hold against uncertainty. Through the plan period, the company earned \$476.6 million. Dividends and buybacks under the share repurchase program totaled \$472.0 million. The average cost-per-share of stock repurchased during the plan period was \$45.78. Our Tier 1 leverage ratio at year-end was 7.07% compared to 7.15% in 2010.

**Thoughts**

We measure success through our ability to drive value for our shareholders, customers, communities and employees. Against that canvas, I am pleased with the outcomes of the plan.

For our shareholders, Bank of Hawaii continues to maintain an exceptional price-to-book valuation. Our return on equity compares quite favorably to our industry and peers.

For our customers, we've worked hard to enhance convenience, products and service levels. While we've seen consistent improvement on customer satisfaction scores, we recognize this is a constant endeavor.

For our communities and employees we remain committed to finding new and even more effective ways to ensure that our success is shared with all stakeholders.

**Looking forward**

We are actively working on a new three-year plan for 2014-2016. It will be similar in strategy to our existing one, continuing to focus on our core Hawaii and West Pacific markets. We remain committed to the concepts of community and relationship banking. We believe our best growth opportunities occur organically and largely through creating new opportunities with existing customers.

We will remain committed to brand, customer relationships, efficiency, employees, and sound capital and risk management. Particular attention will be paid to three key areas: harnessing technology more fulsomely, ensuring we manage our business with a more customer-centric view and, finally, utilizing information more effectively to create more opportunities to serve customers.

In closing, I want to welcome Ray Vara to our board of directors. Ray is president and chief executive officer of Hawaii Pacific Health, the state's largest health care provider and parent company of Kapiolani Medical Center for Women & Children, Pali Momi Medical Center, Straub Clinic & Hospital and Wilcox Memorial Hospital (Kauai). Ray is a highly respected business and community leader and has a keen awareness of the needs and concerns of our state. We look forward to his involvement and the perspective he brings.

I want to full heartedly thank our shareholders for their confidence in Bank of Hawaii. We remain grateful to our customers and communities for supporting us so generously. On a personal note, I want to thank our staff and our board for all of the commitment, passion and talent that they bring to our organization.

With aloha,



Peter S. Ho, Chairman, President, and Chief Executive Officer  
Bank of Hawaii Corporation and Bank of Hawaii

## 2013 Financial Summary

Bank of Hawaii Corporation and Subsidiaries (dollars in thousands, except per-share amounts)

FOR THE YEAR ENDED DECEMBER 31	2013	2012
<b>Earnings Highlights and Performance Ratios</b>		
Net Income	\$ 150,502	\$ 166,076
Basic Earnings Per Share	3.39	3.68
Diluted Earnings Per Share	3.38	3.67
Dividends Declared Per Share	1.80	1.80
Net Income to Average Total Assets (ROA)	1.10 %	1.22 %
Net Income to Average Shareholders' Equity (ROE)	14.78 %	16.23 %
Net Interest Margin <sup>1</sup>	2.81 %	2.97 %
Efficiency Ratio <sup>2</sup>	60.71 %	57.88 %
Market Price Per Share of Common Stock:		
Closing	\$ 59.14	\$ 44.05
High	59.92	49.99
Low	44.88	41.41

AS OF DECEMBER 31

### Statement of Condition Highlights and Performance Ratios

Loans and Leases	\$ 6,095,387	\$ 5,854,521
Total Assets	14,084,280	13,728,372
Total Deposits	11,914,656	11,529,482
Total Shareholders' Equity	1,011,976	1,021,665
Book Value Per Common Share	\$ 22.75	\$ 22.83
Allowance to Loans and Leases Outstanding	1.89 %	2.20 %
Full-Time Equivalent Employees	2,196	2,276
Branches and Offices	74	76

FOR THE QUARTER ENDED DECEMBER 31

### Earnings Highlights and Performance Ratios

Net Income	\$ 39,055	\$ 40,287
Basic Earnings Per Share	0.88	0.90
Diluted Earnings Per Share	0.88	0.90
Net Income to Average Total Assets (ROA)	1.12 %	1.19 %
Net Income to Average Shareholders' Equity (ROE)	15.36 %	15.47 %
Net Interest Margin <sup>1</sup>	2.85 %	2.87 %
Efficiency Ratio <sup>2</sup>	59.99 %	58.24 %

<sup>1</sup> Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

<sup>2</sup> Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and total noninterest income).

## Balanced Strategy in Action

Bank of Hawaii has a long history of providing the highest value, service and benefit to our stakeholders: our shareholders, customers, employees and community. Navigating new challenges in today's ever changing banking environment requires the ideal balance of strategic vision and expertise in action. At Bank of Hawaii we steer a course that balances delivering strong, short-term results with reaching long-term objectives. Our strategy and talent allow us to continue to make the most of new opportunities and to deliver long-term, sustainable results.

One measure of our accomplishments is how well we are judged against our peers. For the fifth straight year, *Forbes* has named Bank of Hawaii one of the top banks in the country. And for the third consecutive year, Bank of Hawaii was named "Hawaii's Best Bank" in the *Honolulu Star-Advertiser* people's choice awards for 2013.

### Providing an Exceptional Customer Experience

We continuously look for ways to improve our customers' banking experiences, especially by creating ways for them to do their banking whenever and wherever is most convenient. New this year is a special app developed for Bank of Hawaii employees that helps them access information about consumer and business products and services, plus information on rates and special promotions. Now, whenever our employees receive questions about products or services—whether visiting a client or even at a social gathering—the information is at their fingertips on their choice of mobile device.

This year, Bank of Hawaii was recognized for having "one of the most spectacular banking websites in the world," and also received local and national recognition for its social media activities.

Enhancements continue to be made to our traditional branches, and new in-store branches opened this year. For added convenience, customers can continue to choose to utilize our 24/7 call center and our ATM network, the most extensive in the state of Hawaii.

### Online and Mobile Banking

Smartphones and computer tablets—everyone now depends on these new technologies that touch multiple facets of our lives. Bank of Hawaii continues to keep pace with this emerging consumer preference with several initiatives. To begin with, we upgraded our mobile banking app to make it easier to conduct secure transactions from mobile devices. Customers with an iPhone or Android can view their accounts, pay bills and transfer funds. Streamlined online navigation and an improved location search feature make it faster and easier to find the nearest ATM or Bank of Hawaii branch.

We also debuted our iPad app this year, and to date have attracted nearly 9,500 users. We also launched mobile deposit capabilities. Customers can now make deposits by simply snapping a photo of the front and back of a check with their smartphone. Banking is now literally in customers' pockets at Bank of Hawaii.



### Social Media

Social media have revolutionized the way we interact with one another, and Bank of Hawaii continues to have the largest social media presence of any local bank. With more than 4,400 followers on Twitter and more than 18,500 Facebook fans, our social media activities continue to grow as a valuable way to engage customers and the general public. In addition to promoting our products and services via these platforms, we also respond to followers' queries in real time, alert fans to job openings, and highlight our community service activities. This robust and effective utilization of social media was recognized with the Best E-Marketing Award from the Hawaii Chapter of the American Marketing Association, and a position among the top 30 U.S. banks on the Financial Brand "Power 100" ranking.

### Branches, In-Store Branches and Banking Centers

More and more customers are choosing to do their banking online or via mobile devices. At the same time, customers are doing more banking at in-store branches, thanks to the convenience of being able to bank seven days a week and where they shop. To keep pace with this trend, in 2013 we opened two new in-store branches. The first is at Safeway Kapahulu on Oahu and the other is our third Maui in-store branch at the new Safeway Maui Lani in Wailuku.



In 2013, our branch in Lihue celebrated 110 years of serving the Kauai community with a special birthday celebration. In addition, we relocated our Ward Plaza branch to new ground floor facilities at Hokua at 1288 Ala Moana, and we reopened the newly renovated Manoa branch.

Traditional branches are still an important channel for developing relationships by helping customers find solutions to more complex financial needs. A number of our traditional branches serve as banking centers, where experts in Mortgage Banking, Investment Services, Personal Banking, and Business Banking are on hand to provide these specialized financial services. These banking centers are located in branches that serve major metropolitan markets—Ala Moana, Kailua, Kapolei, Main Branch in Downtown Honolulu, Pearlridge, Waiialae-Kahala, and Waikiki on Oahu, and Kona on Hawaii Island. Our new banking center on Maui is scheduled to open in early 2015. Our vision is to continue to evolve the banking centers to serve as financial solutions destinations.

### Mortgage Lending

In 2013, Bank of Hawaii was the #1 lender in the state for number of residential loans recorded and total dollars loaned. This means that thousands of families can pursue their dream of homeownership while taking advantage of the low-interest rate environment and purchasing a new home or improving their budget by refinancing.

Our Consumer Lending Department also increased its volume of home equity credit lines with the introduction of a new PV loan product, which makes it easy for homeowners to purchase a photovoltaic system and take advantage of attractive tax credits.

### Credit Cards

With one of the most generous and flexible reward redemption programs in existence, more customers are choosing Bank of Hawaii's Visa Signature and American Express MyBankoh Rewards Credit Cards. Since we launched these self-issued credit cards in 2012 with their unique rewards program, more than 13,000 new accounts have been opened.

These cards complement our popular Bank of Hawaii Hawaiian Airlines Visa Signature Credit Cards, which we offer through our partnership with Hawaiian Airlines.

*From left to right: Owen Kano, Rosalinda Flanders, Michael Libertini, Shieryll Bolbol, and Katherine Medina at the Ward Branch at Hokua.*

**Comprehensive Wealth Management Services**

Bank of Hawaii understands that the complexities of wealth management involve much more than money. They encompass the dreams our clients have for their future and that of their loved ones. That's why we take the time to first understand our clients' goals, propose straightforward personalized solutions and then help them take action. Our services range from basic banking to customized lending, investments, financial, estate and tax planning; charitable giving; and trust and probate administration. It all starts with a trusted relationship with the bank you already know...

**Investment and Trust Services**

The bank's Investment Services Group (ISG) is the largest Hawaii-based provider of fiduciary services in the state, with a team solely dedicated to trust and estate administration supported by tax, real-estate and closely-held valuation departments. Because we set extremely high standards for our team of wealth management advisors, we invest in their continuing education. Currently, our staff has more than 50 accreditations that denote the highest degree of professional skills and technical expertise.

We regularly provide exclusive seminars alongside nationally recognized investment managers on timely topics such as international investing, alternative fixed income, and upcoming tax law changes. These seminars provide specialized information to help clients understand the markets within the context of their financial objectives. As part of our holistic approach to wealth management we recently rolled out our new, collaborative customer reporting system, which is enabling us to better partner with colleagues across the bank to meet client needs. In 2013, we developed special secured bridge financing that gives clients the flexibility to fund short-term needs without liquidating their assets and allowing them better financial and tax management. We also implemented an upgrade to our trust property management system that has created efficiencies to keep our costs down and strengthen service delivery.

**Meeting the Needs of Business**

Small businesses. Sole proprietorships. Medium-sized companies. Large corporations. International businesses. As they grow and change, Bank of Hawaii has the expertise to understand our business customers' needs and provide the services needed to help them reach their goals.

**Commercial/Corporate Banking**

The lending, depositary and cash management needs of Hawaii's middle-market and large corporate businesses continue to benefit from the expertise of our team of commercial and corporate bankers. Their experience in providing both simple and complex financing and treasury management solutions for the business community makes them the go-to financial services team for businesses in Hawaii. From real estate and equipment financing to strategic capital investment on the lending front, to streamlining the collection and payments activities on the depositary side of business, our team works tirelessly to understand our clients' needs, and to develop tailored and timely solutions. The team also works closely with other business units across the bank, such as Private Client Services, Business Banking, and Investment Services to help clients meet their unique financial needs.

**Business Banking**

Small businesses, which account for more than 95 percent of companies in Hawaii, remain the backbone of our economy. We continue to serve this important market through our dedicated business banking group. We provide a wide range of deposit and loan products including government-guaranteed loans; merchant services; and convenient phone and online access to accounts. Once again in 2013, we led all lenders in the state with 89 SBA guaranteed loans, which earned us the U.S. Small Business Administration's Lender of the Year Award for Hawaii. We are proud to have received this prestigious award in nine of the past 11 years.

**International Banking**

As the only local bank with an international Banking Division (IBD), we serve clients from Asian countries such as China, Japan and Korea who have financial interests in Hawaii and the Pacific. In addition to offering products and services specifically tailored for our international clientele, we are in a unique position to connect business leaders in Asia with their counterparts in a broad cross-section of Hawaii's business community.

In 2013, we hosted a reception for a delegation of nine representatives from China National Coal, a state-owned enterprise of the government of China that produces nearly 300 million tons of coal each year and annual revenue of nearly \$30 billion. The reception introduced the China delegation, which was visiting the U.S. to find new technology and potential partners for clean and renewable energy projects, with some of Hawaii's top business leaders, especially those in the energy sector.



*General Manager Wu Guo Zhen (front left) and Chairwoman Wen Hui Liu (fifth from left) of the Shanxi Chenglian Foreign Trade & Economic Relations Co., a state-owned enterprise of Shanxi Province in Northeast China, hosted International Banking Executive Vice President Betty Brow and Vice President Sonny Zhang at their Arts and Crafts Museum, which displays products manufactured by Shanxi companies. Products are exported to Europe and other Asian countries, but not yet to the U.S. The company also imports products from other countries for sale in China, and hopes to import products from Hawaii.*

We also co-hosted a business forum with the Department of Business and Economic Development and Tourism (DBEDT) to provide Hawaii business executives the opportunity to meet and explore potential trade with representatives from the Vietnamese Consulate and Trade Office in San Francisco.

Other receptions and events in 2013 included seminars and briefings for groups of entrepreneurs coming to Hawaii from China to explore investment opportunities.

To make banking more convenient for visitors and residents whose first language is Chinese or Japanese, Bank of Hawaii offers multi-language ATM screens. We plan to add the Korean language in 2014. And we are the only bank to offer ATM screens that include the Hawaiian language.

Chinese businesses, visitors and investors are also benefiting from a service put in place in 2010. It allows China UnionPay (CUP) debit and credit card holders to withdraw cash at any Bank of Hawaii ATM and make purchases at our merchant terminals. China UnionPay is the sole bank card association in China, and has more than 2.5 billion cards issued under the CUP brand.

## Our Technology Systems

Our technology systems are the unseen but critical side to the bank's ability to deliver a full range of products and services efficiently, quickly and securely.

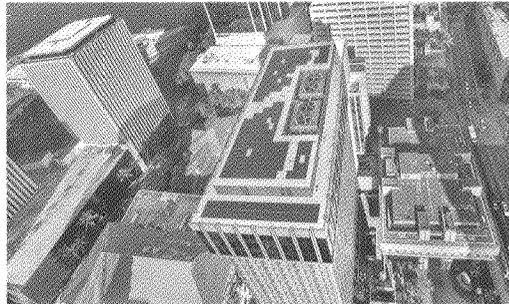
We continued to strengthen security and data protection in response to elevated threats faced

by all financial institutions. We also continue to upgrade and update our systems so that we are prepared for the growing number of transactions, services and applications that we provide and support—online and with mobile apps.

In 2013, we rolled out a new, customized customer reporting system that allows our staff to better understand and comprehensively fulfill our customers' needs. This new system makes it easier for our business groups to collaborate in the best interests of our customers and to develop new business opportunities.

## Energy-Efficient Facilities

Our facilities—not just our branches, but also our back-office operations—play a role in our ability to perform well. We updated our facility maintenance strategy to provide energy savings while enhancing the customer and employee experience. Window tinting, efficient air conditioning units and controls, lighting upgrades and PV panels are all part of the plan to reduce energy costs. Utilities are currently the second highest occupancy expense, and substantial savings are expected from these initiatives in 2014.



*Bank of Hawaii's 104.4 kW photovoltaic installation atop its headquarters building is the largest PV installation in downtown Honolulu.*

In 2013 we completed a major upgrade of our data center infrastructure. It required a significant investment of time and resources, and upgrades to the electrical and air handling capacity now make it more resilient and better prepared to meet customers' needs in the event of a power disruption or natural disaster.

*Guided by a sustained vision while utilizing multiple assets and capabilities, Bank of Hawaii continues to navigate toward success in a complex marketplace.*

On the following pages, some of our customers talk about the many ways they do business with us—and how we provide the highest value and services to meet their needs.

## PURE JOY DAY SPA

BUSINESS BANKING CLIENT

*The bank truly believes in the companies they put their money behind. They want us to succeed.* — JASON

**JOY NISHIKAWA:** Jason and I are clients of Bank of Hawaii for our respective businesses. The bank has been a big part of my company from the very beginning, and Jason works very closely with them in his role as vice president of Marcus & Associates.

At Pure Joy Day Spa, service is at the center of all we do. I ask my staff to think about how they would like their mother to be treated, and that's how we should take care of our clients. The bank shares a similar philosophy.

**JASON NISHIKAWA:** Joy and I have also been customers of the bank from when we were teenagers. Like all relationships, it grows from there. A long time ago, I met Malcolm Lau in Business Banking through a mutual friend. He was always a strong supporter of Marcus & Associates, and I got to know him well. He knew that Joy had a dream of one day owning a spa and that she had a passion for helping people feel good about themselves. He encouraged her to start her own business and gave her confidence that she could succeed. So when Joy got the opportunity to buy the spa business, we contacted him. Malcolm helped with the financing and in 2002, Joy became the sole proprietor of a small, one-room spa, just over 200 square feet.

**JOY:** It was a little scary starting my own company, but Malcolm helped me take "the plunge" and make my dream a reality.

**JASON:** As Joy's business grew, she started thinking about expanding. Three years after opening, she found a property in need of renovation. It was a little more than 1,000 square feet, so she would need a loan that was four to five times larger than the first one. Once again, Malcolm came through. That was seven years ago, and Joy now has 13 employees.

**JOY:** Support is shown in the way you give it, not just in the transaction. Malcolm and others at Bank of Hawaii—like Jon Murakami, Danny Kim, Lesley Yost, Keene Fujinaka, and Scott Fujii—have been very supportive.

From day one, Malcolm spread the word among his colleagues and clients. Many BOH employees became regular customers and, in turn, referred their clients. One customer turned into 10 to 20 customers. The bank really goes above and beyond. They invite us to networking events, and that's huge for our business.

**JASON:** I interact with Malcolm weekly, and he's constantly promoting Marcus & Associates. He also tells me about other businesses whose services we might want to consider. The bank truly believes in the companies they put their money behind. They want us to succeed.

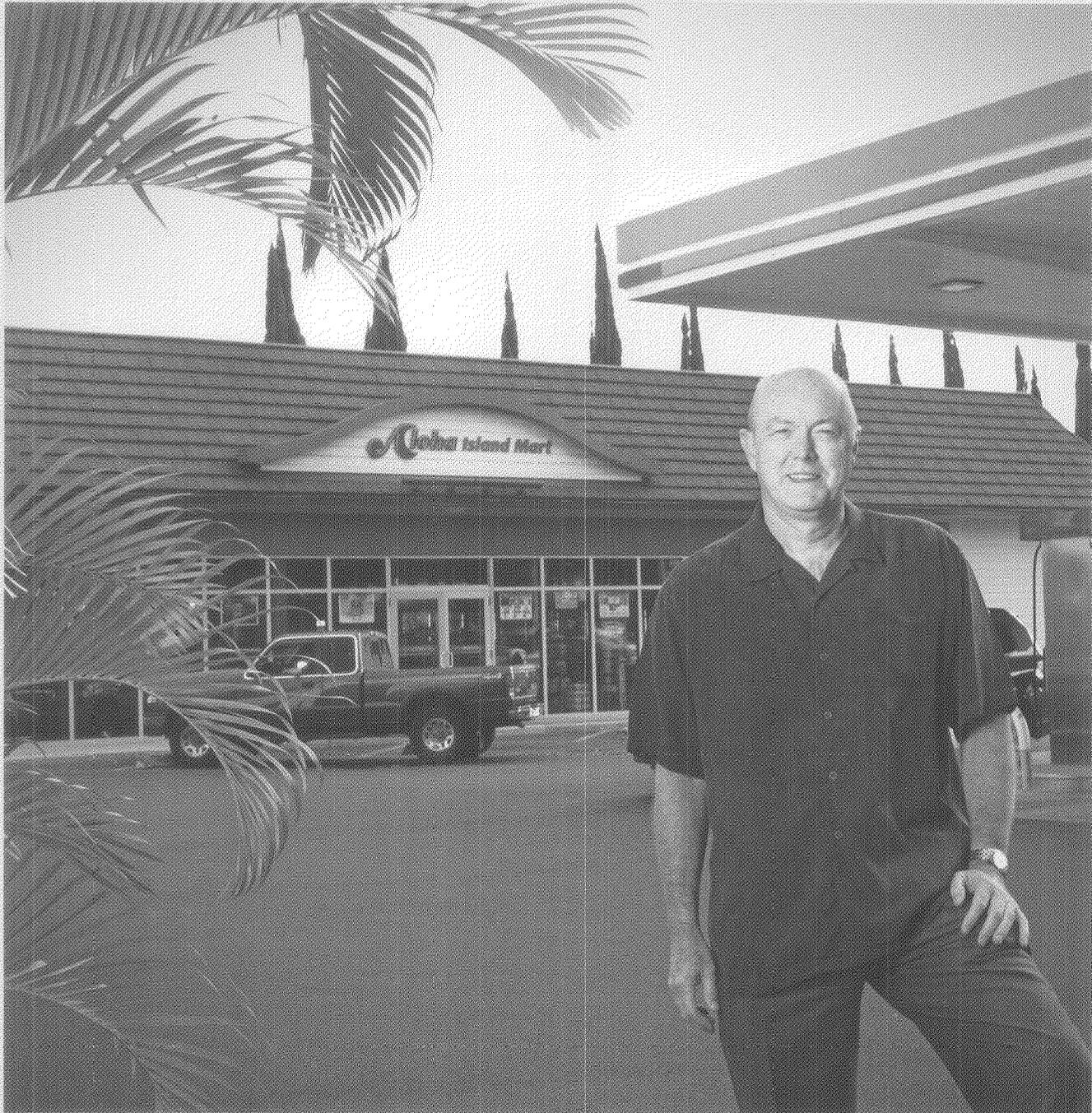
**JOY:** The bank is like a friend or family member. It's a relationship. From the very beginning, they treated my one-person shop like it was a multimillion dollar business. I will never forget that. It gives you the confidence and drive to succeed.

**JASON:** Whether you're a small business or a large one, and whether you're talking to their teller, branch manager or chairman, the bank's level of service is consistent. They have genuine enthusiasm for you as a person and as a business. They care about long-term relationships. I know that has been the case with the bank and my father, Marcus, who started our company 42 years ago.

**JOY:** It's also great knowing that the bank cares about our community and gives back. Our family is reminded of this when we visit the Honolulu Museum of Art on Bank of Hawaii Family Sundays. We feel a sense of pride. That's our bank!



*Joy Nishikawa,  
owner of Pure  
Joy Day Spa, and  
husband Jason with  
their children Marcus  
and Miya.*



*Richard Parry,  
President & CEO,  
Aloha Petroleum, Ltd.*

## ALOHA PETROLEUM, LTD.

COMMERCIAL CLIENT

*Over the years, Bank of Hawaii has been an important partner in our growth.* — RICHARD

RICHARD PARRY: Aloha Petroleum is Hawaii's largest independently owned gasoline distributor, and one of the largest convenience store operators in the state. We have been a Bank of Hawaii client since 1991. The bank assists us in four areas: automated teller machines (ATMs) at our Aloha Island Mart convenience stores on Oahu, Hawaii Island and Maui; management of our 401(k) employee retirement savings program; day-to-day transaction services; and loans.

Over the years, Bank of Hawaii has been an important partner in our growth. In the mid-1990s, they provided loans that enabled us to build a larger fuel terminal on Oahu. We significantly expanded the terminal capacity from 80,000 to 500,000 barrels, which gave us the capacity to import refined oil products and source supply much more competitively. Then, a few years ago, we acquired all of the Shell fuel assets in the state with the help of a new set of loans from a consortium of banks spearheaded by Bank of Hawaii.

The bank has also helped us with our employee retirement savings program. Recently, we were honored with the *Pensions & Investments Magazine's* Innovator Award for improvements in our 401(k) plan. With the bank's help we achieved a dramatic increase in employee participation; it grew from 38 percent in 2011 to 68 percent in 2012. The bank and our human resources team met with our employees to explain the benefits of the program. We believe that dedicated employees are our competitive advantage, and happy employees help make happy customers.

What we look for in a bank is a company that understands our business and takes the time to get to know us. We also look for flexibility, as oil markets can be very volatile and our bank needs to be flexible to help us deal with that volatility. We

sell to resellers and wholesalers in addition to our own retail stations and the flow of money through the system is very important; Bank of Hawaii has helped us maximize our cash flow. Lastly, we look for a bank that is going to be with us for the long term, not just for the next deal.

We have worked with Donovan Koki in Commercial Banking for many years and currently work with John McKenna. Both know us personally and have taken the time to understand our business. In addition, the bank takes a kind of joint ownership approach to their relationship with us, so we have also gotten to know Jim Polk, Wayne Hamano, Peter Ho, and others.

As a local company, the bank knows Hawaii and the way things get done here. They are very understanding of the unique challenges Hawaii businesses face. They know how expensive it is to operate in our state and how difficult issues such as permitting and government approvals and policies can be. We appreciate that and consider them as not just our loan partner, but our thought partner as well.

The bank is also very involved in the community and, like us, is intent on being a good corporate citizen. Over the past year or so, we have been working on the culture of our company, including our vision, mission and values. Bank of Hawaii went through a similar process a few years ago, and they have shared many helpful insights on how they approached that effort.

I would describe the bank as very professional. They are good people who are very interested in the success of our company as well as their own. They are knowledgeable in what they do, and they are a local company with local values. The bank is a great role model for other businesses in Hawaii.

## SINCLAIR DRYWALL, INC.

PRIVATE CLIENT SERVICES / COMMERCIAL BANKING / RETIREMENT PLAN CLIENT

*The bank is always looking out for our best interests, both on the business and personal side.* - JULIE

**KARL SINCLAIR:** In business, quality, relationships and trust are important. That's true for our company and in our dealings with Bank of Hawaii. I started my drywall business in 1980 as a sole proprietor doing small repairs and individual residences, and in 1983, I completed my first tract of single family homes. Clients liked my work and through word of mouth, I got more contracts. Julie was there from the beginning, helping me with the business and eventually gave up her career in nursing to work with me full time—organizing, setting up and then managing the office. In the mid-1990s, I expanded into commercial work and, later, high rises. Today, Sinclair Drywall, Inc. is among Hawaii's top five drywall companies. We have more than 200 employees, some of whom have been with us since the '80s.

Bank of Hawaii has been our partner throughout. Both Julie and I had been BOH customers from the time we were growing up. When I started the company, I opened a business checking account at the Aikahi branch.

**JULIE SINCLAIR:** The bank was very helpful. As we grew, they set us up with payroll services and assigned a personal banker. Over the past 10 years, we've been working with Edison Kobayashi in the Private Wealth Division. Any time we have a question, we call Ed. He is friendly and accommodating. When we were thinking about (real estate) investments, he gave us names of qualified attorneys and specialists. He also introduced us to various types of tax credits, which has helped our bottom line. The bank is always looking out for our best interests, both on the business and personal side.

**KARL:** The bank is there for us with financial advice and a line of credit when we need it. It's good to have them as our "security blanket." Bill Carpenter and Wanda Sanchez have also been helpful with our investments and employee retirement plan. We meet with them quarterly in Kailua. We don't even need to drive to town.

**KARL:** The bank takes care of us. We don't have to worry. We're free to enjoy life. It's a great partnership. Good for the bank and good for us.

**JULIE:** Trust is important. We feel comfortable with them. It's like being friends.

**KARL:** I like working with the bank because they're solid. They have a long history and will always be here. They're the number one bank in the country.

The construction industry is cyclical. You always have to be prepared for the inevitable downward trend. Our company has been fortunate, but many do not make it. Currently, the industry is in an expansion mode, and the outlook is good.

**JULIE:** Recently, the bank helped us with a line of credit at a critical time. A few projects that had been on hold suddenly became active. At the same time, another project that was going to start in 2014 began early.

**KARL:** It was the perfect storm: We had plenty of work and hired a lot more employees, but we needed a large amount of funds to cover us until we received our first payment. Thank goodness for our BOH line of credit. We met all our deadlines, and the projects are being completed. It's good to work with a local company that understands the local way of doing business.

**JULIE:** It's also great that the bank and their employees give back to the community.

**KARL:** It's a small island. If you do good, it will come back to you.

**JULIE:** We're very happy with the bank. They've never disappointed us. We've been approached by others, but we're not interested.

**KARL:** We look forward to many more years of partnership.



*Karl and Julie  
Sinclair, owners of  
Sinclair Drywall, Inc.*



*Jane Leong (right)  
with her daughter  
Leslie Kawamoto and  
their dog Zoe*

## JANE LEONG & LESLIE KAWAMOTO

PERSONAL BANKING CLIENTS

*We trust Bank of Hawaii wholeheartedly. They truly care about us and put our needs first. They're also very accommodating.* - JANE

**LESLIE KAWAMOTO:** My mother and I really appreciate Bank of Hawaii and our personal banker, Mike Kobashigawa. We first got to know him when he called me almost five years ago. My mother had a sizable balance in her checking account that wasn't doing anything. He said that it was not advisable to have very large amounts of money in checking accounts. Mike introduced her to Gavin Tanioka, who is a financial consultant at the bank's Manoa branch. He helped her with insurance, annuities, IRAs and investments. His expertise has helped my mom maximize her assets and live a comfortable life. Both Mike and Gavin meet with us regularly about every four to six months. It's like a financial checkup—going to the doctor minus the needles.

**JANE LEONG:** Mike and Gavin are very genuine, sincere and honest. They're also experienced, skilled and competent. The best of the best. The services they provide have made my retirement more enjoyable, with peace of mind.

**LESLIE:** Before we met Mike, I had always thought the concept of a personal banker was something made up for radio and television commercials. Now I know a personal banker is someone who is always there to help you with your financial needs. Whenever we need something, my mom says, "call Mike," and Mike always comes through. He's truly the best at what he does.

When the time came for my husband and me to apply for a home equity line of credit and then a mortgage loan, I knew where to go. I didn't even care what the rate was because I knew Mike would be there to help us if we needed it. He introduced us to Jennifer Gershman in Residential Lending,

who is beyond excellent as our loan officer. She's very knowledgeable and responsive. She even went to bat for us, unprompted, by speaking with a seller's Realtor® about an offer we had made.

**JANE:** We trust Bank of Hawaii wholeheartedly. They truly care about us and put our needs first. They're also very accommodating. Mike and Gavin are willing to meet with us late in the day after Leslie finishes work.

**LESLIE:** We talk story before discussing business. We love just chatting with them about what's going on in life. If I had my way, we'd adopt both of them into the family. Recently, I emailed Mike a deposit question, and he surprised me by responding while he was away on a ski vacation! What other banker would do that? We think Mike's absolutely the best.

**JANE:** Bank of Hawaii is also very convenient. There are branches everywhere, and the staff is always friendly, professional and efficient.

**LESLIE:** We also like the fact that BOH provides so many ways to bank. We especially like their supermarket branches. It's very convenient when you're shopping and need to get cash or do your banking.

**JANE:** To me, Bank of Hawaii stands for honesty, integrity, friendliness, aloha, strength and permanence. The bank has been here for so long. That's comforting in this day and age when the future is uncertain. The bank will continue to be here for you.





## Partnering for a Better Tomorrow

We believe deeply in the communities we serve and are committed to strengthening the communities we hold dear. Each year Bank of Hawaii, our employees, our retirees and Bank of Hawaii Foundation contribute time, expertise and money to hundreds of not-for-profit organizations seeking to make positive changes. The bank has an “Outstanding” rating by the Federal Reserve Bank, the highest rating possible, for our performance under the Community Reinvestment Act.

It’s the special commitment to volunteerism and community service that sets our Bank of Hawaii ‘ohana apart. Whether it’s cleaning up a school garden, fundraising, teaching the financial basics that will help families build a better future, or preparing tax returns for free for low-income families and individuals, our employees are always ready to lend a hand.

Our ongoing commitment to volunteerism, community service and financial education earned the national Community Service Leadership Award for the third year in a row from the Financial Services Roundtable.

To highlight our unique culture of giving, we branded our employee and retirees’ community service by adding “Live Kōkua” to these activities. This means to “live in the spirit of helping others,” and expresses the dynamism of our generosity. Bank of Hawaii employees and family members contributed 7,918 hours of personal time to 79 community service projects as part of the Bank of Hawaii Live Kōkua Volunteer Program this year.

Our ‘ohana also makes personal contributions to local nonprofits through our annual Bank of Hawaii Live Kōkua community walk, which raises funds for organizations that lack resources to hold a walk of their own, as well as through our annual Live Kōkua Giving Campaign. Since the inception of the walk in 2007 and the giving campaign in 2010, employees and retirees have raised more than \$3 million for the community.

*Bank of Hawaii “Blue Crew” volunteers regularly help out in the community in many ways.*

**1:** More than 2,000 of our employees and their families turned out for the seventh annual Bank of Hawaii Live Kōkua community walk. Employees selected the walk’s beneficiaries, and then raised a total of \$105,636 in donations that were equally divided among EPIC ‘Ohana, Lanakila Pacific and YMCA of Honolulu. **2:** Our “Blue Crew” spent a Saturday in June cleaning up the dusty, debris-riddled interior of the historic Ford Island Control Tower. **3:** In the pelting rain, 150 “Blue Crew” volunteers helped to rebuild the ancient walls of Windward Oahu’s He’eia Fishpond, which is managed by nonprofit Paepae o He’eia. **Sandie Mae Maeda** and **Lani Macalabay** wave to the camera. **4:** Kindergarteners at Pu’uhale Elementary learn about saving from **Courtney Hirayasu** and **June Wong** as part of our annual “Teach Children to Save” initiative. More than 245 Bank of Hawaii volunteers taught nearly 5,638 students at 42 elementary, middle and high schools this year.



## Helping Employees Live Their Potential

At Bank of Hawaii we provide our people with the rewards and training to reach their potential. That's because our employees are our competitive advantage. Their talents, passion and creativity continue to inspire us to new levels of success.

We invest in our employees' development, engagement and well-being over the span of their careers. All Bank of Hawaii employees are given access to our robust curriculum of skill and professional development throughout their careers at the bank. In addition, we have created special multifaceted programs geared to three distinct groups: emerging professionals starting their careers, employees with a proven track record, and high-performers with long-range leadership potential. All three programs provide extensive training to improve business and people skills while providing unique opportunities to interact with all levels of leadership across the bank.

The Bank Associate Program was developed for young professionals just out of college, and attracts more than 600 applicants each year. It has set the precedent for excellence in leadership development in the state of Hawaii for more than 50 years. Graduates from the six-month program move on to take leadership roles at Bank of Hawaii. The Pathways to Leadership Excellence Program is for employees who are moving to the next step in their career, and the Leadership Development Series brings managers together from across the company as a learning cohort to sharpen their skills and explore practical issues of banking and the challenges of today's leaders. Both programs take place in a collaborative learning environment that provides the knowledge and tools to advance participants' personal and professional growth.

From the announcement of the teams, through the timed tournament rounds to the Final Four playoffs, employees across the bank are excited to compete in our annual Bankoh Genius Bowl. The success of this annual product knowledge competition

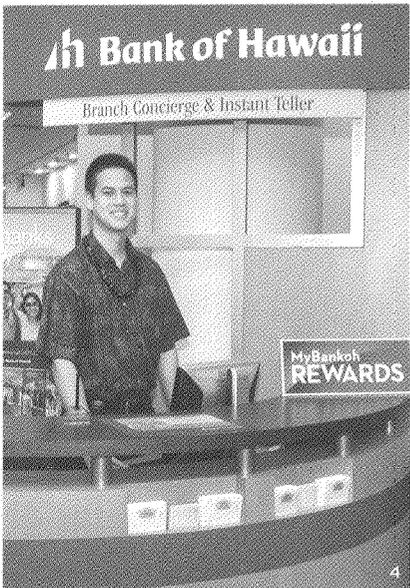
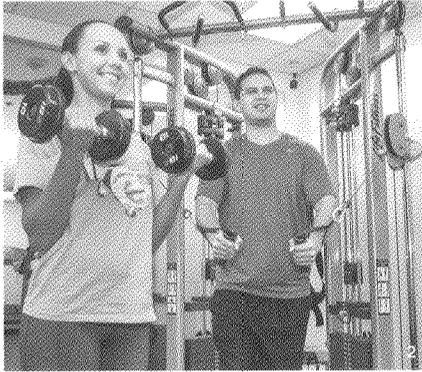
inspired the development of a special app this year. The new mobile app was developed exclusively for Bank of Hawaii employees, and puts information about consumer and business products and services, plus rates and special promotions, on their favorite mobile device. By accessing this new tool, employees can quickly get information for on-the-go customers (even in social settings), and can use it as a study device for the next Bankoh Genius Bowl competition.

Bank of Hawaii continues to help employees grow, connect and thrive by encouraging employees to take charge of their health and general well-being. For 12 weeks in 2013, 370 employees teamed up for Summer Slim Down, a friendly competition that promotes healthy eating and exercise habits. Together, employees lost more than a ton of weight—2,418 pounds.

Employees were also gaining muscles by using their free gym access at our Kapolei and downtown Honolulu facilities. We also introduced a new fitness center at our Central Processing Facility, which opened at the end of 2013. After-work sessions are also available for a fee; our employees may enroll in yoga, Zumba, and boot camp classes at a deep discount.

One essential element in rewarding our team members is providing recognition to those who go above and beyond to provide exceptional service to customers and colleagues, and who provide exceptional value to the bank and to the community. Our Step Up To Excellence Program recognizes and rewards individuals and teams each quarter based on nominations submitted by coworkers. In 2013, 258 nominations were submitted.

Our commitment to our employees is an investment in their future and in ours, providing benefits for Bank of Hawaii and its customers for years to come.



**1:** Winners of the 2013 Bankoh Genius Bowl, the bank's product knowledge competition, are East Oahu/ Neighbor Island Personal Banking team members **Chelcy Reyes, Janet In, Stacey Williams and Somerset Lovett.** **2:** **Julie Ann Taurua** of Transaction Processing Operations and **Storm Lagapa** of Service and Operations pumping iron in the new Central Processing Facility fitness center. **3 and 6:** More than 200 employees were honored at a special luncheon to thank them for 30+ years of service at Bank of Hawaii. CEO **Peter Ho** congratulates the three employees with the highest years of service. *From left:* **May Lei Barros**, 46 years, Insurance Marketing; **Alton Kuioka**, 44 years, Managing Committee; and **Bert Yano**, 57 years, Accounting Services. **4:** **Patrick Twohy**, Bank Associate in Branch Division at the Waikiki branch **5:** In April 2013, eight employees were honored as the 2012 annual Step Up To Excellence awardees for their outstanding contributions to Bank of Hawaii's overall success. *Seated, from left:* **Linda Ho** of Commercial Credit Group, **Joan Martin** of Personal Trust-Wealth Management Group Maui, **Natalie Fogle** of Corporate Facilities, **Virgie White** of In-Store Branch Safeway Beretania, and **Roberta Oshiro** of Commercial Banking Service and Support; *standing from left:* **Francois Masson** of Retail Credit, **Davin Nakasato** of Main Banking Center and **Eric Masumori** of Centralized Administrative Services.



## Consolidated Statements of Income

Bank of Hawaii Corporation and Subsidiaries (dollars in thousands, except per-share amounts)

FOR THE YEAR ENDED DECEMBER 31	2013	2012
<b>Interest Income</b>		
Interest and Fees on Loans and Leases	\$ 253,276	\$ 257,896
Income on Investment Securities		
Available-for-Sale	53,570	65,972
Held-to-Maturity	90,062	94,952
Deposits	10	9
Funds Sold	415	533
Other	1,172	1,127
Total Interest Income	398,505	420,489
<b>Interest Expense</b>		
Deposits	10,143	12,376
Securities Sold Under Agreements to Repurchase	26,837	28,897
Funds Purchased	44	21
Short-Term Borrowings	2	-
Long-Term Debt	2,572	1,924
Total Interest Expense	39,598	43,218
Net Interest Income	358,907	377,271
Provision for Credit Losses	-	979
Net Interest Income After Provision for Credit Losses	358,907	376,292
<b>Noninterest Income</b>		
Trust and Asset Management	47,932	45,229
Mortgage Banking	19,186	35,644
Service Charges on Deposit Accounts	37,124	37,621
Fees, Exchange, and Other Service Charges	50,469	48,965
Investment Securities Losses, Net	-	(77)
Insurance	9,190	9,553
Bank-Owned Life Insurance	5,892	6,805
Other	16,430	16,546
Total Noninterest Income	186,223	200,286
<b>Noninterest Expense</b>		
Salaries and Benefits	184,211	184,408
Net Occupancy	38,745	42,965
Net Equipment	18,366	19,723
Data Processing	13,840	13,202
Professional Fees	9,405	9,623
FDIC Insurance	7,765	7,873
Other	58,637	56,494
Total Noninterest Expense	330,969	334,288
Income Before Provision for Income Taxes	214,161	242,290
Provision for Income Taxes	63,659	76,214
<b>Net Income</b>	<b>\$ 150,502</b>	<b>\$ 166,076</b>
Basic Earnings Per Share	\$ 3.39	\$ 3.68
Diluted Earnings Per Share	\$ 3.38	\$ 3.67
Dividends Declared Per Share	\$ 1.80	\$ 1.80
Basic Weighted Average Shares	44,380,948	45,115,441
Diluted Weighted Average Shares	44,572,725	45,249,300

Refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for the Consolidated Financial Statements, including Report of Independent Registered Public Accounting Firm, thereon.

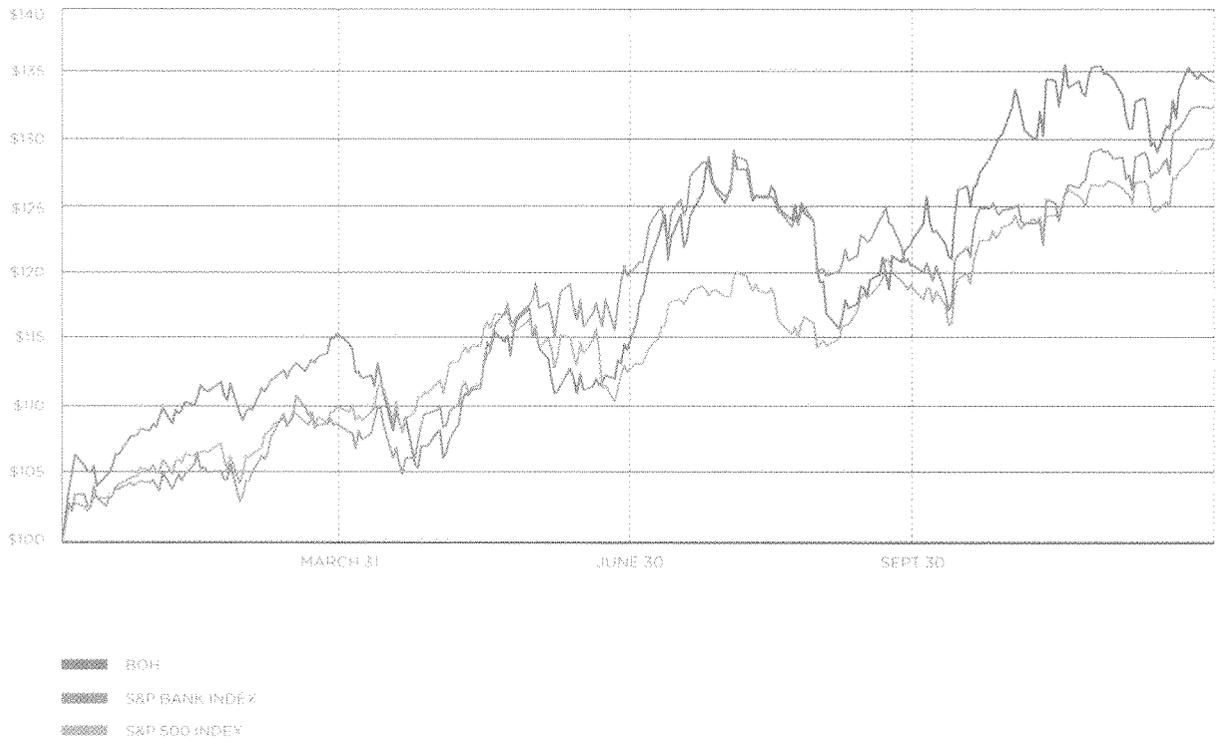
## Consolidated Statements of Condition

Bank of Hawaii Corporation and Subsidiaries (dollars in thousands)

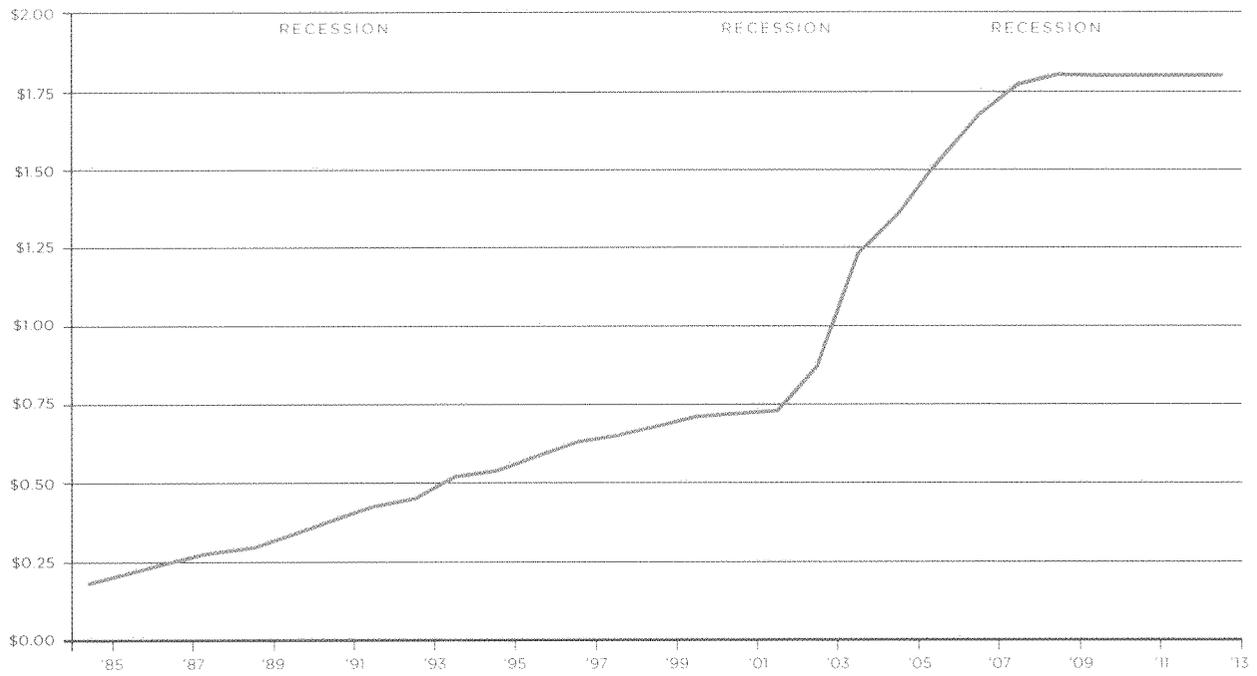
AS OF DECEMBER 31	2013	2012
<b>Assets</b>		
Interest-Bearing Deposits	\$ 3,617	\$ 3,393
Funds Sold	271,414	185,682
Investment Securities		
Available-for-Sale	2,243,697	3,367,557
Held-to-Maturity (Fair Value of \$4,697,587 and \$3,687,676)	4,744,519	3,595,065
Loans Held for Sale	6,435	21,374
Loans and Leases	6,095,387	5,854,521
Allowance for Loan and Lease Losses	(115,454)	(128,857)
Net Loans and Leases	5,979,933	5,725,664
Total Earning Assets	13,249,615	12,898,735
Cash and Noninterest-Bearing Deposits	188,715	163,786
Premises and Equipment	108,636	105,005
Accrued Interest Receivable	43,930	43,077
Foreclosed Real Estate	3,205	3,887
Mortgage Servicing Rights	28,123	25,240
Goodwill	31,517	31,517
Other Assets	430,539	457,125
Total Assets	<b>\$ 14,084,280</b>	<b>\$ 13,728,372</b>
<b>Liabilities</b>		
Deposits		
Noninterest-Bearing Demand	\$ 3,681,128	\$ 3,367,185
Interest-Bearing Demand	2,355,608	2,163,473
Savings	4,560,150	4,399,316
Time	1,317,770	1,599,508
Total Deposits	11,914,656	11,529,482
Funds Purchased	9,982	11,296
Securities Sold Under Agreements to Repurchase	770,049	758,947
Long-Term Debt	174,706	128,055
Retirement Benefits Payable	34,965	47,658
Accrued Interest Payable	4,871	4,776
Taxes Payable and Deferred Taxes	34,907	88,014
Other Liabilities	128,168	138,479
Total Liabilities	13,072,304	12,706,707
<b>Shareholders' Equity</b>		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: December 31, 2013 - 57,480,846 / 44,490,385; and December 31, 2012 - 57,319,352 / 44,754,835)	572	571
Capital Surplus	522,505	515,619
Accumulated Other Comprehensive Income (Loss)	(31,823)	29,208
Retained Earnings	1,151,754	1,084,477
Treasury Stock, at Cost (Shares: December 31, 2013 - 12,990,461; and December 31, 2012 - 12,564,517)	(631,032)	(608,210)
Total Shareholders' Equity	1,011,976	1,021,665
Total Liabilities and Shareholders' Equity	<b>\$ 14,084,280</b>	<b>\$ 13,728,372</b>

Refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for the Consolidated Financial Statements, including Report of Independent Registered Public Accounting Firm, thereon.

### 2013 RELATIVE PRICE PERFORMANCE



### UNBROKEN HISTORY OF DIVIDENDS



HISTORICAL DIVIDENDS ADJUSTED FOR STOCK SPLITS

**Managing Committee**

*Bank of Hawaii Corporation / Bank of Hawaii (As of December 31, 2013)*

**Peter S. Ho**  
Chairman, President, and  
Chief Executive Officer

**Peter M. Biggs**  
Vice Chairman and  
Chief Retail Officer

**Sharon M. Crofts**  
Vice Chairman  
Operations Group  
Administration

**Wayne Y. Hamano**  
Vice Chairman and Chief  
Commercial Officer

**Alton T. Kuioka**  
Vice Chairman of Board  
of Directors of Bank of  
Hawaii

**Kent T. Lucien**  
Vice Chairman and  
Chief Financial Officer

**Mark A. Rossi**  
Vice Chairman, Chief  
Administrative Officer  
General Counsel &  
Corporate Secretary

**Mary E. Sellers**  
Vice Chairman and  
Chief Risk Officer

**Donna A. Tanoue**  
Vice Chairman Client and  
Community Relations

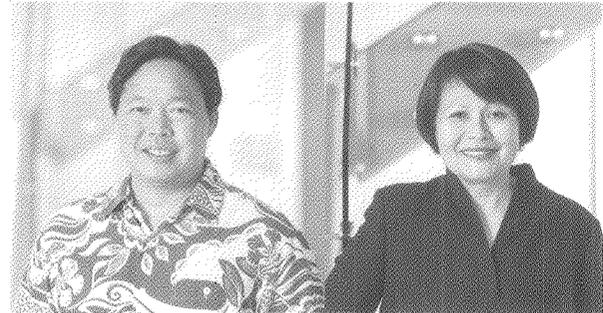
**Vincent E. Barfield**  
Senior Executive  
Vice President  
Investment Services  
Group

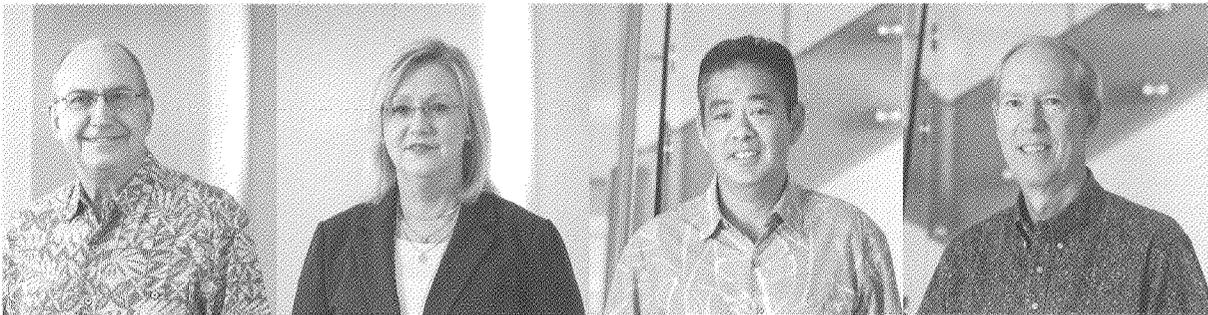
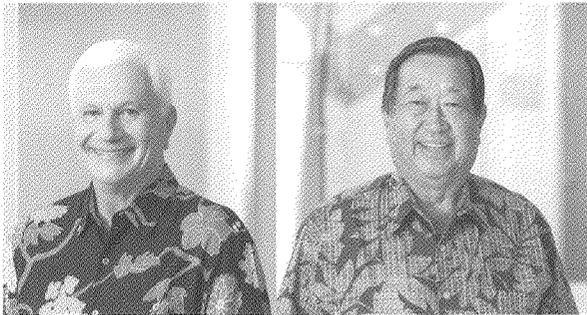
**Jill F. S. Higa**  
Senior Executive Vice  
President Retail Banking

**Derek J. Norris**  
Senior Executive Vice  
President and Controller

**James C. Polk**  
Senior Executive  
Vice President  
Commercial Banking  
Group

**Dean Y. Shigemura**  
Senior Executive Vice  
President and Treasurer





*(First Row) Peter S. Ho,  
Donna A. Tanoue, Mark A. Rossi,  
Alton T. Kuoaka (Second Row)  
Sharon M. Crofts, Peter M. Biggs,  
Mary E. Sellers, Wayne Y. Hamano,  
Kent T. Lucien (Third Row)  
Derek J. Norris, James C. Polk,  
Dean Y. Shigemura, Jill F. S. Higa,  
Vincent E. Barfield*

**Board of Directors**

*Bank of Hawaii Corporation / Bank of Hawaii (As of December 31, 2013)*

**S. Haunani Apoliona\***  
Trustee  
Office of Hawaiian  
Affairs

**Mary G. F. Bitterman\***  
President and  
Director  
The Bernard Osher  
Foundation

**Mark A. Burak\***  
Retired Executive  
Vice President  
Bank of America

**Michael J. Chun\***  
Retired President  
and Headmaster  
Kamehameha  
Schools-Kapalama

**Clinton R. Churchill\***  
Trustee  
The Estate of James  
Campbell

**David A. Heenan\***  
Trustee  
The Estate of James  
Campbell

**Peter S. Ho\***  
Chairman, President  
and Chief Executive  
Officer  
Bank of Hawaii  
Corporation and  
Bank of Hawaii

**Robert A. Huret\***  
Managing Member  
FTV Management  
Company, LP

**Alton T. Kuiuoka**  
Vice Chairman  
Client Relations  
Bank of Hawaii

**Kent T. Lucien\***  
Vice Chairman and  
Chief Financial  
Officer  
Bank of Hawaii  
Corporation and  
Bank of Hawaii

**Martin A. Stein\***  
Partner  
RSA Ventures

**Donald M. Takaki\***  
Chairman and CEO  
HawkTree  
International, Inc.

**Barbara J. Tanabe\***  
Owner and Partner  
Ho'akea  
Communications LLC

**Donna A. Tanoue**  
Vice Chairman  
Client and  
Community Relations  
Bank of Hawaii

**Raymond P. Vara\***  
President and Chief  
Executive Officer  
Hawaii Pacific Health

**Robert W. Wo\***  
Owner and Director  
C. S. Wo & Sons, Ltd



*(First Row) S. Haunani Apoliona, Mary G. F. Bitterman, Mark A. Burak (Second Row) Michael J. Chun, Clinton R. Churchill, David A. Heenan (Third Row) Peter S. Ho, Robert A. Huret, Alton T. Kuiuoka (Fourth Row) Kent T. Lucien, Martin A. Stein, Donald M. Takaki (Fifth Row) Barbara J. Tanabe, Donna A. Tanoue, Raymond P. Vara (Sixth Row) Robert W. Wo*

*\*Bank of Hawaii Corporation Board of Directors*

BANK OF HAWAII LOCATIONS



**Facts: Hawaii, Guam, Saipan, Palau and American Samoa**

**HAWAII**

Hawaii business establishments in 2012: 98 percent have fewer than 100 employees, 95 percent have fewer than 50 employees, and 52 percent have fewer than five employees.<sup>1</sup>

Hawaii gross domestic product in 2012: \$72.4 billion.<sup>2</sup>

- Government (federal civilian & military, and state and local): 24.3%
- Real estate, Rental and Leasing: 17.7%
- Accommodation and Food services: 8.1%
- Retail trade: 6.6%
- Health care and Social assistance: 6.2%
- Construction: 5.4%
- Professional and Technical services: 4.5%
- Transportation and Warehousing: 4.1%
- Finance and Insurance: 3.8%

Tourism's direct and indirect impact on Hawaii gross domestic product in 2012: 17.1%.<sup>3</sup>

State of Hawaii resident population as of July 1, 2012: 1,392,313.<sup>4</sup>

**GUAM**

- U.S. Territory
- Capital: Hagåtña (Agana)
- Resident population: July 2013 estimate 160,378<sup>5</sup>
- Main industries: U.S. military and tourism.

**AMERICAN SAMOA**

- U.S. Territory
- Capital: Pago Pago
- Resident population: July 2013 estimate 54,719<sup>5</sup>
- Main industries: tuna fishing and tuna processing plants.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

- Commonwealth in political union with the U.S.
- Capital: Saipan
- Resident population: July 2013 estimate 51,170<sup>5</sup>
- Main industries: tourism and trade.

**PALAU**

- Constitutional government in free association with the U.S.
- Capital: Melekeok
- Resident population: July 2013 estimate 21,108<sup>5</sup>
- Main industries: tourism, agriculture and fishing.

**Bank of Hawaii Branches and ATMs**

(As of December 31, 2013)

	Branches & In-Store Branches	ATMs
<b>State of Hawaii</b>	<b>67</b>	<b>416</b>
Island of Oahu	38	300
Island of Hawaii	11	48
Island of Maui	12	40
Island of Kauai	4	26
Island of Lanai	1	1
Island of Molokai	1	1
<b>West Pacific</b>	<b>6</b>	<b>43</b>
CNMI/Saipan	2	6
Guam	3	35
Palau	1	2
<b>American Samoa</b>	<b>1</b>	<b>7</b>
<b>Grand Total</b>	<b>74</b>	<b>466</b>

<sup>1</sup> Updated table for Table 15.18, Hawaii DBEDT *State of Hawaii Data Book 2012* from the U.S. Census Bureau "2011 County Business Patterns: Geographic Area Series: County Business Patterns by Employment Size Class."

<sup>2</sup> Table 13.05, Hawaii DBEDT *State of Hawaii Data Book 2012*, <http://files.hawaii.gov/dbedt/economic/databook/db2012/section13.pdf>

<sup>3</sup> Calculation based on Tables 13.05 and 7.32, Hawaii DBEDT *State of Hawaii Data Book 2012*, <http://files.hawaii.gov/dbedt/economic/databook/db2012/section13.pdf> and <http://files.hawaii.gov/dbedt/economic/databook/db2012/section07.pdf>

<sup>4</sup> Table 1.06, Hawaii DBEDT *State of Hawaii Data Book 2012*, <http://files.hawaii.gov/dbedt/economic/databook/db2012/section01.pdf>

<sup>5</sup> Central Intelligence Agency (CIA), *The World Factbook* (2013).

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**Corporate Headquarters**

Bank of Hawaii Corporation  
130 Merchant Street, Honolulu, Hawaii 96813

**Annual Meeting**

The annual meeting of shareholders will be held on Friday, April 25, 2014 at 8:30 a.m. at the Bank of Hawaii Main Office, 5th Floor, 111 South King Street, Honolulu, Hawaii

**Transfer Agent and Registrar**

Computershare Investor Services, LLC  
250 Royal Street, Canton, MA 02021

**Common Stock Listing**

NYSE: BOH

The common stock of Bank of Hawaii Corporation is traded on the New York Stock Exchange under the ticker symbol BOH and is quoted daily in leading financial publications as "Bank of Hawaii"

**Dividend Reinvestment and Stock Purchase Plan (DRP)**

Bank of Hawaii Corporation's Dividend Reinvestment and Stock Purchase Plan (DRP) allows existing shareholders to purchase common shares of the company's stock by either reinvesting their stock dividends or by optional cash payments.

- Individuals must possess at least one share of the company's stock to participate in the DRP
- Shares are purchased on the 10th business day of each month based on the average of five trading days ending on the day of purchase.
- Minimum payment for purchase of shares is \$25 and the maximum is \$5,000 per calendar quarter.
- There are no fees for purchasing shares or for the safekeeping of stock certificates. Fees are assessed on the sale of shares in the DRP

*Detailed information about Bank of Hawaii Corporation's DRP can be found online at [www.boh.com](http://www.boh.com) or by calling Computershare Investor Services, LLC at 1-888-660-5443*

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**Inquiries**

Shareholders with questions about stock transfer services, share holdings or dividend reinvestment may contact Computershare Investor Services, LLC at 1-888-660-5443 between 7:00 a.m. and 5:00 p.m. Central Standard Time.

**Investors and Analysts Seeking Financial Information**

Cindy Wyrick, Executive Vice President  
Investor Relations  
Phone: 1-808-694-8430

**For General Inquiries**

Phone: 1-888-643-3888  
[www.boh.com](http://www.boh.com)

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### Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) the competitive pressure among financial services and products; 4) the impact of recent legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"); 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any failure in or breach of our operational systems, information systems or infrastructure, or those of our 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. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements please refer to the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and any subsequently filed reports with the U.S. Securities and Exchange Commission. 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.

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*Bank of Hawaii Corporation is a regional financial services company serving businesses, consumers and governments in Hawaii, American Samoa and the West Pacific. Our subsidiary, Bank of Hawaii, was founded in 1897 and is the leading independent financial institution in Hawaii. For more information about Bank of Hawaii Corporation, visit our website, [www.boh.com](http://www.boh.com).*



BANK OF HAWAII CORPORATION

P.O. Box 2900  
Honolulu, Hawaii 96846

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

SEC  
Mail Processing  
Section

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6887

APR 18 2014  
Washington DC  
404

**BANK OF HAWAII CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State of incorporation)

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

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

96813  
(Zip Code)

1-888-643-3888

(Registrant's telephone number, including area 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.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of \$50.32, was approximately \$2,205,592,123. There was no non-voting common equity of the registrant outstanding on that date.

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

**Bank of Hawaii Corporation**  
**2013 Form 10-K Annual Report**  
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## Part I

### Item 1. Business

#### General

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

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

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

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

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

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at [www.boh.com](http://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](http://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](http://www.boh.com). Printed copies of this information may be obtained, without charge, by written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813.

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

#### Competition

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

#### Supervision and Regulation

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

### *The Parent*

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

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

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

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

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

### *Bank of Hawaii*

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

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

### *The Dodd Frank Act*

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

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

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

### *Capital Requirements*

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

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

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

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

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

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

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

### *Dividend Restrictions*

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

### *Transactions with Affiliates and Insiders*

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

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

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

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

### *Volcker Rule*

On December 10, 2013, the final "Volcker Rule" under the Dodd-Frank Act was approved by the FRB, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission. The Volcker Rule prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The final rule may limit or restrict the Company's activities related to proprietary trading and private equity investing. In connection with the issuance of the regulations, the FRB exercised its authority to extend the conformance period for compliance with the Volcker Rule by one year from July 21, 2014 to July 21, 2015. During the remaining conformance period, each banking entity is expected to engage in good faith efforts that will result in conformance of all its activities and investments with the requirements of the Volcker Rule by July 21, 2015. The Company has determined that the Volcker Rule does not materially apply to our current or anticipated future operations, and therefore, is not expected to have a material impact on the Company's Consolidated Financial Statements.

### *FDIC Insurance*

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

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

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

#### *Other Safety and Soundness Regulations*

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

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

#### *Community Reinvestment and Consumer Protection Laws*

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

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received an "outstanding" rating in its most recent CRA evaluation.

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

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

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

#### *Bank Secrecy Act / Anti-Money Laundering Laws*

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

#### **Employees**

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

## **Executive Officers of the Registrant**

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

**Peter S. Ho, 48**

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

**Kent T. Lucien, 60**

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

**Peter M. Biggs, 62**

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

**Sharon M. Crofts, 48**

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

**Wayne Y. Hamano, 59**

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

**Mark A. Rossi, 64**

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

**Mary E. Sellers, 57**

Vice Chairman and Chief Risk Officer since July 2005.

**Donna A. Tanoue, 59**

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

**Derek J. Norris, 64**

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

## Item 1A. Risk Factors

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

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

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

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

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

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

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

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in response to general economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities. Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads, any of which could adversely affect our financial condition or results of operations.

*Credit losses could increase if economic conditions stagnate or deteriorate.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Competition may adversely affect our business.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Our mortgage banking income may experience significant volatility.*

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

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

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

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

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

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

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

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

**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.

## Part II

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

#### Market Information, Shareholders, and Dividends

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

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

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

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

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

#### Issuer Purchases of Equity Securities

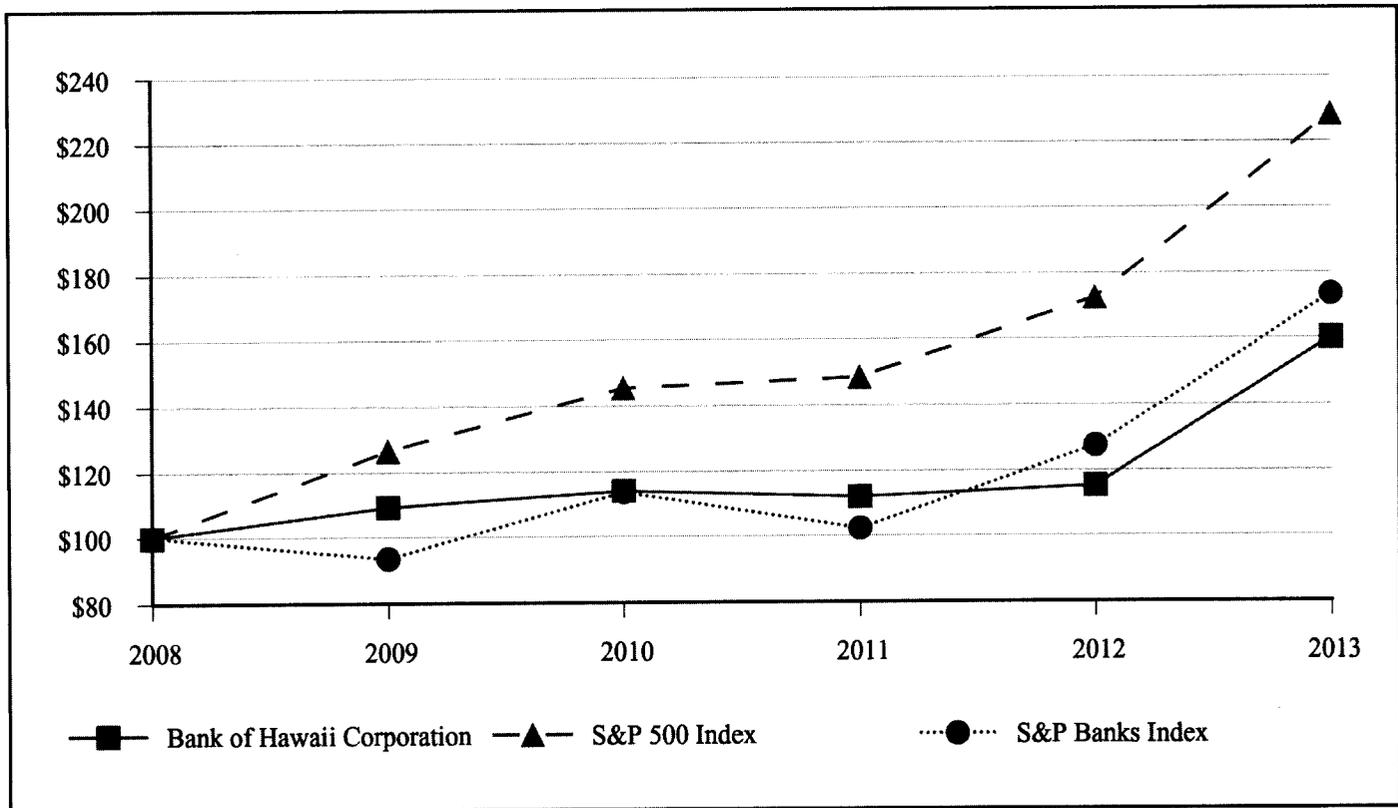
Period	Total Number of Shares Purchased <sup>1</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>2</sup>
October 1 - 31, 2013	25,680	\$ 55.82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

<sup>1</sup> During the fourth quarter of 2013, 27,949 shares were purchased from employees and/or directors in connection with stock swaps, shares purchased for a deferred compensation plan, and income tax withholdings related to the vesting of restricted stock. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

<sup>2</sup> The share repurchase program was first announced in July 2001. As of December 31, 2013, \$34.0 million remained of the total \$1.9 billion total repurchase amount authorized by the Parent's Board of Directors under the share repurchase program. The program has no set expiration or termination date.

## Performance Graph

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



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

**Item 6. Selected Financial Data**  
**Summary of Selected Consolidated Financial Data**

(dollars in millions, except per share amounts)	2013	2012	2011	2010	2009
<b>Year Ended December 31,</b>					
<b>Operating Results</b>					
Net Interest Income	\$ 358.9	\$ 377.3	\$ 390.2	\$ 406.5	\$ 412.3
Provision for Credit Losses	—	1.0	12.7	55.3	107.9
Total Noninterest Income	186.2	200.3	197.7	255.3	267.8
Total Noninterest Expense	331.0	334.3	348.2	346.2	350.0
Net Income	150.5	166.1	160.0	183.9	144.0
Basic Earnings Per Share	3.39	3.68	3.40	3.83	3.02
Diluted Earnings Per Share	3.38	3.67	3.39	3.80	3.00
Dividends Declared Per Share	1.80	1.80	1.80	1.80	1.80
<b>Performance Ratios</b>					
Net Income to Average Total Assets (ROA)	1.10 %	1.22 %	1.22 %	1.45 %	1.22 %
Net Income to Average Shareholders' Equity (ROE)	14.78	16.23	15.69	18.16	16.42
Efficiency Ratio <sup>1</sup>	60.71	57.88	59.23	52.32	51.46
Net Interest Margin <sup>2</sup>	2.81	2.97	3.13	3.41	3.72
Dividend Payout Ratio <sup>3</sup>	53.10	48.91	52.94	47.00	59.60
Average Shareholders' Equity to Average Assets	7.44	7.52	7.78	7.98	7.44
<b>Average Balances</b>					
Average Loans and Leases	\$ 5,883.7	\$ 5,680.3	\$ 5,349.9	\$ 5,472.5	\$ 6,145.0
Average Assets	13,692.1	13,609.2	13,105.0	12,687.7	11,783.4
Average Deposits	11,396.8	10,935.0	9,924.7	9,509.1	9,108.4
Average Shareholders' Equity	1,018.3	1,023.3	1,020.1	1,012.7	877.2
<b>Weighted Average Shares Outstanding</b>					
Basic Weighted Average Shares	44,380,948	45,115,441	47,064,925	48,055,025	47,702,500
Diluted Weighted Average Shares	44,572,725	45,249,300	47,224,981	48,355,965	48,009,277
<b>As of December 31,</b>					
<b>Balance Sheet Totals</b>					
Loans and Leases	\$ 6,095.4	\$ 5,854.5	\$ 5,538.3	\$ 5,335.8	\$ 5,759.8
Total Assets	14,084.3	13,728.4	13,846.4	13,126.8	12,414.8
Total Deposits	11,914.7	11,529.5	10,592.6	9,889.0	9,409.7
Long-Term Debt	174.7	128.1	30.7	32.7	90.3
Total Shareholders' Equity	1,012.0	1,021.7	1,002.7	1,011.1	896.0
<b>Asset Quality</b>					
Allowance for Loan and Lease Losses	\$ 115.5	\$ 128.9	\$ 138.6	\$ 147.4	\$ 143.7
Non-Performing Assets <sup>4</sup>	39.7	37.1	40.8	37.8	48.3
<b>Financial Ratios</b>					
Allowance to Loans and Leases Outstanding	1.89 %	2.20 %	2.50 %	2.76 %	2.49 %
Tier 1 Capital Ratio	15.55	16.13	16.68	18.28	14.84
Total Capital Ratio	16.81	17.39	17.95	19.55	16.11
Tier 1 Leverage Ratio	7.07	6.83	6.73	7.15	6.76
Total Shareholders' Equity to Total Assets	7.19	7.44	7.24	7.70	7.22
Tangible Common Equity to Tangible Assets <sup>5</sup>	6.98	7.23	7.03	7.48	6.98
Tangible Common Equity to Risk-Weighted Assets <sup>5</sup>	15.49	17.24	17.93	19.29	15.45
<b>Non-Financial Data</b>					
Full-Time Equivalent Employees	2,196	2,276	2,370	2,399	2,418
Branches and Offices	74	76	81	82	83
ATMs	466	494	506	502	485
Common Shareholders of Record	6,564	6,775	6,977	7,128	7,323

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

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

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

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

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

## 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

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

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

### Forward-Looking Statements

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

### Critical Accounting Policies

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

#### *Reserve for Credit Losses*

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

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

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

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

#### *Fair Value Measurements*

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

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

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2013 and 2012, \$2.3 billion or 16% and \$3.4 billion or 25%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in either Levels 1 or 2 of the fair value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2013 and 2012, \$22.0 million and \$33.6 million, respectively, of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2013 and 2012, Level 3 financial assets recorded at fair value on a recurring basis were \$25.3 million and \$47.1 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2013 and 2012, Level 3 financial liabilities recorded at fair value on a recurring basis were \$21.0 million and \$32.4 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

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

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

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

#### *Leased Asset Residual Values*

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

#### *Income Taxes*

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

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

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

## Overview

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

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

### *Hawaii Economy*

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

### *Earnings Summary*

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

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

- Net interest income was \$358.9 million in 2013, a decrease of \$18.4 million or 5% compared to 2012. Our net interest margin was 2.81% in 2013, a decrease of 16 basis points compared to 2012. The lower margin in 2013 was primarily due to the reinvestment of investment securities and the origination of new loans at lower yields. However, as interest rates increased significantly since the early part of the second quarter of 2013, our net interest margin has improved over the last two quarters. To the extent interest rates remain at these higher levels or increase further, it is possible that our margins may continue to improve. However, as interest rates are still at relatively low levels, any potential increase in our margin will take time to be fully realized.
- Mortgage banking income was \$19.2 million in 2013, a decrease of \$16.5 million or 46% compared to 2012 as rising interest rates during 2013 adversely impacted the amount of refinance activity and the related loan sales margins.

These items were partially offset by the following:

- Trust and asset management income was \$47.9 million in 2013, an increase of \$2.7 million or 6% in 2013 compared to 2012. This increase was primarily due to higher market values of assets under management and higher trust termination fees.
- Net occupancy expense was \$38.7 million in 2013, a decrease of \$4.2 million or 10% in 2013 compared to 2012. This decrease was primarily due to branch closures during 2012, combined with higher sublease revenue in 2013.
- The provision for income taxes was \$63.7 million in 2013, a decrease of \$12.6 million or 16% compared to 2012 due to a lower pretax income and a lower effective income tax rate.

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

- The allowance for loan and lease losses (the "Allowance") was \$115.5 million as of December 31, 2013, a decrease of \$13.4 million or 10% from December 31, 2012. The ratio of our Allowance to total loans and leases outstanding decreased to 1.89% as of December 31, 2013, compared to 2.20% as of December 31, 2012. The decrease in the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and an improving Hawaii economy.
- We continued to invest excess liquidity in high-grade investment securities. As of December 31, 2013, the total carrying value of our investment securities portfolio was \$7.0 billion, relatively unchanged from December 31, 2012. In 2013, we reduced our positions in U.S. Treasury Notes and mortgage-backed securities issued by the Government National Mortgage Association ("Ginnie Mae"). We re-invested these proceeds, in part, into corporate and municipal bond holdings.
- Total deposits were \$11.9 billion as of December 31, 2013, an increase of \$385.2 million or 3% from December 31, 2012. This growth was due to general economic expansion in the State of Hawaii and an increase in our market share of the deposit market. However, public time deposits decreased as a result of reduced pricing in those products.
- Total shareholders' equity was \$1.0 billion as of December 31, 2013, a decrease of \$9.7 million or 1% from December 31, 2012. This decrease was due, in part, to a \$64.1 million after-tax decrease in the fair value of our available-for-sale investment securities, of which \$16.8 million was related to securities that were subsequently reclassified to the held-to-maturity category for capital management purposes. Should market interest rates continue to increase, we may experience further reductions in the fair value of our available-for-sale investment securities, which may result in lower levels of capital. We also continued to return capital to our shareholders in the form of share repurchases and dividends. During 2013, we repurchased 0.7 million shares of common stock at a total cost of \$35.5 million under our share repurchase program. We also paid cash dividends of \$80.5 million during 2013. These decreases to shareholders' equity were partially offset by earnings in 2013 of \$150.5 million.

## Analysis of Statements of Income

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

**Average Balances and Interest Rates – Taxable-Equivalent Basis** **Table 1**

(dollars in millions)	2013			2012			2011		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Earning Assets</b>									
Interest-Bearing Deposits	\$ 4.0	\$ —	0.26 %	\$ 3.7	\$ —	0.26 %	\$ 4.2	\$ —	0.19 %
Funds Sold	221.2	0.4	0.19	263.5	0.5	0.20	380.2	0.8	0.22
Investment Securities									
Available-for-Sale	2,822.5	61.6	2.18	3,346.3	75.0	2.24	4,439.8	105.4	2.37
Held-to-Maturity	4,086.6	91.8	2.25	3,636.7	95.0	2.61	2,279.6	72.2	3.16
Loans Held for Sale	16.4	0.7	4.18	14.7	0.6	4.29	11.0	0.5	4.54
Loans and Leases <sup>1</sup>									
Commercial and Industrial	865.8	30.9	3.57	800.2	31.3	3.91	790.6	31.8	4.02
Commercial Mortgage	1,152.9	46.9	4.06	988.2	42.9	4.34	887.1	42.8	4.82
Construction	114.6	5.4	4.75	101.9	5.1	5.04	80.1	4.0	5.06
Commercial Lease Financing	261.6	6.0	2.31	283.3	6.8	2.39	322.1	8.7	2.71
Residential Mortgage	2,275.8	101.7	4.47	2,349.6	111.3	4.74	2,126.9	111.5	5.24
Home Equity	761.5	31.4	4.12	773.2	33.4	4.31	784.9	37.4	4.76
Automobile	232.3	12.7	5.48	196.8	11.7	5.96	194.4	13.2	6.78
Other <sup>2</sup>	219.2	18.0	8.21	187.1	15.2	8.11	163.8	12.4	7.57
<b>Total Loans and Leases</b>	<b>5,883.7</b>	<b>253.0</b>	<b>4.30</b>	<b>5,680.3</b>	<b>257.7</b>	<b>4.54</b>	<b>5,349.9</b>	<b>261.8</b>	<b>4.89</b>
Other	78.3	1.2	1.50	79.9	1.1	1.41	79.9	1.1	1.40
<b>Total Earning Assets<sup>3</sup></b>	<b>13,112.7</b>	<b>408.7</b>	<b>3.12</b>	<b>13,025.1</b>	<b>429.9</b>	<b>3.30</b>	<b>12,544.6</b>	<b>441.8</b>	<b>3.52</b>
Cash and Noninterest-Bearing Deposits	138.9			137.2			135.3		
Other Assets	440.5			446.9			425.1		
<b>Total Assets</b>	<b>\$13,692.1</b>			<b>\$13,609.2</b>			<b>\$13,105.0</b>		
<b>Interest-Bearing Liabilities</b>									
Interest-Bearing Deposits									
Demand	\$ 2,140.5	\$ 0.6	0.03 %	\$ 1,938.6	\$ 0.5	0.03 %	\$ 1,786.7	\$ 0.7	0.04 %
Savings	4,461.4	3.9	0.09	4,447.8	4.5	0.10	4,501.0	7.3	0.16
Time	1,406.2	5.6	0.40	1,524.6	7.4	0.48	1,067.8	10.3	0.96
<b>Total Interest-Bearing Deposits</b>	<b>8,008.1</b>	<b>10.1</b>	<b>0.13</b>	<b>7,911.0</b>	<b>12.4</b>	<b>0.16</b>	<b>7,355.5</b>	<b>18.3</b>	<b>0.25</b>
Short-Term Borrowings	31.7	—	0.15	15.1	—	0.14	18.2	—	0.11
Securities Sold Under Agreements to Repurchase	809.4	26.9	3.32	1,335.7	28.9	2.16	1,845.8	29.2	1.58
Long-Term Debt	171.0	2.6	1.50	31.5	1.9	6.10	31.6	2.0	6.23
<b>Total Interest-Bearing Liabilities</b>	<b>9,020.2</b>	<b>39.6</b>	<b>0.44</b>	<b>9,293.3</b>	<b>43.2</b>	<b>0.47</b>	<b>9,251.1</b>	<b>49.5</b>	<b>0.53</b>
<b>Net Interest Income</b>		<b>\$ 369.1</b>			<b>\$ 386.7</b>			<b>\$ 392.3</b>	
Interest Rate Spread			2.68 %			2.83 %			2.99 %
Net Interest Margin			2.81 %			2.97 %			3.13 %
Noninterest-Bearing Demand Deposits	3,388.7			3,024.0			2,569.2		
Other Liabilities	264.9			268.6			264.6		
Shareholders' Equity	1,018.3			1,023.3			1,020.1		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$13,692.1</b>			<b>\$13,609.2</b>			<b>\$13,105.0</b>		

<sup>1</sup> 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.

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

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

**Analysis of Change in Net Interest Income – Taxable-Equivalent Basis**
**Table 2**

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

<sup>1</sup> 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.

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

**Net Interest Income**

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

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

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

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

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

Net interest income was \$377.3 million in 2012, an increase of \$12.9 million or 3% compared to 2011. On a taxable-equivalent basis, net interest income was \$386.7 million in 2012, a decrease of \$5.6 million or 1% compared to 2011. Net interest margin decreased by 16 basis points in 2012 compared to 2011. Yields on our earning assets decreased by 22 basis points in 2012 compared to 2011, reflective of investments and loans repricing at lower rates. Yields on our investment securities portfolio decreased by 21 basis points in 2012 compared to 2011, reflective of the run-off of higher yielding securities with proceeds, in part, being invested in lower yielding securities. Yields on our loans and leases declined in nearly every category in 2012 compared to 2011. Partially offsetting the lower yields on our earning assets was a decrease in deposit funding costs. Rates paid on our interest-bearing liabilities decreased by 6 basis points in 2012 compared to 2011. Rates paid on our savings deposits decreased by 6 basis points in 2012 compared to 2011 and rates paid on our time deposits decreased by 48 basis points in 2012 compared to 2011, partially offset by a 58 basis point increase on our rates paid on securities sold under agreements to repurchase as local government entities transferred their funds into time deposits.

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

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

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

#### *Provision for Credit Losses*

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

Noninterest Income

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

**Noninterest Income**

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

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

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

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

Fees, exchange, and other service charges are primarily comprised of debit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges increased by \$1.5 million or 3% in 2013 compared to 2012. This increase was partially due to a \$0.7 million increase in fees from our consumer credit cards, introduced in late 2012. Also contributing to the increase was a \$0.7 million increase in other loan fees, primarily prepayment penalty fees and syndication and administration fees. Fees, exchange, and other service charges decreased by \$11.3 million or 19% in 2012 compared to 2011. This decrease was primarily due to a \$10.9 million decline in debit card income resulting mainly from the pricing restrictions imposed by the Durbin Amendment, which was effective October 1, 2011.

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

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

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

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

Noninterest Expense

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

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

Total salaries and benefits remained relatively unchanged in 2013 compared to 2012. Share-based compensation decreased by \$2.0 million primarily due to amortization expense recorded in 2012 related to stock options granted during that year. These stock options were fully amortized in 2012 and there were no stock options granted in 2013. Retirement and other benefits decreased by \$0.7 million primarily due to credit adjustments related to forfeitures recorded in the fourth quarter of 2013. These decreases were offset by a \$2.1 million increase in separation expense coupled with a \$0.6 million increase in payroll taxes mainly due to higher Hawaii unemployment tax rates in 2013. Total salaries and benefits increased by \$1.6 million or 1% in 2012 compared to 2011. Share-based compensation increased by \$1.2 million primarily due to an increase in amortization related to performance-based restricted stock granted in the first quarter of 2012. In addition, incentive compensation and commission expense increased by \$0.6 million and \$0.5 million, respectively. These increases were partially offset by a \$0.8 million decrease in retirement and other benefits due to lower amortization expense related to our pension plan.

Net occupancy decreased by \$4.2 million or 10% in 2013 compared to 2012. This decrease was primarily due to branch closures during 2012, combined with higher sublease revenue in 2013. As a result, net rental expense decreased by \$2.4 million and depreciation and amortization expense decreased by \$0.8 million. In addition, we recorded impairment charges of \$1.1 million in 2012 related to several of the Company's branch premises. Net occupancy remained relatively unchanged in 2012 compared to 2011.

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

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

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

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

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

#### *Income Taxes*

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

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

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

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

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

## Analysis of Business Segments

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

### Business Segment Net Income

Table 6

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

#### *Retail Banking*

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

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

#### *Commercial Banking*

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

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

### *Investment Services*

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

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

### *Treasury and Other*

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

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

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

## 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.

(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	Weighted Average Yield	Fair Value
<b>As of December 31, 2013</b>											
<b>Available-for-Sale</b>											
Debt Securities Issued by the U.S. Treasury and Government Agencies <sup>2</sup>	\$ 1.6	2.3%	\$ 251.2	1.8%	\$ 138.1	1.5%	\$ —	—%	\$ 390.9	1.7%	\$ 397.3
Debt Securities Issued by States and Political Subdivisions <sup>1</sup>	0.4	5.6	100.4	2.9	471.3	3.1	119.7	5.5	691.8	3.5	686.8
Debt Securities Issued by Corporations	31.7	1.5	98.5	1.8	150.0	1.9	—	—	280.2	1.8	273.5
<b>Mortgage-Backed Securities<sup>2</sup></b>											
Residential - Government Agencies	64.5	2.2	558.1	2.3	18.6	4.9	—	—	641.2	2.3	653.2
Residential - U.S. Government-Sponsored Enterprises	0.3	4.7	14.6	2.8	7.0	3.2	—	—	21.9	3.0	23.3
Commercial - Government Agencies	—	—	17.5	1.6	202.4	1.7	—	—	219.9	1.7	209.6
<b>Total Mortgage-Backed Securities</b>	<b>64.8</b>	<b>2.3</b>	<b>590.2</b>	<b>2.2</b>	<b>228.0</b>	<b>2.0</b>	<b>—</b>	<b>—</b>	<b>883.0</b>	<b>2.2</b>	<b>886.1</b>
<b>Total</b>	<b>\$ 98.5</b>	<b>2.0%</b>	<b>\$ 1,040.3</b>	<b>2.1%</b>	<b>\$ 987.4</b>	<b>2.4%</b>	<b>\$ 119.7</b>	<b>5.5%</b>	<b>\$ 2,245.9</b>	<b>2.4%</b>	<b>\$ 2,243.7</b>
<b>Held-to-Maturity</b>											
Debt Securities Issued by the U.S. Treasury and Government Agencies <sup>2</sup>	\$ 30.2	1.3%	\$ 393.9	1.3%	\$ 9.9	1.5%	\$ —	—%	\$ 434.0	1.3%	\$ 433.4
Debt Securities Issued by States and Political Subdivisions <sup>1</sup>	—	—	—	—	130.8	4.0	122.2	5.5	253.0	4.8	253.7
Debt Securities Issued by Corporations	—	—	—	—	5.2	2.5	185.0	2.1	190.2	2.1	184.5
<b>Mortgage-Backed Securities<sup>2</sup></b>											
Residential - Government Agencies	7.4	1.8	2,273.6	2.3	1,242.3	2.7	—	—	3,523.3	2.4	3,488.6
Residential - U.S. Government-Sponsored Enterprises	—	—	18.1	3.8	3.5	2.4	—	—	21.6	3.6	23.0
Commercial - Government Agencies	—	—	—	—	322.4	2.9	—	—	322.4	2.9	314.4
<b>Total Mortgage-Backed Securities</b>	<b>7.4</b>	<b>1.8</b>	<b>2,291.7</b>	<b>2.3</b>	<b>1,568.2</b>	<b>2.7</b>	<b>—</b>	<b>—</b>	<b>3,867.3</b>	<b>2.5</b>	<b>3,826.0</b>
<b>Total</b>	<b>\$ 37.6</b>	<b>1.4%</b>	<b>\$ 2,685.6</b>	<b>2.2%</b>	<b>\$ 1,714.1</b>	<b>2.8%</b>	<b>\$ 307.2</b>	<b>3.4%</b>	<b>\$ 4,744.5</b>	<b>2.5%</b>	<b>\$ 4,697.6</b>
<b>Total Investment Securities</b>											
As of December 31, 2013	<u>\$ 136.1</u>		<u>\$ 3,725.9</u>		<u>\$ 2,701.5</u>		<u>\$ 426.9</u>		<u>\$ 6,990.4</u>		<u>\$ 6,941.3</u>
As of December 31, 2012	<u>\$ 601.0</u>		<u>\$ 4,331.6</u>		<u>\$ 1,621.0</u>		<u>\$ 333.2</u>		<u>\$ 6,886.8</u>		<u>\$ 7,055.3</u>

<sup>1</sup> 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%.

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

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

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

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

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

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

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

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

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

#### Loans and Leases

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

Loans and Leases	December 31,				
	2013	2012	2011	2010	2009
(dollars in thousands)					
<b>Commercial</b>					
Commercial and Industrial	\$ 911,367	\$ 829,512	\$ 817,170	\$ 772,624	\$ 795,167
Commercial Mortgage	1,247,510	1,097,425	938,250	863,385	841,431
Construction	107,349	113,987	98,669	80,325	108,395
Lease Financing	262,207	274,969	311,928	334,997	412,933
<b>Total Commercial</b>	<b>2,528,433</b>	<b>2,315,893</b>	<b>2,166,017</b>	<b>2,051,331</b>	<b>2,157,926</b>
<b>Consumer</b>					
Residential Mortgage	2,282,894	2,349,916	2,215,892	2,094,189	2,190,677
Home Equity	773,385	770,376	780,691	807,479	921,571
Automobile	255,986	209,832	192,506	209,008	283,937
Other <sup>1</sup>	254,689	208,504	183,198	173,785	205,674
<b>Total Consumer</b>	<b>3,566,954</b>	<b>3,538,628</b>	<b>3,372,287</b>	<b>3,284,461</b>	<b>3,601,859</b>
<b>Total Loans and Leases</b>	<b>\$ 6,095,387</b>	<b>\$ 5,854,521</b>	<b>\$ 5,538,304</b>	<b>\$ 5,335,792</b>	<b>\$ 5,759,785</b>

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

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

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

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

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

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

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

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

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

(dollars in thousands)	<b>December 31, 2013</b>					
	<b>Hawaii</b>	<b>U.S. Mainland <sup>1</sup></b>	<b>Guam</b>	<b>Other Pacific Islands</b>	<b>Foreign <sup>2</sup></b>	<b>Total</b>
<b>Commercial</b>						
Commercial and Industrial	\$ 818,770	\$ 40,596	\$ 48,436	\$ 1,436	\$ 2,129	\$ 911,367
Commercial Mortgage	1,127,772	36,962	82,776	—	—	1,247,510
Construction	97,535	—	9,814	—	—	107,349
Lease Financing	45,627	191,159	3,334	—	22,087	262,207
<b>Total Commercial</b>	<b>2,089,704</b>	<b>268,717</b>	<b>144,360</b>	<b>1,436</b>	<b>24,216</b>	<b>2,528,433</b>
<b>Consumer</b>						
Residential Mortgage	2,161,092	—	117,975	3,827	—	2,282,894
Home Equity	744,014	5,389	22,126	1,856	—	773,385
Automobile	192,026	1,442	58,332	4,186	—	255,986
Other <sup>3</sup>	187,107	—	29,402	38,177	3	254,689
<b>Total Consumer</b>	<b>3,284,239</b>	<b>6,831</b>	<b>227,835</b>	<b>48,046</b>	<b>3</b>	<b>3,566,954</b>
<b>Total Loans and Leases</b>	<b>\$ 5,373,943</b>	<b>\$ 275,548</b>	<b>\$ 372,195</b>	<b>\$ 49,482</b>	<b>\$ 24,219</b>	<b>\$ 6,095,387</b>
<b>Percentage of Total Loans and Leases</b>	<b>88%</b>	<b>5%</b>	<b>6%</b>	<b>1%</b>	<b>0%</b>	<b>100%</b>

- <sup>1</sup> 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.
- <sup>2</sup> 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.
- <sup>3</sup> Comprised of other revolving credit, installment, and lease financing.

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

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

- <sup>1</sup> Based on contractual maturities.
- <sup>2</sup> As of December 31, 2013, loans maturing after one year consisted of \$353.9 million in variable rate loans and \$286.9 million in fixed rate loans.

### *Goodwill*

Goodwill was \$31.5 million as of December 31, 2013 and 2012. As of December 31, 2013, based on our qualitative assessment, there were no reporting units where we believed that it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

### *Other Assets*

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

## Deposits

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

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

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

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

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

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

## Securities Sold Under Agreements to Repurchase

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

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

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

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

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

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

#### *Long-Term Debt*

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

#### *Pension and Postretirement Plan Obligations*

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

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

#### **Discount Rate Sensitivity Analysis**

**Table 14**

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

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

#### *Foreign Activities*

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2013, 2012 and 2011, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets.

## Corporate Risk Profile

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

### Credit Risk

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

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

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

In the underwriting of our commercial mortgage loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic fundamentals of the property and the creditworthiness of the borrower. In evaluating a proposed commercial mortgage loan, we primarily emphasize the ratio of the property's projected net cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deducting for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is sometimes required from the principal(s) of the borrower. We typically require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required. Owner-occupant commercial mortgage loans are underwritten based upon the cash flow of the business provided that the real estate asset is utilized in the operation of the business. Real estate is evaluated independently as a secondary source of repayment. As noted above, LTV ratios generally do not exceed 75%.

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

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

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

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

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

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

#### *Higher Risk Loans and Leases*

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

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

#### **Higher Risk Loans and Leases Outstanding**

(dollars in thousands)	<b>Table 15</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Residential Land Loans	\$ 11,922	\$ 14,984
Home Equity Loans	12,594	19,914
Air Transportation Leases	26,152	27,782
<b>Total</b>	<b>\$ 50,668</b>	<b>\$ 62,680</b>

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

Residential land loans in our residential mortgage portfolio consist of consumer loans secured by unimproved lots. These loans often represent higher risk due to the volatility in the value of the underlying collateral. Our residential land loan portfolio was \$11.9 million as of December 31, 2013, of which \$10.4 million related to properties on the neighbor islands. The decrease in our higher risk exposure in this portfolio in 2013 was primarily due to \$2.3 million in payments and \$0.8 million in gross loan charge-offs. Residential land loans are collectively evaluated for impairment in connection with the evaluation of our residential mortgage portfolio. As of December 31, 2013, there were four residential land loans that were modified as troubled debt restructurings, however the specific Allowance associated with these loans was nominal as they were charged-down to fair value at the time of restructuring. As of December 31, 2013, there was one residential land loan that was 90 days past due as to principal or interest.

The higher risk segment within our Hawaii home equity lending portfolio was \$12.6 million or 2% of our total home equity loans outstanding as of December 31, 2013, a decrease of \$7.3 million or 37% from December 31, 2012. The higher risk segment within our Hawaii home equity portfolio includes those loans originated in 2005 or later, with current monitoring credit scores below 600, and with original LTV ratios greater than 70%. The decrease in our higher risk exposure in this portfolio segment in 2013 was primarily due to improved credit score migration from our Oahu owner occupants, which account for 69% of this higher risk segment. Higher risk loans in our Hawaii home equity portfolio are collectively evaluated for impairment in connection with the evaluation of our entire home equity portfolio. As of December 31, 2013, there was no specific Allowance associated with the balance of our higher risk home equity loans. As of December 31, 2013, our higher risk home equity loans had a 90 day past due delinquency ratio of 8.1%. During 2013, \$2.6 million or 50% of our gross charge-offs of home equity loans were from our higher risk segment.

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

*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

(dollars in thousands)	December 31,				
	2013	2012	2011	2010	2009
<b>Non-Performing Assets</b> <sup>1</sup>					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	\$ 11,929	\$ 5,534	\$ 6,243	\$ 1,642	\$ 6,646
Commercial Mortgage	2,512	3,030	2,140	3,503	1,167
Construction	—	833	2,080	288	8,154
Lease Financing	—	—	5	19	631
<b>Total Commercial</b>	<b>14,441</b>	<b>9,397</b>	<b>10,468</b>	<b>5,452</b>	<b>16,598</b>
Consumer					
Residential Mortgage	20,264	21,725	25,256	28,152	19,893
Home Equity	1,740	2,074	2,024	2,254	5,153
Other <sup>2</sup>	—	—	—	—	550
<b>Total Consumer</b>	<b>22,004</b>	<b>23,799</b>	<b>27,280</b>	<b>30,406</b>	<b>25,596</b>
<b>Total Non-Accrual Loans and Leases</b>	<b>36,445</b>	<b>33,196</b>	<b>37,748</b>	<b>35,858</b>	<b>42,194</b>
Non-Accrual Loans Held for Sale					
Foreclosed Real Estate	3,205	3,887	3,042	1,928	3,132
<b>Total Non-Performing Assets</b>	<b>\$ 39,650</b>	<b>\$ 37,083</b>	<b>\$ 40,790</b>	<b>\$ 37,786</b>	<b>\$ 48,331</b>
<b>Accruing Loans and Leases Past Due 90 Days or More</b>					
Commercial					
Commercial and Industrial	\$ 1,173	\$ 27	\$ 1	\$ —	\$ 623
Lease Financing	—	—	—	—	120
<b>Total Commercial</b>	<b>1,173</b>	<b>27</b>	<b>1</b>	<b>—</b>	<b>743</b>
Consumer					
Residential Mortgage	4,564	6,908	6,422	5,399	8,979
Home Equity	3,009	2,701	2,194	1,067	2,210
Automobile	322	186	170	410	875
Other <sup>2</sup>	790	587	435	707	886
<b>Total Consumer</b>	<b>8,685</b>	<b>10,382</b>	<b>9,221</b>	<b>7,583</b>	<b>12,950</b>
<b>Total Accruing Loans and Leases Past Due 90 Days or More</b>	<b>\$ 9,858</b>	<b>\$ 10,409</b>	<b>\$ 9,222</b>	<b>\$ 7,583</b>	<b>\$ 13,693</b>
<b>Restructured Loans on Accrual Status and Not Past Due 90 Days or More</b>	<b>\$ 51,123</b>	<b>\$ 31,844</b>	<b>\$ 33,703</b>	<b>\$ 23,724</b>	<b>\$ 7,274</b>
<b>Total Loans and Leases</b>	<b>\$ 6,095,387</b>	<b>\$ 5,854,521</b>	<b>\$ 5,538,304</b>	<b>\$ 5,335,792</b>	<b>\$ 5,759,785</b>
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.60%	0.57%	0.68%	0.67%	0.73%
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.65%	0.63%	0.74%	0.71%	0.84%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.61%	0.45%	0.56%	0.31%	1.04%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.68%	0.75%	0.85%	0.95%	0.72%
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Foreclosed Real Estate	0.81%	0.81%	0.90%	0.85%	1.08%

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

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

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

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

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

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

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

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

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

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

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

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

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

## Impaired Loans

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

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

### Loans Modified in a Troubled Debt Restructuring

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

#### Loans Modified in a Troubled Debt Restructuring

Table 18

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

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

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

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

## Reserve for Credit Losses

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

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

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

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

Allowance for Loan and Lease Losses

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

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

	December 31,									
	2013		2012		2011		2010		2009	
	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases
<b>Commercial</b>										
Commercial and Industrial	3.50%	14.95%	2.50%	14.17%	2.92%	14.75%	3.41%	14.48%	3.09%	13.81%
Commercial Mortgage	2.36	20.47	3.02	18.74	2.76	16.94	3.08	16.18	3.04	14.61
Construction	5.20	1.76	3.15	1.95	5.40	1.78	7.09	1.50	4.15	1.88
Lease Financing	1.69	4.30	5.53	4.70	8.17	5.63	6.66	6.28	6.71	7.17
<b>Total Commercial</b>	<b>2.83</b>	<b>41.48</b>	<b>3.14</b>	<b>39.56</b>	<b>3.72</b>	<b>39.10</b>	<b>3.95</b>	<b>38.44</b>	<b>3.81</b>	<b>37.47</b>
<b>Consumer</b>										
Residential Mortgage	0.64	37.45	0.77	40.14	0.85	40.01	0.86	39.25	0.63	38.03
Home Equity	1.69	12.69	3.15	13.16	3.49	14.10	3.70	15.13	3.13	16.00
Automobile	1.57	4.20	1.13	3.58	1.37	3.48	2.67	3.92	2.59	4.93
Other <sup>1</sup>	4.83	4.18	5.50	3.56	5.14	3.31	7.42	3.26	5.47	3.57
<b>Total Consumer</b>	<b>1.23</b>	<b>58.52</b>	<b>1.59</b>	<b>60.44</b>	<b>1.72</b>	<b>60.90</b>	<b>2.02</b>	<b>61.56</b>	<b>1.70</b>	<b>62.53</b>
<b>Total</b>	<b>1.89%</b>	<b>100.00%</b>	<b>2.20%</b>	<b>100.00%</b>	<b>2.50%</b>	<b>100.00%</b>	<b>2.76%</b>	<b>100.00%</b>	<b>2.49%</b>	<b>100.00%</b>

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

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

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

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

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

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

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

#### *Reserve for Unfunded Commitments*

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

#### *Other Credit Risks*

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

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

#### **Market Risk**

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

Our primary market risk exposure is interest rate risk.

#### *Interest Rate Risk*

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

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

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

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

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

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

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

#### Net Interest Income Sensitivity Profile

Table 21

(dollars in thousands)	Impact on Future Annual Net Interest Income			
	December 31, 2013		December 31, 2012	
<b>Gradual Change in Interest Rates (basis points)</b>				
+200	\$ 2,580	0.7%	\$ 9,396	2.6%
+100	1,000	0.3	4,893	1.4
-100	(4,086)	(1.1)	(8,387)	(2.4)
<b>Immediate Change in Interest Rates (basis points)</b>				
+200	\$ 11,113	2.9%	\$ 26,050	7.3%
+100	4,874	1.3	14,449	4.1
-100	(15,014)	(4.0)	(25,931)	(7.3)

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

#### *Other Market Risks*

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

## **Liquidity Risk Management**

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

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

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

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

## **Capital Management**

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

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

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

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

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

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

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

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

### Shareholders' Equity and Regulatory Capital

Table 22

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

### Key Regulatory Capital Ratios

Tier 1 Capital Ratio	15.55%	16.13%	16.68%	18.28%	14.84%
Total Capital Ratio	16.81	17.39	17.95	19.55	16.11
Tier 1 Leverage Ratio	7.07	6.83	6.73	7.15	6.76

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

## **Regulatory Initiatives Affecting the Banking Industry**

### *Basel III*

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

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

### *Stress Testing*

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

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

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

### *Debit Card Interchange Fees*

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

## **Operational Risk**

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

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

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

## **Off-Balance Sheet Arrangements and Guarantees**

### *Off-Balance Sheet Arrangements*

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

### *Guarantees*

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

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

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

## Credit Commitments and Contractual Obligations

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

### Credit Commitments and Contractual Obligations <sup>1</sup>

Table 23

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

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

<sup>2</sup> Includes interest on non-recourse debt.

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

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

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

### Future Application of Accounting Pronouncements

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

## Selected Quarterly Consolidated Financial Data

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

(dollars in thousands, except per share amounts)	Table 24							
	Three Months Ended				Three Months Ended			
	2013				2012			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
<b>Interest Income</b>	\$ 101,709	\$ 100,574	\$ 97,351	\$ 98,871	\$ 100,695	\$ 104,213	\$ 106,353	\$ 109,228
<b>Interest Expense</b>	9,589	9,687	10,011	10,311	10,385	10,581	10,972	11,280
<b>Net Interest Income</b>	92,120	90,887	87,340	88,560	90,310	93,632	95,381	97,948
Provision for Credit Losses	—	—	—	—	—	—	628	351
Investment Securities Gains (Losses), Net	—	—	—	—	—	13	—	(90)
<b>Noninterest Income</b>	45,278	45,126	48,041	47,778	52,982	52,361	46,848	48,172
<b>Noninterest Expense</b>	82,424	82,977	81,181	84,387	83,456	84,878	80,747	85,207
<b>Income Before Provision for Income Taxes</b>	54,974	53,036	54,200	51,951	59,836	61,128	60,854	60,472
<b>Provision for Income Taxes</b>	15,919	15,332	16,437	15,971	19,549	19,896	20,107	16,662
<b>Net Income</b>	\$ 39,055	\$ 37,704	\$ 37,763	\$ 35,980	\$ 40,287	\$ 41,232	\$ 40,747	\$ 43,810
<b>Per Common Share</b>								
Basic Earnings Per Share	\$ 0.88	\$ 0.85	\$ 0.85	\$ 0.81	\$ 0.90	\$ 0.92	\$ 0.90	\$ 0.96
Diluted Earnings Per Share	\$ 0.88	\$ 0.85	\$ 0.85	\$ 0.81	\$ 0.90	\$ 0.92	\$ 0.90	\$ 0.95
Dividends Declared Per Share	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.45
<b>Performance Ratios</b>								
Net Income to Average Total Assets (ROA)	1.12 %	1.09 %	1.12 %	1.08 %	1.19 %	1.22 %	1.19 %	1.29 %
Net Income to Average Shareholders' Equity (ROE)	15.36	15.02	14.64	14.10	15.47	16.02	16.19	17.26
Efficiency Ratio <sup>1</sup>	59.99	61.01	59.96	61.90	58.24	58.13	56.77	58.35
Net Interest Margin <sup>2</sup>	2.85	2.83	2.77	2.82	2.87	2.98	2.98	3.06

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

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

## **Fourth Quarter Results and Other Matters**

### *Net Income*

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

### *Net Interest Income*

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

### *Provision for Credit Losses*

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

### *Noninterest Income*

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

### *Noninterest Expense*

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

### *Provision for Income Taxes*

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

### *Common Stock Repurchase Program*

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

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

## **Item 8. Financial Statements and Supplementary Data**

### **Report of Independent Registered Public Accounting Firm**

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

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

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

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

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

/s/ Ernst & Young LLP

Honolulu, Hawaii  
February 25, 2014

**Bank of Hawaii Corporation and Subsidiaries**  
**Consolidated Statements of Income**

(dollars in thousands, except per share amounts)	Year Ended December 31,		
	2013	2012	2011
<b>Interest Income</b>			
Interest and Fees on Loans and Leases	\$ 253,276	\$ 257,896	\$ 262,239
Income on Investment Securities			
Available-for-Sale	53,570	65,972	103,363
Held-to-Maturity	90,062	94,952	72,138
Deposits	10	9	8
Funds Sold	415	533	828
Other	1,172	1,127	1,117
<b>Total Interest Income</b>	<b>398,505</b>	<b>420,489</b>	<b>439,693</b>
<b>Interest Expense</b>			
Deposits	10,143	12,376	18,321
Securities Sold Under Agreements to Repurchase	26,837	28,897	29,171
Funds Purchased	44	21	20
Short-Term Borrowings	2	—	—
Long-Term Debt	2,572	1,924	1,973
<b>Total Interest Expense</b>	<b>39,598</b>	<b>43,218</b>	<b>49,485</b>
<b>Net Interest Income</b>	<b>358,907</b>	<b>377,271</b>	<b>390,208</b>
Provision for Credit Losses	—	979	12,690
<b>Net Interest Income After Provision for Credit Losses</b>	<b>358,907</b>	<b>376,292</b>	<b>377,518</b>
<b>Noninterest Income</b>			
Trust and Asset Management	47,932	45,229	45,046
Mortgage Banking	19,186	35,644	14,664
Service Charges on Deposit Accounts	37,124	37,621	38,733
Fees, Exchange, and Other Service Charges	50,469	48,965	60,227
Investment Securities Gains (Losses), Net	—	(77)	6,366
Insurance	9,190	9,553	10,957
Bank-Owned Life Insurance	5,892	6,805	6,330
Other	16,430	16,546	15,332
<b>Total Noninterest Income</b>	<b>186,223</b>	<b>200,286</b>	<b>197,655</b>
<b>Noninterest Expense</b>			
Salaries and Benefits	184,211	184,408	182,816
Net Occupancy	38,745	42,965	43,169
Net Equipment	18,366	19,723	18,849
Data Processing	13,840	13,202	14,067
Professional Fees	9,405	9,623	8,623
FDIC Insurance	7,765	7,873	9,346
Other	58,637	56,494	71,323
<b>Total Noninterest Expense</b>	<b>330,969</b>	<b>334,288</b>	<b>348,193</b>
Income Before Provision for Income Taxes	214,161	242,290	226,980
Provision for Income Taxes	63,659	76,214	66,937
<b>Net Income</b>	<b>\$ 150,502</b>	<b>\$ 166,076</b>	<b>\$ 160,043</b>
Basic Earnings Per Share	\$ 3.39	\$ 3.68	\$ 3.40
Diluted Earnings Per Share	\$ 3.38	\$ 3.67	\$ 3.39
Dividends Declared Per Share	\$ 1.80	\$ 1.80	\$ 1.80
Basic Weighted Average Shares	44,380,948	45,115,441	47,064,925
Diluted Weighted Average Shares	44,572,725	45,249,300	47,224,981

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

**Bank of Hawaii Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

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

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

**Bank of Hawaii Corporation and Subsidiaries**  
**Consolidated Statements of Condition**

(dollars in thousands)	December 31, 2013	December 31, 2012
<b>Assets</b>		
Interest-Bearing Deposits	\$ 3,617	\$ 3,393
Funds Sold	271,414	185,682
Investment Securities		
Available-for-Sale	2,243,697	3,367,557
Held-to-Maturity (Fair Value of \$4,697,587 and \$3,687,676)	4,744,519	3,595,065
Loans Held for Sale	6,435	21,374
Loans and Leases	6,095,387	5,854,521
Allowance for Loan and Lease Losses	(115,454)	(128,857)
Net Loans and Leases	5,979,933	5,725,664
<b>Total Earning Assets</b>	<b>13,249,615</b>	<b>12,898,735</b>
Cash and Noninterest-Bearing Deposits	188,715	163,786
Premises and Equipment	108,636	105,005
Accrued Interest Receivable	43,930	43,077
Foreclosed Real Estate	3,205	3,887
Mortgage Servicing Rights	28,123	25,240
Goodwill	31,517	31,517
Other Assets	430,539	457,925
<b>Total Assets</b>	<b>\$ 14,084,280</b>	<b>\$ 13,728,372</b>
<b>Liabilities</b>		
Deposits		
Noninterest-Bearing Demand	\$ 3,681,128	\$ 3,367,185
Interest-Bearing Demand	2,355,608	2,163,473
Savings	4,560,150	4,399,316
Time	1,317,770	1,599,508
<b>Total Deposits</b>	<b>11,914,656</b>	<b>11,529,482</b>
Funds Purchased	9,982	11,296
Securities Sold Under Agreements to Repurchase	770,049	758,947
Long-Term Debt	174,706	128,055
Retirement Benefits Payable	34,965	47,658
Accrued Interest Payable	4,871	4,776
Taxes Payable and Deferred Taxes	34,907	88,014
Other Liabilities	128,168	138,479
<b>Total Liabilities</b>	<b>13,072,304</b>	<b>12,706,707</b>
<b>Commitments, Contingencies, and Guarantees (Note 19)</b>		
<b>Shareholders' Equity</b>		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: December 31, 2013 - 57,480,846 / 44,490,385 and December 31, 2012 - 57,319,352 / 44,754,835)	572	571
Capital Surplus	522,505	515,619
Accumulated Other Comprehensive Income (Loss)	(31,823)	29,208
Retained Earnings	1,151,754	1,084,477
Treasury Stock, at Cost (Shares: December 31, 2013 - 12,990,461 and December 31, 2012 - 12,564,517)	(631,032)	(608,210)
<b>Total Shareholders' Equity</b>	<b>1,011,976</b>	<b>1,021,665</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 14,084,280</b>	<b>\$ 13,728,372</b>

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

**Bank of Hawaii Corporation and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity**

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

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

**Bank of Hawaii Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**

(dollars in thousands)	Year Ended December 31,		
	2013	2012	2011
<b>Operating Activities</b>			
Net Income	\$ 150,502	\$ 166,076	\$ 160,043
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Credit Losses	—	979	12,690
Depreciation and Amortization	12,128	13,826	14,624
Amortization of Deferred Loan and Lease Fees	(3,275)	(3,467)	(2,709)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	58,575	58,506	49,728
Share-Based Compensation	5,546	7,537	6,216
Benefit Plan Contributions	(1,229)	(6,166)	(1,261)
Deferred Income Taxes	503	(16,784)	198
Net Gain on Sale of Proprietary Mutual Funds	—	—	(1,956)
Net Gains on Sales of Loans and Leases	(19,952)	(19,302)	(6,792)
Net Losses (Gains) on Investment Securities	—	77	(6,366)
Proceeds from Sales of Loans Held for Sale	683,772	616,872	439,999
Originations of Loans Held for Sale	(652,821)	(603,321)	(427,066)
Tax Benefits from Share-Based Compensation	(948)	(904)	(884)
Net Change in Other Assets and Other Liabilities	9,162	8,559	(6,741)
<b>Net Cash Provided by Operating Activities</b>	<b>241,963</b>	<b>222,488</b>	<b>229,723</b>
<b>Investing Activities</b>			
Investment Securities Available-for-Sale:			
Proceeds from Prepayments and Maturities	919,579	1,016,364	1,006,397
Proceeds from Sales	—	44,844	723,556
Purchases	(510,548)	(994,840)	(1,809,249)
Investment Securities Held-to-Maturity:			
Proceeds from Prepayments and Maturities	1,054,466	959,557	374,520
Purchases	(1,661,874)	(942,602)	(760,086)
Proceeds from Sale of Proprietary Mutual Funds	—	—	1,956
Net Change in Loans and Leases	(257,158)	(329,436)	(235,215)
Premises and Equipment, Net	(15,759)	(15,281)	(10,004)
<b>Net Cash Used in Investing Activities</b>	<b>(471,294)</b>	<b>(261,394)</b>	<b>(708,125)</b>
<b>Financing Activities</b>			
Net Change in Deposits	385,174	936,859	703,628
Net Change in Short-Term Borrowings	9,788	(1,166,546)	20,027
Proceeds from Long-Term Debt	50,000	100,000	—
Tax Benefits from Share-Based Compensation	948	904	884
Proceeds from Issuance of Common Stock	14,495	13,730	12,660
Repurchase of Common Stock	(39,655)	(81,444)	(111,544)
Cash Dividends Paid	(80,534)	(81,645)	(84,891)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>340,216</b>	<b>(278,142)</b>	<b>540,764</b>
Net Change in Cash and Cash Equivalents	110,885	(317,048)	62,362
Cash and Cash Equivalents at Beginning of Period	352,861	669,909	607,547
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 463,746</b>	<b>\$ 352,861</b>	<b>\$ 669,909</b>
<b>Supplemental Information</b>			
Cash Paid for Interest	\$ 38,424	\$ 42,487	\$ 47,735
Cash Paid for Income Taxes	75,166	78,667	85,144
Non-Cash Investing and Financing Activities:			
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	579,888	—	3,167,839
Transfer from Loans to Foreclosed Real Estate	5,429	5,406	3,089
Transfers from Loans to Loans Held for Sale	—	—	8,555

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

## **Note 1. Summary of Significant Accounting Policies**

### *Basis of Presentation*

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its subsidiaries (collectively, the "Company") provide a broad range of financial products and services to customers in Hawaii, Guam, and other Pacific Islands. The majority of the Company's operations consist of customary commercial and consumer banking services including, but not limited to, lending, leasing, deposit services, trust and investment activities, brokerage services, and trade financing.

The accounting and reporting principles of the Company conform to U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

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

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

### *Consolidation*

The Consolidated Financial Statements include the accounts of the Parent and its subsidiaries. The Parent's principal and only operating subsidiary is Bank of Hawaii (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Variable Interest Entities*

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

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

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

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

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

### *Investment Securities*

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

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

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

### *Other-Than-Temporary-Impairments of Investment Securities*

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

### *Loans Held for Sale*

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

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

### *Loans and Leases*

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

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

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

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

#### *Non-Performing Loans and Leases*

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

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

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For the pooled segment of the Company's commercial and industrial loan class, which consists of small business loans, the entire outstanding balance of the loan is charged off during the month that the loan becomes 120 days past due as to principal or interest. As previously mentioned, for residential mortgage and home equity loan classes, a partial charge-off may be recorded at 120 days past due as to principal or interest depending on the collateral value and/or the collectability of the loan. In the event that loans or lines in the home equity loan class is behind another financial institution's first mortgage, the entire outstanding balance of the loan is charged off when the loan becomes 120 days past due as to principal or interest, unless the combined loan-to-value ratio is 60% or less. As noted above, loans in the automobile and other consumer loan classes are charged off in its entirety upon the loan becoming 120 days past due as to principal or interest.

#### *Impaired Loans*

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

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

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

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), an impairment is recognized by establishing or adjusting an existing allocation of the Allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

#### *Loans Modified in a Troubled Debt Restructuring*

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

#### *Reserve for Credit Losses*

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

#### *Allowance for Loan and Lease Losses*

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

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

The level of the Allowance related to the Company's consumer portfolio segment is generally based on analyses of homogeneous pools of loans and leases. Loans and leases are pooled based on similar loan and lease risk characteristics for collective evaluation of impairment. Loss estimates are calculated based on historical rolling average loss rates and average delinquency flows to loss. Consumer loans that have been individually evaluated for impairment or modified in a troubled debt restructuring are excluded from the homogeneous pools. Impairment related to such loans is generally determined based on the present value of expected future cash flows discounted at the loan's original effective interest rate.

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

### *Reserve for Unfunded Commitments*

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

### *Cash and Cash Equivalents*

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

### *Premises and Equipment*

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

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

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

### *Foreclosed Real Estate*

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

### *Mortgage Servicing Rights*

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

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

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

## *Goodwill*

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

## *Non-Marketable Equity Securities*

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

## *Securities Sold Under Agreements to Repurchase*

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

## *Pension and Postretirement Benefit Plans*

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

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

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

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

#### *Income Taxes*

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

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

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

The Company maintains reserves for certain tax positions that arise in the normal course of business. As of December 31, 2013, these positions were evaluated based on an assessment of probabilities as to the likelihood of whether a liability had been incurred. Such assessments are reviewed as events occur and adjustments to the reserves are made as appropriate. In evaluating a tax position for recognition, the Company judgmentally evaluates whether it is more likely than not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, the tax position is measured and recognized in the Company's Consolidated Financial Statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

#### *Treasury Stock*

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

#### *Earnings Per Share*

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

#### *Derivative Financial Instruments*

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

#### *Share-Based Compensation*

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

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

#### *Advertising Costs*

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

#### *International Operations*

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

#### *Fair Value Measurements*

Fair value measurements apply whenever GAAP requires or permits assets or liabilities to be measured at fair value either on a recurring or nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions that management believes market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance established a three-level fair value hierarchy that prioritizes the use of inputs used in valuation methodologies. Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis. The three-level fair value hierarchy is as follows:

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

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

### *Offsetting Assets and Liabilities*

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

### *Reclassifications Out of Accumulated Other Comprehensive Income*

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

### *Future Application of Accounting Pronouncements*

In July 2013, the FASB issued ASU No. 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.*" The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. ASU No. 2013-11 is effective for interim and annual reporting periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-01, "*Accounting for Investments in Qualified Affordable Housing Projects.*" ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all

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

In January 2014, the FASB issued ASU No. 2014-04, "*Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.*" The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

## **Note 2. Restrictions on Cash**

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

### Note 3. Investment Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2013</b>				
<b>Available-for-Sale:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 390,873	\$ 6,640	\$ (234)	\$ 397,279
Debt Securities Issued by States and Political Subdivisions	691,861	8,396	(13,455)	686,802
Debt Securities Issued by Corporations	280,172	1,165	(7,836)	273,501
Mortgage-Backed Securities:				
Residential - Government Agencies	641,227	13,816	(1,849)	653,194
Residential - U.S. Government-Sponsored Enterprises	21,865	1,403	—	23,268
Commercial - Government Agencies	219,859	—	(10,206)	209,653
<b>Total Mortgage-Backed Securities</b>	<b>882,951</b>	<b>15,219</b>	<b>(12,055)</b>	<b>886,115</b>
<b>Total</b>	<b>\$ 2,245,857</b>	<b>\$ 31,420</b>	<b>\$ (33,580)</b>	<b>\$ 2,243,697</b>
<b>Held-to-Maturity:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 433,987	\$ 3,045	\$ (3,667)	\$ 433,365
Debt Securities Issued by States and Political Subdivisions	253,039	817	(133)	253,723
Debt Securities Issued by Corporations	190,181	—	(5,708)	184,473
Mortgage-Backed Securities:				
Residential - Government Agencies	3,523,343	31,786	(66,572)	3,488,557
Residential - U.S. Government-Sponsored Enterprises	21,602	1,423	—	23,025
Commercial - Government Agencies	322,367	—	(7,923)	314,444
<b>Total Mortgage-Backed Securities</b>	<b>3,867,312</b>	<b>33,209</b>	<b>(74,495)</b>	<b>3,826,026</b>
<b>Total</b>	<b>\$ 4,744,519</b>	<b>\$ 37,071</b>	<b>\$ (84,003)</b>	<b>\$ 4,697,587</b>
<b>December 31, 2012</b>				
<b>Available-for-Sale:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 855,070	\$ 14,936	\$ (17)	\$ 869,989
Debt Securities Issued by States and Political Subdivisions	753,207	30,159	(955)	782,411
Debt Securities Issued by Corporations	82,450	1,984	—	84,434
Mortgage-Backed Securities:				
Residential - Government Agencies	1,041,669	27,283	(292)	1,068,660
Residential - U.S. Government-Sponsored Enterprises	35,234	2,064	—	37,298
Commercial - Government Agencies	524,055	1,907	(1,197)	524,765
<b>Total Mortgage-Backed Securities</b>	<b>1,600,958</b>	<b>31,254</b>	<b>(1,489)</b>	<b>1,630,723</b>
<b>Total</b>	<b>\$ 3,291,685</b>	<b>\$ 78,333</b>	<b>\$ (2,461)</b>	<b>\$ 3,367,557</b>
<b>Held-to-Maturity:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 190,168	\$ 5,198	\$ —	\$ 195,366
Debt Securities Issued by Corporations	24,000	4	—	24,004
Mortgage-Backed Securities:				
Residential - Government Agencies	3,349,403	86,673	(1,366)	3,434,710
Residential - U.S. Government-Sponsored Enterprises	31,494	2,102	—	33,596
<b>Total Mortgage-Backed Securities</b>	<b>3,380,897</b>	<b>88,775</b>	<b>(1,366)</b>	<b>3,468,306</b>
<b>Total</b>	<b>\$ 3,595,065</b>	<b>\$ 93,977</b>	<b>\$ (1,366)</b>	<b>\$ 3,687,676</b>
<b>December 31, 2011</b>				
<b>Available-for-Sale:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 1,220,282	\$ 11,204	\$ (468)	\$ 1,231,018
Debt Securities Issued by States and Political Subdivisions	391,276	15,783	—	407,059
Debt Securities Issued by Corporations	97,917	607	(2,137)	96,387
Mortgage-Backed Securities:				
Residential - Government Agencies	1,618,913	38,066	(1,107)	1,655,872
Residential - U.S. Government-Sponsored Enterprises	58,548	3,001	—	61,549
<b>Total Mortgage-Backed Securities</b>	<b>1,677,461</b>	<b>41,067</b>	<b>(1,107)</b>	<b>1,717,421</b>
<b>Total</b>	<b>\$ 3,386,936</b>	<b>\$ 68,661</b>	<b>\$ (3,712)</b>	<b>\$ 3,451,885</b>
<b>Held-to-Maturity:</b>				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 179,474	\$ 6,704	\$ —	\$ 186,178
Mortgage-Backed Securities:				
Residential - Government Agencies	3,429,038	89,801	(2,918)	3,515,921
Residential - U.S. Government-Sponsored Enterprises	49,284	2,823	—	52,107
<b>Total Mortgage-Backed Securities</b>	<b>3,478,322</b>	<b>92,624</b>	<b>(2,918)</b>	<b>3,568,028</b>
<b>Total</b>	<b>\$ 3,657,796</b>	<b>\$ 99,328</b>	<b>\$ (2,918)</b>	<b>\$ 3,754,206</b>

The table below presents an analysis of the contractual maturities of the Company's investment securities as of December 31, 2013. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
<b>Available-for-Sale:</b>		
Due in One Year or Less	\$ 33,351	\$ 33,551
Due After One Year Through Five Years	265,417	270,362
Due After Five Years Through Ten Years	621,917	607,263
Due After Ten Years	119,702	119,820
	1,040,387	1,030,996
Debt Securities Issued by Government Agencies	322,519	326,586
Mortgage-Backed Securities:		
Residential - Government Agencies	641,227	653,194
Residential - U.S. Government-Sponsored Enterprises	21,865	23,268
Commercial - Government Agencies	219,859	209,653
Total Mortgage-Backed Securities	882,951	886,115
<b>Total</b>	<b>\$ 2,245,857</b>	<b>\$ 2,243,697</b>
<b>Held-to-Maturity:</b>		
Due in One Year or Less	\$ 30,142	\$ 30,318
Due After One Year Through Five Years	393,902	393,213
Due After Five Years Through Ten Years	145,925	146,169
Due After Ten Years	307,238	301,861
	877,207	871,561
Mortgage-Backed Securities:		
Residential - Government Agencies	3,523,343	3,488,557
Residential - U.S. Government-Sponsored Enterprises	21,602	23,025
Commercial - Government Agencies	322,367	314,444
Total Mortgage-Backed Securities	3,867,312	3,826,026
<b>Total</b>	<b>\$ 4,744,519</b>	<b>\$ 4,697,587</b>

Investment securities with carrying values of \$2.6 billion, \$2.9 billion, and \$3.6 billion as of December 31, 2013, 2012, and 2011, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

Gross gains and losses from the sales of investment securities for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	2013	2012	2011
Gross Gains on Sales of Investment Securities	\$ —	\$ 255	\$ 10,874
Gross Losses on Sales of Investment Securities	—	(332)	(4,508)
<b>Net Gains (Losses) on Sales of Investment Securities</b>	<b>\$ —</b>	<b>\$ (77)</b>	<b>\$ 6,366</b>

There were no sales of investment securities in 2013. The income tax benefit related to the Company's net realized losses on the sales of investment securities was not material in 2012. The income tax expense related to the Company's net realized gains on the sales of investment securities was \$2.5 million in 2011.

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

(dollars in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2013</b>						
<b>Available-for-Sales:</b>						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 26,181	\$ (225)	\$ 2,117	\$ (9)	\$ 28,298	\$ (234)
Debt Securities Issued by States and Political Subdivisions	415,718	(10,934)	42,607	(2,521)	458,325	(13,455)
Debt Securities Issued by Corporations	200,364	(7,836)	—	—	200,364	(7,836)
Mortgage-Backed Securities:						
Residential - Government Agencies	76,744	(781)	10,027	(1,068)	86,771	(1,849)
Commercial - Government Agencies	164,478	(7,935)	45,175	(2,271)	209,653	(10,206)
Total Mortgage-Backed Securities	241,222	(8,716)	55,202	(3,339)	296,424	(12,055)
<b>Total</b>	<b>\$ 883,485</b>	<b>\$ (27,711)</b>	<b>\$ 99,926</b>	<b>\$ (5,869)</b>	<b>\$ 983,411</b>	<b>\$ (33,580)</b>
<b>Held-to-Maturity:</b>						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 271,469	\$ (3,667)	\$ —	\$ —	\$ 271,469	\$ (3,667)
Debt Securities Issued by States and Political Subdivisions	52,026	(133)	—	—	52,026	(133)
Debt Securities Issued by Corporations	163,736	(4,278)	20,736	(1,430)	184,472	(5,708)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,767,086	(54,067)	190,939	(12,505)	1,958,025	(66,572)
Commercial - Government Agencies	224,277	(4,753)	90,167	(3,170)	314,444	(7,923)
Total Mortgage-Backed Securities	1,991,363	(58,820)	281,106	(15,675)	2,272,469	(74,495)
<b>Total</b>	<b>\$ 2,478,594</b>	<b>\$ (66,898)</b>	<b>\$ 301,842</b>	<b>\$ (17,105)</b>	<b>\$ 2,780,436</b>	<b>\$ (84,003)</b>
<b>December 31, 2012</b>						
<b>Available-for-Sales:</b>						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 2,295	\$ (14)	\$ 564	\$ (3)	\$ 2,859	\$ (17)
Debt Securities Issued by States and Political Subdivisions	72,400	(955)	—	—	72,400	(955)
Mortgage-Backed Securities:						
Residential - Government Agencies	7,325	(57)	22,389	(235)	29,714	(292)
Commercial - Government Agencies	261,883	(1,197)	—	—	261,883	(1,197)
Total Mortgage-Backed Securities	269,208	(1,254)	22,389	(235)	291,597	(1,489)
<b>Total</b>	<b>\$ 343,903</b>	<b>\$ (2,223)</b>	<b>\$ 22,953</b>	<b>\$ (238)</b>	<b>\$ 366,856</b>	<b>\$ (2,461)</b>
<b>Held-to-Maturity:</b>						
Mortgage-Backed Securities:						
Residential - Government Agencies	\$ 351,762	\$ (1,366)	\$ —	\$ —	\$ 351,762	\$ (1,366)
<b>Total</b>	<b>\$ 351,762</b>	<b>\$ (1,366)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 351,762</b>	<b>\$ (1,366)</b>

The Company does not believe that the investment securities that were in an unrealized loss position as of December 31, 2013, which was comprised of 299 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of December 31, 2013, the gross unrealized losses reported for mortgage-backed securities were related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	December 31,		
	2013	2012	2011
Taxable	\$ 125,379	\$ 144,111	\$ 171,776
Non-Taxable	18,253	16,813	3,725
<b>Total Interest Income from Investment Securities</b>	<b>\$ 143,632</b>	<b>\$ 160,924</b>	<b>\$ 175,501</b>

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

As of December 31, 2013, the carrying value of the Company's Federal Home Loan Bank and Federal Reserve Bank stock was as follows:

(dollars in thousands)	December 31,	
	2013	2012
Federal Home Loan Bank Stock	\$ 58,021	\$ 60,200
Federal Reserve Bank Stock	19,138	18,952
<b>Total</b>	<b>\$ 77,159</b>	<b>\$ 79,152</b>

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

#### Note 4. Loans and Leases and the Allowance for Loan and Lease Losses

##### Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of December 31, 2013 and 2012:

(dollars in thousands)	December 31,	
	2013	2012
<b>Commercial</b>		
Commercial and Industrial	\$ 911,367	\$ 829,512
Commercial Mortgage	1,247,510	1,097,425
Construction	107,349	113,987
Lease Financing	262,207	274,969
<b>Total Commercial</b>	<b>2,528,433</b>	<b>2,315,893</b>
<b>Consumer</b>		
Residential Mortgage	2,282,894	2,349,916
Home Equity	773,385	770,376
Automobile	255,986	209,832
Other <sup>1</sup>	254,689	208,504
<b>Total Consumer</b>	<b>3,566,954</b>	<b>3,538,628</b>
<b>Total Loans and Leases</b>	<b>\$ 6,095,387</b>	<b>\$ 5,854,521</b>

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

Total loans and leases were reported net of unearned income of \$63.1 million and \$71.9 million as of December 31, 2013 and 2012, respectively.

Commercial loans and residential mortgage loans of \$0.9 billion and \$1.0 billion were pledged to secure an undrawn FRB line of credit as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, residential mortgage loans of approximately \$1.5 billion and \$1.6 billion, respectively, were pledged under a blanket pledge arrangement to secure FHLB advances. See Note 10 for FHLB advances outstanding as of December 31, 2013 and 2012.

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income, were \$8.7 million, \$22.8 million, and \$6.0 million for the years ended December 31, 2013, 2012, and 2011, respectively. There were no sales of commercial loans for the years ended December 31, 2013, 2012, and 2011.

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

*Allowance for Loan and Lease Losses*

The following presents by portfolio segment, the activity in the Allowance for the years ended December 31, 2013 and 2012. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans and leases as of December 31, 2013 and 2012.

(dollars in thousands)	<b>Commercial</b>	<b>Consumer</b>	<b>Total</b>
<b>For the Year Ended December 31, 2013</b>			
<b>Allowance for Loan and Lease Losses:</b>			
Balance at Beginning of Period	\$ 72,704	\$ 56,153	\$ 128,857
Loans and Leases Charged-Off	(8,099)	(17,021)	(25,120)
Recoveries on Loans and Leases Previously Charged-Off	2,644	9,073	11,717
Net Loans and Leases Charged-Off	(5,455)	(7,948)	(13,403)
Provision for Credit Losses	4,197	(4,197)	—
<b>Balance at End of Period</b>	<b>\$ 71,446</b>	<b>\$ 44,008</b>	<b>\$ 115,454</b>
<b>As of December 31, 2013</b>			
<b>Allowance for Loan and Lease Losses:</b>			
Individually Evaluated for Impairment	\$ 9,054	\$ 3,722	\$ 12,776
Collectively Evaluated for Impairment	62,392	40,286	102,678
<b>Total</b>	<b>\$ 71,446</b>	<b>\$ 44,008</b>	<b>\$ 115,454</b>
<b>Recorded Investment in Loans and Leases:</b>			
Individually Evaluated for Impairment	\$ 38,469	\$ 38,646	\$ 77,115
Collectively Evaluated for Impairment	2,489,964	3,528,308	6,018,272
<b>Total</b>	<b>\$ 2,528,433</b>	<b>\$ 3,566,954</b>	<b>\$ 6,095,387</b>
<b>For the Year Ended December 31, 2012</b>			
<b>Allowance for Loan and Lease Losses:</b>			
Balance at Beginning of Period	\$ 80,562	\$ 58,044	\$ 138,606
Loans and Leases Charged-Off	(3,947)	(20,212)	(24,159)
Recoveries on Loans and Leases Previously Charged-Off	4,191	9,240	13,431
Net Loans and Leases Charged-Off	244	(10,972)	(10,728)
Provision for Credit Losses	(8,102)	9,081	979
<b>Balance at End of Period</b>	<b>\$ 72,704</b>	<b>\$ 56,153</b>	<b>\$ 128,857</b>
<b>As of December 31, 2012</b>			
<b>Allowance for Loan and Lease Losses:</b>			
Individually Evaluated for Impairment	\$ 161	\$ 3,564	\$ 3,725
Collectively Evaluated for Impairment	72,543	52,589	125,132
<b>Total</b>	<b>\$ 72,704</b>	<b>\$ 56,153</b>	<b>\$ 128,857</b>
<b>Recorded Investment in Loans and Leases:</b>			
Individually Evaluated for Impairment	\$ 13,098	\$ 37,500	\$ 50,598
Collectively Evaluated for Impairment	2,302,795	3,501,128	5,803,923
<b>Total</b>	<b>\$ 2,315,893</b>	<b>\$ 3,538,628</b>	<b>\$ 5,854,521</b>

## *Credit Quality Indicators*

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

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

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

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of December 31, 2013 and 2012.

**December 31, 2013**

(dollars in thousands)	<b>Commercial and Industrial</b>	<b>Commercial Mortgage</b>	<b>Construction</b>	<b>Lease Financing</b>	<b>Total Commercial</b>
Pass	\$ 867,813	\$ 1,176,941	\$ 104,377	\$ 261,486	\$ 2,410,617
Special Mention	5,854	24,587	—	31	30,472
Classified	37,700	45,982	2,972	690	87,344
<b>Total</b>	<b>\$ 911,367</b>	<b>\$ 1,247,510</b>	<b>\$ 107,349</b>	<b>\$ 262,207</b>	<b>\$ 2,528,433</b>

(dollars in thousands)	<b>Residential Mortgage</b>	<b>Home Equity</b>	<b>Automobile</b>	<b>Other <sup>1</sup></b>	<b>Total Consumer</b>
Pass	\$ 2,261,891	\$ 769,051	\$ 255,664	\$ 253,910	\$ 3,540,516
Classified	21,003	4,334	322	779	26,438
<b>Total</b>	<b>\$ 2,282,894</b>	<b>\$ 773,385</b>	<b>\$ 255,986</b>	<b>\$ 254,689</b>	<b>\$ 3,566,954</b>
<b>Total Recorded Investment in Loans and Leases</b>					<b>\$ 6,095,387</b>

**December 31, 2012**

(dollars in thousands)	<b>Commercial and Industrial</b>	<b>Commercial Mortgage</b>	<b>Construction</b>	<b>Lease Financing</b>	<b>Total Commercial</b>
Pass	\$ 779,654	\$ 1,018,128	\$ 96,058	\$ 247,401	\$ 2,141,241
Special Mention	22,759	23,848	15,839	26,540	88,986
Classified	27,099	55,449	2,090	1,028	85,666
<b>Total</b>	<b>\$ 829,512</b>	<b>\$ 1,097,425</b>	<b>\$ 113,987</b>	<b>\$ 274,969</b>	<b>\$ 2,315,893</b>

(dollars in thousands)	<b>Residential Mortgage</b>	<b>Home Equity</b>	<b>Automobile</b>	<b>Other <sup>1</sup></b>	<b>Total Consumer</b>
Pass	\$ 2,326,216	\$ 766,912	\$ 209,646	\$ 207,917	\$ 3,510,691
Classified	23,700	3,464	186	587	27,937
<b>Total</b>	<b>\$ 2,349,916</b>	<b>\$ 770,376</b>	<b>\$ 209,832</b>	<b>\$ 208,504</b>	<b>\$ 3,538,628</b>
<b>Total Recorded Investment in Loans and Leases</b>					<b>\$ 5,854,521</b>

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

*Aging Analysis*

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of December 31, 2013 and 2012.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non- Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current <sup>2</sup>
<b>As of December 31, 2013</b>								
Commercial								
Commercial and Industrial	\$ 1,701	\$ 1,962	\$ 1,173	\$ 11,929	\$ 16,765	\$ 894,602	\$ 911,367	\$ 3,603
Commercial Mortgage	932	—	—	2,512	3,444	1,244,066	1,247,510	778
Construction	—	—	—	—	—	107,349	107,349	—
Lease Financing	—	—	—	—	—	262,207	262,207	—
<b>Total Commercial</b>	<b>2,633</b>	<b>1,962</b>	<b>1,173</b>	<b>14,441</b>	<b>20,209</b>	<b>2,508,224</b>	<b>2,528,433</b>	<b>4,381</b>
Consumer								
Residential Mortgage	6,984	4,746	4,564	20,264	36,558	2,246,336	2,282,894	5,883
Home Equity	3,926	2,867	3,009	1,740	11,542	761,843	773,385	265
Automobile	4,688	971	322	—	5,981	250,005	255,986	—
Other <sup>1</sup>	2,426	5,295	790	—	8,511	246,178	254,689	—
<b>Total Consumer</b>	<b>18,024</b>	<b>13,879</b>	<b>8,685</b>	<b>22,004</b>	<b>62,592</b>	<b>3,504,362</b>	<b>3,566,954</b>	<b>6,148</b>
<b>Total</b>	<b>\$ 20,657</b>	<b>\$ 15,841</b>	<b>\$ 9,858</b>	<b>\$ 36,445</b>	<b>\$ 82,801</b>	<b>\$ 6,012,586</b>	<b>\$ 6,095,387</b>	<b>\$ 10,529</b>
<b>As of December 31, 2012</b>								
Commercial								
Commercial and Industrial	\$ 806	\$ 10,382	\$ 27	\$ 5,534	\$ 16,749	\$ 812,763	\$ 829,512	\$ 4,963
Commercial Mortgage	188	542	—	3,030	3,760	1,093,665	1,097,425	1,810
Construction	—	—	—	833	833	113,154	113,987	833
Lease Financing	—	—	—	—	—	274,969	274,969	—
<b>Total Commercial</b>	<b>994</b>	<b>10,924</b>	<b>27</b>	<b>9,397</b>	<b>21,342</b>	<b>2,294,551</b>	<b>2,315,893</b>	<b>7,606</b>
Consumer								
Residential Mortgage	6,891	5,433	6,908	21,725	40,957	2,308,959	2,349,916	4,941
Home Equity	6,768	3,267	2,701	2,074	14,810	755,566	770,376	191
Automobile	3,758	586	186	—	4,530	205,302	209,832	—
Other <sup>1</sup>	2,144	1,093	587	—	3,824	204,680	208,504	—
<b>Total Consumer</b>	<b>19,561</b>	<b>10,379</b>	<b>10,382</b>	<b>23,799</b>	<b>64,121</b>	<b>3,474,507</b>	<b>3,538,628</b>	<b>5,132</b>
<b>Total</b>	<b>\$ 20,555</b>	<b>\$ 21,303</b>	<b>\$ 10,409</b>	<b>\$ 33,196</b>	<b>\$ 85,463</b>	<b>\$ 5,769,058</b>	<b>\$ 5,854,521</b>	<b>\$ 12,738</b>

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

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

Impaired Loans

The following presents by class, information related to impaired loans as of December 31, 2013 and 2012.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
<b>December 31, 2013</b>			
<b>Impaired Loans with No Related Allowance Recorded:</b>			
Commercial			
Commercial and Industrial	\$ 12,709	\$ 17,967	\$ —
Commercial Mortgage	14,898	14,898	—
Construction	1,059	1,064	—
<b>Total Commercial</b>	<b>28,666</b>	<b>33,929</b>	<b>—</b>
<b>Total Impaired Loans with No Related Allowance Recorded</b>	<b>\$ 28,666</b>	<b>\$ 33,929</b>	<b>\$ —</b>
<b>Impaired Loans with an Allowance Recorded:</b>			
Commercial			
Commercial and Industrial	\$ 9,803	\$ 16,403	\$ 9,054
<b>Total Commercial</b>	<b>9,803</b>	<b>16,403</b>	<b>9,054</b>
Consumer			
Residential Mortgage	32,338	38,420	3,619
Home Equity	796	796	13
Automobile	5,183	5,183	77
Other <sup>1</sup>	329	329	13
<b>Total Consumer</b>	<b>38,646</b>	<b>44,728</b>	<b>3,722</b>
<b>Total Impaired Loans with an Allowance Recorded</b>	<b>\$ 48,449</b>	<b>\$ 61,131</b>	<b>\$ 12,776</b>
<b>Impaired Loans:</b>			
Commercial	\$ 38,469	\$ 50,332	\$ 9,054
Consumer	38,646	44,728	3,722
<b>Total Impaired Loans</b>	<b>\$ 77,115</b>	<b>\$ 95,060</b>	<b>\$ 12,776</b>
<b>December 31, 2012</b>			
<b>Impaired Loans with No Related Allowance Recorded:</b>			
Commercial			
Commercial and Industrial	\$ 7,464	\$ 12,714	\$ —
Commercial Mortgage	2,971	3,471	—
Construction	833	1,163	—
<b>Total Commercial</b>	<b>11,268</b>	<b>17,348</b>	<b>—</b>
<b>Total Impaired Loans with No Related Allowance Recorded</b>	<b>\$ 11,268</b>	<b>\$ 17,348</b>	<b>\$ —</b>
<b>Impaired Loans with an Allowance Recorded:</b>			
Commercial			
Commercial and Industrial	\$ 1,772	\$ 1,772	\$ 148
Commercial Mortgage	58	58	13
<b>Total Commercial</b>	<b>1,830</b>	<b>1,830</b>	<b>161</b>
Consumer			
Residential Mortgage	31,577	38,219	3,492
Automobile	5,641	5,641	58
Other <sup>1</sup>	282	282	14
<b>Total Consumer</b>	<b>37,500</b>	<b>44,142</b>	<b>3,564</b>
<b>Total Impaired Loans with an Allowance Recorded</b>	<b>\$ 39,330</b>	<b>\$ 45,972</b>	<b>\$ 3,725</b>
<b>Impaired Loans:</b>			
Commercial	\$ 13,098	\$ 19,178	\$ 161
Consumer	37,500	44,142	3,564
<b>Total Impaired Loans</b>	<b>\$ 50,598</b>	<b>\$ 63,320</b>	<b>\$ 3,725</b>

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

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2013 and 2012.

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)				
<b>Impaired Loans with No Related Allowance Recorded:</b>				
Commercial				
Commercial and Industrial	\$ 9,346	\$ 115	\$ 8,064	\$ —
Commercial Mortgage	7,574	150	2,643	—
Construction	591	27	890	—
Total Commercial	17,511	292	11,597	—
Total Impaired Loans with No Related Allowance Recorded	\$ 17,511	\$ 292	\$ 11,597	\$ —
<b>Impaired Loans with an Allowance Recorded:</b>				
Commercial				
Commercial and Industrial	\$ 6,435	\$ 190	\$ 1,752	\$ 126
Commercial Mortgage	32	51	128	12
Construction	—	—	416	—
Total Commercial	6,467	241	2,296	138
Consumer				
Residential Mortgage	31,518	800	27,310	428
Home Equity	159	4	4	—
Automobile	5,230	490	5,811	585
Other <sup>1</sup>	279	15	380	17
Total Consumer	37,186	1,309	33,505	1,030
Total Impaired Loans with an Allowance Recorded	\$ 43,653	\$ 1,550	\$ 35,801	\$ 1,168
<b>Impaired Loans:</b>				
Commercial	\$ 23,978	\$ 533	\$ 13,893	\$ 138
Consumer	37,186	1,309	33,505	1,030
Total Impaired Loans	\$ 61,164	\$ 1,842	\$ 47,398	\$ 1,168

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

For the year ended December 31, 2011, the average recorded investment in impaired loans was \$41.7 million and the interest income recognized on impaired loans was \$1.1 million. For the years ended December 31, 2013, 2012, and 2011, the amount of interest income recognized by the Company within the period that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the years ended December 31, 2013, 2012, and 2011, the amount of interest income recognized using a cash-basis method of accounting during the time within that period that the loans were impaired was not material.

#### Modifications

A modification of a loan constitutes a troubled debt restructuring ("TDR") when the Company for economic or legal reasons related to a borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were \$63.7 million and \$41.1 million as of December 31, 2013 and 2012, respectively. As of December 31, 2013, there was \$1.9 million in available commitments under revolving credit lines that have been modified in a TDR. There were no commitments to lend additional funds on loans modified in a TDR as of December 31, 2012.

The Company offers various types of concessions when modifying a loan or lease, however, forgiveness of principal is rarely granted. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Prior to November 2012, residential mortgage loans modified in a TDR were primarily comprised

of loans where monthly payments were lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment was applied to principal. After the lowered monthly payment period ended, the borrower reverted back to paying principal and interest per the original terms with the maturity date adjusted accordingly. Effective November 2012, the Company revised its modification program to resemble the Federal Government's Home Affordable Modification Payment ("HAMP") Tier 2 program. Under this new modification program, the concessions will generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Prior to September 2012, land loans modified in a TDR typically involved extending the balloon payment by one to three years, changing the monthly payments from interest-only to principal and interest, while leaving the interest rate unchanged. In September 2012, the land loan modification program was changed to offer an extension to term-out and fully amortize the loan over a period of up to 30 years. Home equity modifications are made infrequently and are offered to borrowers if the Company does not hold the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Borrowers having both a first mortgage and home equity loan with the Company are offered a residential mortgage loan modification. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

The following presents by class, information related to loans modified in a TDR during the years ended December 31, 2013 and 2012.

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Year Ended December 31, 2013			Loans Modified as a TDR for the Year Ended December 31, 2012		
	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>	Increase in Allowance (as of period end)
<b>Commercial</b>						
Commercial and Industrial	36	\$ 9,279	\$ 1,056	5	\$ 1,059	\$ 131
Commercial Mortgage	5	12,386	—	—	—	—
Construction	1	1,059	—	1	833	—
<b>Total Commercial</b>	<b>42</b>	<b>22,724</b>	<b>1,056</b>	<b>6</b>	<b>1,892</b>	<b>131</b>
<b>Consumer</b>						
Residential Mortgage	22	7,855	1,113	12	8,094	831
Home Equity	3	649	67	—	—	—
Automobile	153	2,106	31	210	2,139	22
Other <sup>2</sup>	17	180	7	—	—	—
<b>Total Consumer</b>	<b>195</b>	<b>10,790</b>	<b>1,218</b>	<b>222</b>	<b>10,233</b>	<b>853</b>
<b>Total</b>	<b>237</b>	<b>\$ 33,514</b>	<b>\$ 2,274</b>	<b>228</b>	<b>\$ 12,125</b>	<b>\$ 984</b>

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

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

The following presents by class, loans modified in a TDR that defaulted during the year ended December 31, 2013 and 2012, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>	Number of Contracts	Recorded Investment (as of period end) <sup>1</sup>
<b>Commercial</b>				
Commercial and Industrial	2	\$ 985	—	\$ —
<b>Total Commercial</b>	2	985	—	—
<b>Consumer</b>				
Residential Mortgage	1	438	3	1,153
Automobile	13	178	7	32
<b>Total Consumer</b>	14	616	10	1,185
<b>Total</b>	16	\$ 1,601	10	\$ 1,185

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

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

#### Related Party Loans

Certain directors and executive officers of the Company, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As of December 31, 2013 and 2012, related party loan balances were \$11.7 million and \$6.7 million, respectively.

#### Note 5. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was \$3.1 billion as of December 31, 2013 and 2012, and \$3.2 billion as of December 31, 2011. Generally, the Company's residential mortgage loans sold to third parties are sold on a non-recourse basis. The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$8.0 million, \$8.2 million, and \$8.6 million for the years ended December 31, 2013, 2012, and 2011, respectively. Servicing income is recorded as a component of mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage loan servicing portfolio is comprised primarily of fixed-rate loans concentrated in Hawaii.

For the years ended December 31, 2013, 2012, and 2011, the change in the fair value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	2013	2012	2011
<b>Balance at Beginning of Year</b>	\$ 4,761	\$ 7,131	\$ 10,226
Changes in Fair Value:			
Due to Change in Valuation Assumptions <sup>1</sup>	127	(863)	(1,521)
Due to Payoffs	(1,062)	(1,507)	(1,574)
<b>Total Changes in Fair Value of Mortgage Servicing Rights</b>	(935)	(2,370)	(3,095)
<b>Balance at End of Year</b>	\$ 3,826	\$ 4,761	\$ 7,131

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

For the years ended December 31, 2013, 2012, and 2011, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method was as follows:

(dollars in thousands)	2013	2012	2011
<b>Balance at Beginning of Year</b>	\$ 20,479	\$ 17,148	\$ 15,153
Servicing Rights that Resulted From Asset Transfers	6,351	6,016	4,139
Amortization	(2,533)	(2,685)	(2,144)
<b>Balance at End of Year</b>	\$ 24,297	\$ 20,479	\$ 17,148

**Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method**

Beginning of Year	\$ 23,143	\$ 17,159	\$ 20,340
End of Year	\$ 30,100	\$ 23,143	\$ 17,159

The key assumptions used in estimating the fair value of the Company's mortgage servicing rights as of December 31, 2013 and 2012 were as follows:

	December 31,	
	2013	2012
Weighted-Average Constant Prepayment Rate <sup>1</sup>	7.98 %	12.26 %
Weighted-Average Life (in years)	8.04	6.24
Weighted-Average Note Rate	4.31 %	4.59 %
Weighted-Average Discount Rate <sup>2</sup>	9.70 %	5.57 %

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

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

Residential mortgage loan repayment rates for the Company's servicing portfolio, which is concentrated in Hawaii, was slightly lower than the national average for the years ended December 31, 2013 and 2012.

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of December 31, 2013 and 2012 is presented in the following table.

(dollars in thousands)	December 31,	
	2013	2012
<b>Constant Prepayment Rate</b>		
Decrease in fair value from 25 basis points ("bps") adverse change	\$ (357)	\$ (378)
Decrease in fair value from 50 bps adverse change	(746)	(746)
<b>Discount Rate</b>		
Decrease in fair value from 25 bps adverse change	(432)	(439)
Decrease in fair value from 50 bps adverse change	(876)	(864)

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

## Note 6. Premises and Equipment

The components of the Company's premises and equipment as of December 31, 2013 and 2012 were as follows:

(dollars in thousands)	Cost	Accumulated Depreciation and Amortization	Net Book Value
<b>December 31, 2013</b>			
Premises	\$ 317,659	\$ (227,907)	\$ 89,752
Equipment	108,778	(90,608)	18,170
Capital Leases	4,464	(3,750)	714
<b>Total</b>	<b>\$ 430,901</b>	<b>\$ (322,265)</b>	<b>\$ 108,636</b>
<b>December 31, 2012</b>			
Premises	\$ 314,152	\$ (224,108)	\$ 90,044
Equipment	111,177	(97,109)	14,068
Capital Leases	4,464	(3,571)	893
<b>Total</b>	<b>\$ 429,793</b>	<b>\$ (324,788)</b>	<b>\$ 105,005</b>

Depreciation and amortization (including capital lease amortization) included in noninterest expense was \$12.1 million, \$13.8 million, and \$14.6 million for the years ended December 31, 2013, 2012, and 2011, respectively.

For the year ended December 31, 2013, there was no impairment of the Company's premises and equipment. For the years ended December 31, 2012 and 2011, the Company recorded impairment charges of \$1.1 million and \$0.6 million, respectively, related to several of the Company's branch premises. These impairment charges were recorded as a component of net occupancy expense in the Company's consolidated statements of income.

## Note 7. Other Assets

The components of the Company's other assets as of December 31, 2013 and 2012 were as follows:

(dollars in thousands)	December 31,	
	2013	2012
Bank-Owned Life Insurance	\$ 223,246	\$ 218,429
Federal Home Loan Bank and Federal Reserve Bank Stock	77,159	79,152
Derivative Financial Instruments	21,769	42,610
Low-Income Housing and Other Equity Investments	48,931	48,373
Deferred Compensation Plan Assets	15,535	12,566
Prepaid Expenses	6,098	21,820
Accounts Receivable	13,479	13,854
State Tax Deposits	6,069	6,069
Other	18,253	14,252
<b>Total</b>	<b>\$ 430,539</b>	<b>\$ 457,125</b>

## Note 8. Deposits

### Time Deposits

As of December 31, 2013 and 2012, the Company's total time deposits were \$1.3 billion and \$1.6 billion, respectively. As of December 31, 2013, the contractual maturities of these time deposits were as follows:

(dollars in thousands)	<b>Amount</b>
2014	\$ 988,722
2015	142,378
2016	112,303
2017	42,757
2018	12,075
Thereafter	19,535
<b>Total</b>	<b>\$ 1,317,770</b>

The amount of time deposits with balances of \$100,000 or more was \$1.0 billion and \$1.3 billion as of December 31, 2013 and 2012, respectively. As of December 31, 2013, the contractual maturities of these time deposits were as follows:

(dollars in thousands)	<b>Amount</b>
Three Months or Less	\$ 653,679
Over Three Months through Six Months	64,659
Over Six Months through Twelve Months	119,594
Over Twelve Months	185,915
<b>Total</b>	<b>\$ 1,023,847</b>

### Public Deposits

As of December 31, 2013 and 2012, deposits of governmental entities of \$1.2 billion and \$1.4 billion, respectively, required collateralization by acceptable investment securities of the Company.

## Note 9. Borrowings

Details of the Company's borrowings as of and for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Funds Purchased<sup>1</sup></b>			
Amounts Outstanding as of End of Year	\$ 9,982	\$ 11,296	\$ 10,791
Average Amount Outstanding During Year	30,864	14,928	11,508
Maximum Amount Outstanding at Any Month End	86,296	21,024	10,791
Weighted Average Interest Rate During Year	0.14%	0.14%	0.17%
Weighted Average Interest Rate End of Year	0.14%	0.14%	0.14%
<b>Securities Sold Under Agreements to Repurchase<sup>2</sup></b>			
Amounts Outstanding as of End of Year	\$ 170,049	\$ 158,947	\$ 1,325,998
Average Amount Outstanding During Year	209,326	735,711	1,245,763
Maximum Amount Outstanding at Any Month End	266,236	1,354,838	1,369,378
Weighted Average Interest Rate During Year	0.13%	0.08%	0.08%
Weighted Average Interest Rate End of Year	0.19%	0.12%	0.07%

<sup>1</sup> Federal funds purchased generally mature on the next business day following the date of purchase.

<sup>2</sup> Excludes long-term securities sold under agreements to repurchase with private institutions of \$600.0 million as of December 31, 2013, 2012, and 2011.

The Company's total securities sold under agreements to repurchase were \$770.0 million, \$758.9 million, and \$1.9 billion as of December 31, 2013, 2012, and 2011, respectively. As of December 31, 2013, total securities sold under agreements to repurchase placed with private institutions were \$600.0 million, all of which were at fixed interest rates. As of December 31, 2013, the weighted average interest rate for the Company's agreements with private institutions was 4.21% and the remaining terms of these agreements ranged from 2 to 9 years.

As of December 31, 2013, the weighted average maturity was 364 days for the Company's securities sold under agreements to repurchase with government entities and 5.4 years for securities sold under agreements to repurchase with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted average maturity for our repurchase agreements with private institutions would decrease to 3.7 years.

#### Note 10. Long-Term Debt

The Company's long-term debt as of December 31, 2013 and 2012 were as follows:

(dollars in thousands)	December 31,	
	2013	2012
Federal Home Loan Bank Advances	\$ 150,000	\$ 100,000
Non-Recourse Debt	15,877	19,185
Capital Lease Obligations	8,829	8,870
<b>Total</b>	<b>\$ 174,706</b>	<b>\$ 128,055</b>

As a member of the FHLB, the Bank may borrow funds from the FHLB in amounts up to 15% of the Bank's total assets, provided the Bank is able to pledge an adequate amount of qualified assets to secure the borrowings. The stated interest rate on the FHLB advances is 0.60% with maturity dates in 2015 and 2016. As of December 31, 2013, the Company had a remaining line of credit with the FHLB of \$1.1 billion. See Note 4 for loans pledged to the FHLB as of December 31, 2013 and 2012.

As of December 31, 2013, the Company's non-recourse debt was bearing interest at a fixed rate of 6.3% with maturity in June 2021.

Capital lease obligations relate to office space at the Company's headquarters. The lease began in 1993 and has a 60 year term. Lease payments were fixed at \$0.7 million per year through December 2012 and are negotiable thereafter. Negotiations are currently ongoing regarding future lease payment amounts. Until an agreement is reached, management expects that annual lease payment amounts will remain unchanged.

As of December 31, 2013, the Company had an undrawn line of credit with the FRB of \$657.8 million. See Note 4 for loans pledged to the FRB as of December 31, 2013 and 2012.

As of December 31, 2013, the annual maturities of the Company's long-term debt, exclusive of capital lease obligations, were expected to be as follows:

(dollars in thousands)	Amount
2014	\$ 2,872
2015	103,067
2016	52,785
2017	—
2018	—
Thereafter	7,153
<b>Total</b>	<b>\$ 165,877</b>

## Note 11. Shareholders' Equity

### Regulatory Capital

The table below sets forth the minimum required capital amounts and ratios for well capitalized institutions and the actual capital amounts and ratios for the Company and the Bank as of December 31, 2013 and 2012:

(dollars in thousands)	Well Capitalized Minimum Ratio	Company	Bank
<b>As of December 31, 2013:</b>			
Shareholders' Equity		\$ 1,011,976	\$ 940,730
Tier 1 Capital		984,228	927,111
Total Capital		1,063,883	1,006,667
Tier 1 Capital Ratio	6%	15.55%	14.66%
Total Capital Ratio	10%	16.81%	15.92%
Tier 1 Leverage Ratio	5%	7.07%	6.66%
<b>As of December 31, 2012:</b>			
Shareholders' Equity		\$ 1,021,665	\$ 977,591
Tier 1 Capital		926,603	896,658
Total Capital		999,183	969,144
Tier 1 Capital Ratio	6%	16.13%	15.63%
Total Capital Ratio	10%	17.39%	16.89%
Tier 1 Leverage Ratio	5%	6.83%	6.63%

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by regulators about the components of regulatory capital, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Tier 1 and Total Capital. Tier 1 Capital is common shareholders' equity, reduced by certain intangible assets, postretirement benefit liability adjustments, and unrealized gains and losses on investment securities. Total Capital is Tier 1 Capital plus an allowable amount of the reserve for credit losses. Three capital ratios are used to measure capital adequacy: Tier 1 Capital divided by risk-weighted assets, as defined; Total Capital divided by risk-weighted assets; and the Tier 1 Leverage ratio, which is Tier 1 Capital divided by quarterly average total assets.

As of December 31, 2013, the Company and the Bank were well capitalized as defined in the regulatory framework for prompt corrective action. There were no conditions or events since December 31, 2013 that management believes have changed the Company or the Bank's capital classifications.

### Dividends

Dividends paid by the Parent are substantially funded from dividends received from the Bank. The Bank is subject to federal and state regulatory restrictions that limit cash dividends and loans to the Parent. These restrictions generally require advanced approval from the Bank's regulator for payment of dividends in excess of the sum of net income for the current calendar year and the retained net income of the prior two calendar years.

## Common Stock Repurchase Program

The Parent has a common stock repurchase program in which shares repurchased are held in treasury stock for reissuance in connection with share-based compensation plans and for general corporate purposes. For the year ended December 31, 2013, the Parent repurchased 0.7 million shares of common stock at an average cost per share of \$51.33 and a total cost of \$35.5 million. From the beginning of the stock repurchase program in July 2001 through December 31, 2013, the Parent repurchased a total of 50.9 million shares of common stock and returned a total of \$1.9 billion to its shareholders at an average cost of \$36.54 per share. Remaining buyback authority under the common stock repurchase program was \$34.0 million as of December 31, 2013. From January 1, 2014 through February 14, 2014, the Parent repurchased an additional 113,500 shares of common stock at an average cost of \$57.85 per share for a total of \$6.6 million. Remaining buyback authority under the common stock repurchase program was \$27.4 million as of February 14, 2014. The actual amount and timing of future share repurchases, if any, will depend on market conditions, applicable SEC rules and various other factors.

## Accumulated Other Comprehensive Income

The following table presents the components of other comprehensive income (loss), net of tax:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
<b>Year Ended December 31, 2013:</b>			
Net Unrealized Losses on Investment Securities:			
Net Unrealized Losses Arising During the Period	\$ (105,842)	\$ (41,715)	\$ (64,127)
Less: Reclassification Adjustment for Gains Realized in Net Income <sup>1</sup>	(8,386)	(3,307)	(5,079)
Net Unrealized Losses on Investment Securities	(114,228)	(45,022)	(69,206)
Defined Benefit Plans:			
Net Actuarial Gains Arising During the Period	12,132	4,785	7,347
Amortization of Net Actuarial Losses	1,688	665	1,023
Amortization of Prior Service Credit	(322)	(127)	(195)
Defined Benefit Plans, Net	13,498	5,323	8,175
<b>Other Comprehensive Loss</b>	<b>\$ (100,730)</b>	<b>\$ (39,699)</b>	<b>\$ (61,031)</b>
<b>Year Ended December 31, 2012:</b>			
Net Unrealized Losses on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 10,846	\$ 4,312	\$ 6,534
Less: Reclassification Adjustment for Gains Realized in Net Income <sup>1</sup>	(15,999)	(6,310)	(9,689)
Net Unrealized Losses on Investment Securities	(5,153)	(1,998)	(3,155)
Defined Benefit Plans:			
Net Actuarial Losses Arising During the Period	(5,798)	(2,295)	(3,503)
Amortization of Net Actuarial Losses	1,318	520	798
Amortization of Prior Service Credit	(322)	(127)	(195)
Defined Benefit Plans, Net	(4,802)	(1,902)	(2,900)
<b>Other Comprehensive Loss</b>	<b>\$ (9,955)</b>	<b>\$ (3,900)</b>	<b>\$ (6,055)</b>
<b>Year Ended December 31, 2011:</b>			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 40,645	\$ 16,037	\$ 24,608
Less: Reclassification Adjustment for Gains Realized in Net Income <sup>1</sup>	(13,525)	(5,328)	(8,197)
Net Unrealized Gains on Investment Securities	27,120	10,709	16,411
Defined Benefit Plans:			
Prior Service Credit from Plan Amendment During the Period	917	361	556
Amortization of Prior Service Credit	(322)	(127)	(195)
Net Prior Service Credit	595	234	361
Net Actuarial Losses Arising During the Period	(17,368)	(6,841)	(10,527)
Amortization of Net Actuarial Losses	3,387	1,334	2,053
Defined Benefit Plans, Net	(13,386)	(5,273)	(8,113)
<b>Other Comprehensive Income</b>	<b>\$ 13,734</b>	<b>\$ 5,436</b>	<b>\$ 8,298</b>

<sup>1</sup> Includes amounts related to the sales of investment securities, if any, and amounts related to the amortization of gains from the reclassification of available-for-sale investment securities to the held-to-maturity category made during the years ended December 31, 2013 and 2011.

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax:

(dollars in thousands)	Investment Securities- Available-For- Sale	Investment Securities- Held-To- Maturities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
<b>Year Ended December 31, 2013:</b>				
<b>Balance at Beginning of Period</b>	\$ 45,996	\$ 13,781	\$ (30,569)	\$ 29,208
Other Comprehensive Income Before Reclassifications	(47,296)	(16,831)	7,347	(56,780)
Amounts Reclassified from Accumulated Other Comprehensive Income	—	(5,079)	828	(4,251)
<b>Total Other Comprehensive Income (Loss)</b>	<b>(47,296)</b>	<b>(21,910)</b>	<b>8,175</b>	<b>(61,031)</b>
<b>Balance at End of Period</b>	<b>\$ (1,300)</b>	<b>\$ (8,129)</b>	<b>\$ (22,394)</b>	<b>\$ (31,823)</b>
<b>Year Ended December 31, 2012:</b>				
<b>Balance at Beginning of Period</b>	\$ 39,396	\$ 23,536	\$ (27,669)	\$ 35,263
Other Comprehensive Income Before Reclassifications	6,553	(19)	(3,503)	3,031
Amounts Reclassified from Accumulated Other Comprehensive Income	47	(9,736)	603	(9,086)
<b>Total Other Comprehensive Income (Loss)</b>	<b>6,600</b>	<b>(9,755)</b>	<b>(2,900)</b>	<b>(6,055)</b>
<b>Balance at End of Period</b>	<b>\$ 45,996</b>	<b>\$ 13,781</b>	<b>\$ (30,569)</b>	<b>\$ 29,208</b>
<b>Year Ended December 31, 2011:</b>				
<b>Balance at Beginning of Period</b>	\$ 46,521	\$ —	\$ (19,556)	\$ 26,965
Other Comprehensive Income Before Reclassifications	(3,267)	27,875	(9,971)	14,637
Amounts Reclassified from Accumulated Other Comprehensive Income	(3,858)	(4,339)	1,858	(6,339)
<b>Total Other Comprehensive Income (Loss)</b>	<b>(7,125)</b>	<b>23,536</b>	<b>(8,113)</b>	<b>8,298</b>
<b>Balance at End of Period</b>	<b>\$ 39,396</b>	<b>\$ 23,536</b>	<b>\$ (27,669)</b>	<b>\$ 35,263</b>

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss):

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>1</sup>			Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	Year Ended December 31,			
	2013	2012	2011	
Amortization of Unrealized Gains (Losses) on Investment Securities Transferred from the Available-for-Sale category to Held-to-Maturity	\$ 8,386	\$ 16,076	\$ 7,159	Interest Income
	(3,307)	(6,340)	(2,820)	Tax Expense
	5,079	9,736	4,339	Net of Tax
Sales of Investment Securities Available-for-Sale	—	(77)	6,366	Investment Securities Gains (Losses), Net
	—	30	(2,508)	Tax Benefit (Expense)
	—	(47)	3,858	Net of Tax
Amortization of Defined Benefit Plans Items				
Prior Service Credit <sup>2</sup>	322	322	322	
Net Actuarial Losses <sup>2</sup>	(1,688)	(1,318)	(3,387)	
	(1,366)	(996)	(3,065)	Total Before Tax
	538	393	1,207	Tax Benefit
	(828)	(603)	(1,858)	Net of Tax
<b>Total Reclassifications for the Period</b>	<b>\$ 4,251</b>	<b>\$ 9,086</b>	<b>\$ 6,339</b>	<b>Net of Tax</b>

<sup>1</sup> Amounts in parentheses indicate reductions to net income.

<sup>2</sup> These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost and are included in Salaries and Benefits on the consolidated statements of income (see Note 14 for additional details).

## Note 12. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing basic earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the years ended December 31, 2013, 2012, and 2011:

	Weighted Average Shares		
	2013	2012	2011
Denominator for Basic Earnings Per Share	44,380,948	45,115,441	47,064,925
Dilutive Effect of Stock Options	116,010	102,149	140,815
Dilutive Effect of Restricted Stock	75,767	31,710	19,241
<b>Denominator for Diluted Earnings Per Share</b>	<b>44,572,725</b>	<b>45,249,300</b>	<b>47,224,981</b>
<b>Antidilutive Stock Options and Restricted Stock Outstanding</b>	<b>25,101</b>	<b>522,383</b>	<b>554,062</b>

## Note 13. Business Segments

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

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

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

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

The provision for income taxes is allocated to business segments using a 37% effective tax rate, with the exception of our Leasing business unit which is assigned its actual effective tax rate due to the unique relationship that income taxes have with their leasing products. The residual income tax expense or benefit to arrive at the consolidated effective tax rate is included in Treasury and Other.

### *Retail Banking*

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans, small business loans and leases, and credit cards. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers retail insurance products. Products and services from Retail Banking are delivered to customers through 74 branch locations and 466 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

### *Commercial Banking*

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

### *Investment Services*

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

### *Treasury and Other*

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

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

Selected business segment financial information as of and for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury and Other	Consolidated Total
<b>Year Ended December 31, 2013</b>					
Net Interest Income	\$ 164,597	\$ 99,623	\$ 10,552	\$ 84,135	\$ 358,907
Provision for Credit Losses	8,565	4,918	(71)	(13,412)	—
Net Interest Income After Provision for Credit Losses	156,032	94,705	10,623	97,547	358,907
Noninterest Income	88,063	26,946	59,308	11,906	186,223
Noninterest Expense	(200,853)	(64,253)	(54,307)	(11,556)	(330,969)
Income Before Provision for Income Taxes	43,242	57,398	15,624	97,897	214,161
Provision for Income Taxes	(16,000)	(19,467)	(5,781)	(22,411)	(63,659)
<b>Net Income</b>	<b>\$ 27,242</b>	<b>\$ 37,931</b>	<b>\$ 9,843</b>	<b>\$ 75,486</b>	<b>\$ 150,502</b>
<b>Total Assets as of December 31, 2013</b>	<b>\$ 3,658,495</b>	<b>\$ 2,426,452</b>	<b>\$ 189,421</b>	<b>\$ 7,809,912</b>	<b>\$ 14,084,280</b>
<b>Year Ended December 31, 2012</b>					
Net Interest Income	\$ 177,083	\$ 103,754	\$ 12,448	\$ 83,986	\$ 377,271
Provision for Credit Losses	11,916	(1,382)	196	(9,751)	979
Net Interest Income After Provision for Credit Losses	165,167	105,136	12,252	93,737	376,292
Noninterest Income	104,654	26,408	57,454	11,770	200,286
Noninterest Expense	(206,740)	(62,165)	(55,543)	(9,840)	(334,288)
Income Before Provision for Income Taxes	63,081	69,379	14,163	95,667	242,290
Provision for Income Taxes	(23,340)	(19,864)	(5,240)	(27,770)	(76,214)
<b>Net Income</b>	<b>\$ 39,741</b>	<b>\$ 49,515</b>	<b>\$ 8,923</b>	<b>\$ 67,897</b>	<b>\$ 166,076</b>
<b>Total Assets as of December 31, 2012</b>	<b>\$ 3,663,287</b>	<b>\$ 2,196,682</b>	<b>\$ 190,383</b>	<b>\$ 7,678,020</b>	<b>\$ 13,728,372</b>
<b>Year Ended December 31, 2011</b>					
Net Interest Income	\$ 194,145	\$ 117,205	\$ 15,137	\$ 63,721	\$ 390,208
Provision for Credit Losses	22,250	(847)	64	(8,777)	12,690
Net Interest Income After Provision for Credit Losses	171,895	118,052	15,073	72,498	377,518
Noninterest Income	94,361	26,724	59,891	16,679	197,655
Noninterest Expense	(214,188)	(66,168)	(59,180)	(8,657)	(348,193)
Income Before Provision for Income Taxes	52,068	78,608	15,784	80,520	226,980
Provision for Income Taxes	(19,265)	(27,221)	(5,841)	(14,610)	(66,937)
<b>Net Income</b>	<b>\$ 32,803</b>	<b>\$ 51,387</b>	<b>\$ 9,943</b>	<b>\$ 65,910</b>	<b>\$ 160,043</b>
<b>Total Assets as of December 31, 2011</b>	<b>\$ 3,444,021</b>	<b>\$ 2,039,676</b>	<b>\$ 218,088</b>	<b>\$ 8,144,606</b>	<b>\$ 13,846,391</b>

#### Note 14. Employee Benefits

The Company has defined contribution plans, defined benefit plans, and a postretirement benefit plan.

##### *Defined Contribution Plans*

The Bank of Hawaii Retirement Savings Plan (the "Savings Plan") has three Company contribution components in addition to employee contributions: 1) 401(k) matching; 2) a 3% fixed amount based on eligible compensation; and 3) a discretionary value-sharing contribution.

Under the 401(k) matching component, participating employees may contribute up to 50% of their eligible compensation (within federal limits) to the Savings Plan. The Company makes matching contributions on behalf of participants equal to \$1.25 for each \$1.00 contributed by participants, up to 2% of the participants' eligible compensation, and \$0.50 for every \$1.00 contributed by participants over 2%, up to 5% of the participants' eligible compensation. A 3% fixed contribution and a discretionary value-sharing contribution, that is linked to the Company's financial goals, are made regardless of whether the participating employee contributes to the Savings Plan and are invested in accordance with the participant's selection of investment options available under the Savings Plan. The Company also has a non-qualified savings plan which covers certain employees with compensation exceeding Internal Revenue Service ("IRS") limits on pay amounts in the allocation of the Savings Plan's benefits. Total expense

for all components of the Company's defined contribution plans was \$11.2 million, \$11.8 million, and \$11.4 million for the years ended December 31, 2013, 2012, and 2011, respectively.

#### *Defined Benefit Plans*

The Company has two defined benefit plans (the "Pension Plans"). In 1995, the Company froze its non-contributory, qualified defined benefit retirement plan (the "Retirement Plan") and the excess retirement plan (the "Excess Plan"), which covered employees of the Company and participating subsidiaries who met certain eligibility requirements. Beginning January 1, 2001, the Pension Plans no longer provided for compensation increases in the determination of benefits. The projected benefit obligation is equal to the accumulated benefit obligation due to the frozen status of the Pension Plans.

The assets of the Retirement Plan primarily consist of equity and fixed income mutual funds.

The Excess Plan is a non-qualified excess retirement benefit plan which covers certain employees of the Company and participating subsidiaries with compensation exceeding IRS limits on pay amounts applicable to the Pension Plan's benefit formula. The Excess Plan has no plan assets. The Excess Plan's projected benefit obligation and accumulated benefit obligation were \$4.6 million and \$4.8 million as of December 31, 2013 and 2012, respectively.

#### *Postretirement Benefit Plan*

The Company's postretirement benefit plan provides retirees hired before January 1, 2012 with medical and dental insurance coverage. For eligible participants that retired before 2008 and met certain age requirements, the Company and retiree share in the cost of providing postretirement benefits where both the employer and retirees pay a portion of the insurance premiums. Eligible participants who retired before 2008 who did not meet certain age requirements continued on the Company's benefit plans, but pay for their full insurance premiums. Participants who retire on or after January 1, 2008, who have medical or dental coverage under the Company's plans immediately before retirement and meet certain age and years of service requirements as of December 31, 2008 are also eligible to participate in the Company's benefit plans, but must pay for their full insurance premiums. Retirees age 65 and older are provided with a Medicare supplemental plan subsidy. Most employees of the Company who have met certain eligibility requirements are covered by this plan. Participants who retire on or after January 1, 2008 who meet certain age and/or years of service requirements are eligible for the Health Reimbursement Account ("HRA") program. The HRA program provides retirees with an initial credit based on years of service. Thereafter, an annual credit up to a maximum of \$1,200 is provided into the HRA. The retiree may use the HRA for medical, vision, prescription drug and dental premiums, co-payments, and medically necessary health care expenses that are not covered by any medical or dental insurance program or flexible health spending account. As of December 31, 2013 and 2012, the Company had no segregated assets to provide for postretirement benefits.

The following table provides a reconciliation of changes in benefit obligation and fair value of plan assets, as well as the funded status recognized in the Company's statements of condition for the Pension Plans and postretirement benefit plan for the years ended December 31, 2013 and 2012.

(dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
<b>Benefit Obligation at Beginning of Year</b>	\$ 107,833	\$ 102,742	\$ 29,130	\$ 25,979
Service Cost	—	—	670	585
Interest Cost	4,514	4,996	1,188	1,302
Actuarial Losses (Gains)	(7,067)	7,780	(2,949)	1,942
Employer Benefits Paid <sup>1</sup>	(7,195)	(7,685)	(743)	(678)
<b>Benefit Obligation at End of Year</b>	\$ 98,085	\$ 107,833	\$ 27,296	\$ 29,130
<b>Fair Value of Plan Assets at Beginning of Year</b>	\$ 89,489	\$ 82,163	\$ —	\$ —
Actual Return on Plan Assets	7,755	9,523	—	—
Employer Contributions	486	5,488	743	678
Employer Benefits Paid <sup>1</sup>	(7,195)	(7,685)	(743)	(678)
<b>Fair Value of Plan Assets at End of Year</b>	\$ 90,535	\$ 89,489	\$ —	\$ —
<b>Funded Status at End of Year <sup>2</sup></b>	\$ (7,550)	\$ (18,344)	\$ (27,296)	\$ (29,130)

<sup>1</sup> Participants' contributions relative to the postretirement benefit plan were offset against employer benefits paid in the table above. Participants' contributions for postretirement benefits were \$0.7 million and \$1.0 million for the years ended December 31, 2013 and 2012, respectively.

<sup>2</sup> Amounts are recognized in Retirement Benefits Payable in the statements of condition.

The following presents the amounts recognized in the Company's accumulated other comprehensive income for the Pension Plans and postretirement benefit plan as of December 31, 2013 and 2012.

(dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
<b>Amounts Recognized in Accumulated Other Comprehensive Income, Net of Tax</b>				
Net Actuarial Gains (Losses)	\$ (25,440)	\$ (32,011)	\$ 2,045	\$ 245
Net Prior Service Credit	—	—	1,001	1,197
<b>Total Amounts Recognized in Accumulated Other Comprehensive Income, Net of Tax</b>	\$ (25,440)	\$ (32,011)	\$ 3,046	\$ 1,442

Components of net periodic benefit cost for the Company's Pension Plans and the postretirement benefit plan are presented in the following table for the years ended December 31, 2013, 2012, and 2011.

(dollars in thousands)	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Service Cost	\$ —	\$ —	\$ —	\$ 670	\$ 585	\$ 514
Interest Cost	4,514	4,996	5,221	1,188	1,302	1,341
Expected Return on Plan Assets	(5,250)	(5,829)	(6,451)	—	—	—
Amortization of:						
Prior Service Credit <sup>1</sup>	—	—	—	(322)	(322)	(322)
Net Actuarial Losses (Gains) <sup>1</sup>	1,688	1,318	3,466	—	—	(79)
<b>Net Periodic Benefit Cost</b>	\$ 952	\$ 485	\$ 2,236	\$ 1,536	\$ 1,565	\$ 1,454

<sup>1</sup> Represents reclassification adjustments from accumulated other comprehensive income during the period.

The estimated net actuarial loss related to the Company's Pension Plans that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending December 31, 2014 is approximately \$1.4 million. There is no net actuarial gain related to the Company's postretirement benefit plan that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending December 31, 2014. The prior service credit related to the Company's postretirement benefit plan that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending December 31, 2014 is approximately \$0.3 million.

Assumptions used to determine the benefit obligations as of December 31, 2013 and 2012 for the Company's Pension Plans and postretirement benefit plan were as follows:

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Weighted Average Assumptions as of December 31:				
Discount Rate	5.22%	4.29%	5.22%	4.29%
Health Care Cost Trend Rate Assumed For Next Year	—	—	7.20%	7.70%

The health care cost trend rate is assumed to decrease annually, until reaching the ultimate trend rate of 4.5% in 2027.

Assumptions used to determine the net periodic benefit cost for the Company's Pension Plans and postretirement benefit plan for the years ended December 31, 2013, 2012, and 2011 were as follows:

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Weighted Average Assumptions as of December 31:						
Discount Rate	4.29%	5.04%	5.75%	4.29%	5.04%	5.75%
Expected Long-Term Rate of Return on Plan Assets	6.00%	6.50%	8.00%	—	—	—
Health Care Cost Trend Rate	—	—	—	7.70%	8.00%	8.50%

A combination of factors is used by management in determining the expected long-term rate of return on plan assets. Historical return experience for major asset categories are evaluated and current market factors, such as inflation and interest rates, are considered in determining the expected long-term rate of return assumption.

A one percent change in the health care cost trend rate assumption (with all other assumptions remaining constant) would have impacted the service and interest cost components of the net periodic postretirement benefit cost and the postretirement benefit obligation as of and for the year ended December 31, 2013 as follows:

(dollars in thousands)	One Percent Increase	One Percent Decrease
Effect on the Total of Service and Interest Cost Component of Net Periodic Postretirement Benefit Cost	\$ 110	\$ (85)
Effect on the Postretirement Benefit Obligation	1,408	(1,136)

The Company expects to contribute \$0.5 million to the Pension Plans and \$1.3 million to the postretirement benefit plan for the year ending December 31, 2014.

As of December 31, 2013, expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter are as follows:

(dollars in thousands)	Pension Benefits	Postretirement Benefits
2014	\$ 5,783	\$ 1,325
2015	6,091	1,431
2016	6,362	1,656
2017	6,630	1,721
2018	6,825	1,731
Years 2019-2023	36,064	10,139

## Retirement Plan Assets

The Company's overall investment strategy is to maintain the purchasing power of the current assets and all future contributions by producing positive rates of return on plan assets; achieve capital growth towards the attainment of full funding of the Retirement Plan's termination liability; maximize returns within reasonable and prudent levels of risk; and control costs of administering the plan and managing the investments. The long-term investment objective is to achieve an overall annualized total return, gross of fees, above the blended benchmark index comprised of 35% S&P 500 Index, 25% MSCI ACWI ex-US Index, and 40% Barclays Capital Aggregate Bond Index.

Subject to liquidity requirements, the asset allocation targets are 60% for equity securities, 40% for fixed income securities with a 10% to 20% range permitted from the strategic targets, and zero to 20% for cash. Within the equity securities portfolio, the range for domestic securities is from 50% to 100% and the range for international securities is from 0% to 50%. All assets selected for the Retirement Plan must have a readily ascertainable market value and must be readily marketable.

Due to market fluctuations or cash flows, the allocation for each asset class may be breached by as much as 5% on a temporary basis. However, asset allocations are expected to conform to target ranges within 90 days of such an occurrence.

The fair values of the Retirement Plan assets as of December 31, 2013 and 2012 by asset category were as follows:

Asset Category (dollars in thousands)	Fair Value Measurements				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total as of Dec. 31, 2013	Total as of Dec. 31, 2012
Cash	\$ 1,905	\$ —	\$ —	\$ 1,905	\$ 2,100
Equity Securities – Mutual Funds:					
Large-Cap	—	—	—	—	6,976
Mid-Cap	—	—	—	—	2,483
Small-Cap	—	—	—	—	2,529
Mixed-Cap	30,155	—	—	30,155	14,716
International	18,268	—	—	18,268	8,741
Emerging Market	1,982	—	—	1,982	4,748
Fixed Income Securities – Mutual Funds	38,225	—	—	38,225	47,196
<b>Total</b>	<b>\$ 90,535</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 90,535</b>	<b>\$ 89,489</b>

Quoted prices for these investments were available in active markets, and therefore were classified as Level 1 measurements in the fair value hierarchy.

## Note 15. Share-Based Compensation

The Company has share-based compensation plans which allow grants of stock options, restricted stock, stock appreciation rights, and restricted stock units to its employees and non-employee directors. The Company's employee stock option plans are shareholder approved and administered by the Human Resources and Compensation Committee of the Board of Directors. Stock options provide grantees the option to purchase shares of the Parent's common stock at a specified exercise price and, generally, expire 10 years from the date of grant. Stock option grants include incentive and non-qualified stock options whose vesting may be based on a service period and/or achievement of Company performance measures. Stock option exercise prices were equal to the quoted market price of the Parent's common stock on the date of grant. Restricted stock provides grantees with rights to shares of common stock upon completion of a service period and/or achievement of Company performance measures. During the restriction period, all shares are considered outstanding and dividends are paid on the restricted stock. Generally, restricted stock vests over periods ranging from one to five years from the date of grant, although accelerated vesting was provided for in certain grants, based on the attainment of defined Company performance measures. Restricted stock is forfeited if an employee terminates prior to vesting.

As of December 31, 2013, total shares authorized under the plans were 4.7 million shares, of which 2.5 million shares were available for future grants.

The Company recognizes compensation expense, measured as the fair value of the share-based award on the date of grant, on a straight-line basis over the requisite service period. Share-based compensation is recorded in the statements of income as a component of salaries and benefits for employees and as a component of other noninterest expense for non-employee directors, with a corresponding increase to capital surplus in shareholders' equity. For the years ended December 31, 2013, 2012, and 2011, compensation expense and the related income tax benefit recognized for all share-based awards were as follows:

(dollars in thousands)	2013	2012	2011
Compensation Expense	\$ 5,546	\$ 7,537	\$ 6,216
Income Tax Benefit	2,188	2,972	2,668

### Stock Options

There were no stock options granted for the year ended December 31, 2013. All stock options granted were fully vested as of December 31, 2013. The Company reissues treasury stock to satisfy stock option exercises. The Company used the Black-Scholes option pricing model to estimate the fair value of stock options granted for the years ended December 2012 and 2011. The weighted average fair value of stock option grants and the assumptions that were used in calculating such fair values were based on estimates at the date of grant as follows:

	2012	2011
Weighted Average Fair Value of Stock Options		
Granted During the Year	\$ 9.81	\$ 10.47
Stock Options Granted During the Year	341,665	341,629
Assumptions:		
Average Risk-Free Interest Rate	1.13%	0.96%
Average Expected Volatility	33.14%	39.94%
Expected Dividend Yield	3.77%	3.87%
Expected Life	5.46 years	5.22 years

The following table presents the activity related to stock options under all plans for the year ended December 31, 2013.

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
<b>Stock Options Outstanding as of January 1, 2013</b>	1,085,941	\$ 44.17		
Exercised	(226,118)	37.01		
Expired	(14,276)	38.86		
<b>Stock Options Outstanding as of December 31, 2013</b>	<u>845,547</u>	46.18	6.2	\$ 10,958
<b>Stock Options Vested and Exercisable as of December 31, 2013</b>	<u>845,547</u>	46.18	6.2	10,958

The following summarizes certain stock option activity of the Company for the years ended December 31, 2013, 2012, and 2011:

(dollars in thousands)	2013	2012	2011
Intrinsic Value of Stock Options Exercised	\$ 3,262	\$ 3,907	\$ 3,790
Cash Received from Stock Options Exercised	8,369	7,500	6,044
Tax Benefits Realized from Stock Options Exercised	690	904	888
Total Fair Value of Stock Options that Vested	3,731	—	3,578

## Restricted Stock

As of December 31, 2013, unrecognized compensation cost related to unvested restricted stock was \$8.4 million. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.3 years.

The following table presents the activity for all restricted stock awards:

	Number of Shares	Weighted Average Grant Date Fair Value	Grant Date Fair Value of Restricted Stock that Vested During the Year (in thousands)
<b>Unvested as of December 31, 2010</b>	126,885	\$ 52.34	
Granted	20,831	47.58	
Vested	(65,226)	52.28	\$ 3,410
Forfeited	(1,648)	52.69	
<b>Unvested as of December 31, 2011</b>	80,842	\$ 52.15	
Granted	187,514	47.42	
Vested	(54,198)	51.01	\$ 2,764
Forfeited	(2,632)	48.86	
<b>Unvested as of December 31, 2012</b>	211,526	\$ 47.91	
Granted	170,991	47.69	
Vested	(133,245)	48.39	\$ 6,448
Forfeited	(9,497)	47.54	
<b>Unvested as of December 31, 2013</b>	239,775	\$ 47.50	

## Note 16. Income Taxes

### Provision for Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	2013	2012	2011
<b>Current:</b>			
Federal	\$ 60,011	\$ 80,224	\$ 60,371
State	(575)	10,106	3,995
Foreign	3,720	2,668	2,373
<b>Total Current</b>	<b>63,156</b>	<b>92,998</b>	<b>66,739</b>
<b>Deferred:</b>			
Federal	(231)	(13,104)	1,254
State	734	(3,680)	(1,056)
<b>Total Deferred</b>	<b>503</b>	<b>(16,784)</b>	<b>198</b>
<b>Provision for Income Taxes</b>	<b>\$ 63,659</b>	<b>\$ 76,214</b>	<b>\$ 66,937</b>

The tax effects of fair value adjustments on available-for-sale investment securities, the amortization of gains related to held-to-maturity investment securities, the minimum pension liability adjustment, and tax benefits related to stock options are recorded directly to consolidated shareholders' equity. The net tax benefit recorded directly to consolidated shareholders' equity was \$40.6 million and \$4.7 million for the years ended December 31, 2013 and 2012, respectively. The net tax charge recorded directly to consolidated shareholders' equity was \$4.6 million for the year ended December 31, 2011.

*Deferred Tax Liabilities and Assets*

As of December 31, 2013 and 2012, significant components of the Company's deferred tax liabilities and assets were as follows:

(dollars in thousands)	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Deferred Tax Liabilities:</b>		
Accrued Pension Cost	\$ (14,381)	\$ (14,616)
Federal Home Loan Bank Stock	(8,949)	(9,582)
Lease Transactions	(105,761)	(115,699)
Energy Tax Credits	(3,805)	—
Net Unrealized Gains on Investments Securities	—	(38,868)
Deferred Loan Fees	(6,394)	(4,478)
Originated Mortgage Servicing Rights	(11,218)	(10,872)
Other	(552)	(502)
<b>Gross Deferred Tax Liabilities</b>	<b>(151,060)</b>	<b>(194,617)</b>
<b>Deferred Tax Assets:</b>		
Accelerated Depreciation	10,195	10,097
Allowance for Loan Losses	46,635	47,808
Net Unrealized Losses on Investments Securities	6,154	—
Minimum Pension Liability	14,583	19,906
Accrued Expenses	15,449	14,499
Postretirement Benefit Obligations	12,741	12,580
Capital Lease Expenses	3,200	3,146
Restricted Stock	4,187	4,591
Investment in Unincorporated Entities	4,218	7,304
Deductible State and Local Taxes	7,575	10,284
Other	6,778	6,338
<b>Gross Deferred Tax Assets Before Valuation Allowance</b>	<b>131,715</b>	<b>136,553</b>
<b>Valuation Allowance</b>	<b>(4,162)</b>	<b>(5,133)</b>
<b>Gross Deferred Tax Assets After Valuation Allowance</b>	<b>127,553</b>	<b>131,420</b>
<b>Net Deferred Tax Liabilities</b>	<b>\$ (23,507)</b>	<b>\$ (63,197)</b>

Both positive and negative evidence was considered by management in determining the need for a valuation allowance. Negative evidence included the uncertainty regarding the generation of capital gains in future years and restrictions on the ability to sell low-income housing investments during periods when carrybacks of capital losses are allowed. Positive evidence included capital gains in the current year and carryback years. After considering all available evidence, management determined that a valuation allowance to offset deferred tax assets related to low-income housing investments that can only be used to offset capital gains was appropriate. Management determined that a valuation allowance was not required for the remaining deferred tax assets because it is more likely than not these assets will be realized through future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences, and taxable income in prior carryback years.

Certain events covered by Internal Revenue Code Section 593(e) will trigger a recapture of base year reserves of acquired thrift institutions. The base year reserves of acquired thrift institutions would be recaptured if an entity ceases to qualify as a bank for federal income tax purposes. The base year reserves of thrift institutions also remain subject to income tax penalty provisions that, in general, require recapture upon certain stock redemptions of, and excess distributions to, shareholders. As of December 31, 2013, retained earnings included approximately \$18.2 million of base year reserves for which the deferred federal income tax liability of \$7.2 million has not been recognized.

### Effective Tax Rate

The following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2013, 2012, and 2011:

	2013	2012	2011
Statutory Federal Income Tax Rate	35.00%	35.00%	35.00%
Increase (Decrease) in Income Tax Rate Resulting From:			
State Taxes, Net of Federal Income Tax	0.11	1.90	0.71
Tax Reserve Adjustments	(0.44)	0.44	(2.21)
Leveraged Leases	0.02	(1.44)	0.05
Low-Income Housing Investments	(0.51)	0.16	(1.55)
Bank-Owned Life Insurance	(0.96)	(0.98)	(0.97)
Tax-Exempt Income	(2.78)	(2.31)	(0.57)
Other	(0.71)	(1.31)	(0.97)
<b>Effective Tax Rate</b>	<b>29.73%</b>	<b>31.46%</b>	<b>29.49%</b>

### Unrecognized Tax Benefits

The Company is 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 the Company determines that a tax position has a less than 50% likelihood of being accepted by the taxing authority. The following presents a reconciliation of the Company's liability for UTBs for the years ended December 31, 2013, 2012, and 2011:

(dollars in thousands)	2013	2012	2011
<b>Unrecognized Tax Benefits at Beginning of Year</b>	\$ 15,433	\$ 13,633	\$ 22,980
Gross Increases, Related to Tax Positions Taken in a Prior Period	1,587	280	725
Gross Decreases, Related to Tax Positions Taken in a Prior Period	(194)	—	—
Gross Increases, Related to Current Period Tax Positions	1,557	1,888	—
Settlement with Taxing Authority	—	(40)	(1,889)
Lapse of Statute of Limitations	(6,537)	(328)	(8,183)
<b>Unrecognized Tax Benefits at End of Year</b>	<b>\$ 11,846</b>	<b>\$ 15,433</b>	<b>\$ 13,633</b>

As of December 31, 2013 and 2012, \$10.8 million and \$14.2 million, respectively, in liabilities for UTBs was related to UTBs that if reversed would have an impact on the Company's effective tax rate.

Management believes that it is reasonably possible that the Company's liability for UTBs could significantly decrease as a result of the expiration of statutes of limitations and potential settlements with taxing authorities within the next 12 months. However, management is currently not able to estimate a range of possible change in the amount of the liability for UTBs recorded as of December 31, 2013.

The Company classifies interest and penalties, if any, related to the liability for UTBs as a component of the provision for income taxes. For the years ended December 31, 2013, 2012, and 2011, the Company recorded a net tax benefit of \$1.2 million, a net tax provision of \$0.5 million, and a net tax benefit of \$2.6 million, respectively, for interest and penalties. As of December 31, 2013 and 2012, the Company had accrued \$1.9 million and \$3.1 million, respectively, for the payment of possible interest and penalties.

The Company's federal income tax return for 2011 is currently under examination by the IRS. During the year ended December 31, 2013, the State of Hawaii concluded its examination of state income tax returns filed for 2003 through 2011. The Company's State of Hawaii income tax returns for 2010 through 2012 remain subject to examination by the taxing authorities.

## Note 17. Derivative Financial Instruments

The notional amount and fair value of the Company's derivative financial instruments as of December 31, 2013 and 2012 were as follows:

(dollars in thousands)	December 31, 2013		December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	\$ 30,226	\$ 536	\$ 243,094	\$ 10,188
Forward Commitments	30,798	211	194,658	(140)
Interest Rate Swap Agreements				
Receive Fixed/Pay Variable Swaps	202,838	20,542	236,803	32,193
Pay Fixed/Receive Variable Swaps	202,838	(20,699)	236,803	(32,441)
Foreign Exchange Contracts				
Buy	25,722	(897)	22,318	(845)
Sell	8,177	125	8,211	29

The following table presents the Company's derivative financial instruments, their fair values, and balance sheet location as of December 31, 2013 and 2012:

Derivative Financial Instruments Not Designated as Hedging Instruments <sup>1</sup> (dollars in thousands)	December 31, 2013		December 31, 2012	
	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Interest Rate Lock Commitments	\$ 574	\$ 38	\$ 10,188	\$ —
Forward Commitments	215	4	189	329
Interest Rate Swap Agreements	20,852	21,009	32,193	32,441
Foreign Exchange Contracts	128	900	40	856
<b>Total</b>	<b>\$ 21,769</b>	<b>\$ 21,951</b>	<b>\$ 42,610</b>	<b>\$ 33,626</b>

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

The following table presents the Company's derivative financial instruments and the amount and location of the net gains or losses recognized in the consolidated statements of income for the years ended December 31, 2013, 2012, and 2011:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses) Recognized in the Statements of Income	Year Ended December 31,		
		2013	2012	2011
Interest Rate Lock Commitments	Mortgage Banking	\$ 6,092	\$ 37,490	\$ 14,091
Forward Commitments	Mortgage Banking	8,085	(1,959)	(4,735)
Interest Rate Swap Agreements	Other Noninterest Income	292	33	309
Foreign Exchange Contracts	Other Noninterest Income	3,182	3,237	3,120
<b>Total</b>		<b>\$ 17,651</b>	<b>\$ 38,801</b>	<b>\$ 12,785</b>

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

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

As of December 31, 2013 and 2012, the Company did not designate any derivative financial instruments as formal hedging relationships. The Company's free-standing derivative financial instruments are required to be carried at fair value on the

Company's consolidated statements of condition. These financial instruments have been limited to interest rate lock commitments ("IRLCs"), forward commitments, interest rate swap agreements, and foreign exchange contracts.

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

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. Fair value changes are recorded in other noninterest income in the Company's consolidated statements of income. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. See Note 18 to the Consolidated Financial Statements for more information.

The Company's interest rate swap agreements with institutional counterparties contain credit-risk-related contingent features tied to the Company's debt ratings or capitalization levels. Under these provisions, if the Company's debt rating falls below investment grade or if the Company's capitalization levels fall below stipulated thresholds, certain counterparties may require immediate and ongoing collateralization on interest rate swaps in net liability positions, or may require immediate settlement of the contracts. As of December 31, 2013, the Company's debt ratings and capital levels were in excess of these minimum requirements.

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

#### **Note 18. Balance Sheet Offsetting**

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

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling \$20.7 million and \$32.4 million as of December 31, 2013 and December 31, 2012, respectively. The fair value of collateral posted by the Company for these net liability positions is shown in the table below. See Note 17 to the Consolidated Financial Statements for more information.

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

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent

repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. As a result, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement.

The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of December 31, 2013 and 2012. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table.

	(i)		(ii)		(iii) = (i)-(ii)		(iv)		(v) = (iii)-(iv)	
	Gross Amounts Recognized in the Statements of Condition		Gross Amounts Offset in the Statements of Condition		Net Amounts Presented in the Statements of Condition		Gross Amounts Not Offset in the Statements of Condition		Net Amount	
							Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged <sup>1</sup>		
<b>(dollars in thousands)</b>										
<b>December 31, 2013</b>										
<b>Assets:</b>										
Interest Rate Swap Agreements:										
Institutional Counterparties	\$	155	\$	—	\$	155	\$	155	\$	—
<b>Liabilities:</b>										
Interest Rate Swap Agreements:										
Institutional Counterparties		20,853		—		20,853		155		18,410
Repurchase Agreements:										
Private Institutions		600,000		—		600,000		600,000		—
Government Entities		170,049		—		170,049		170,049		—
	\$	770,049	\$	—	\$	770,049	\$	—	\$	770,049
<b>December 31, 2012</b>										
<b>Liabilities:</b>										
Interest Rate Swap Agreements:										
Institutional Counterparties	\$	32,441	\$	—	\$	32,441	\$	—	\$	3,299
Repurchase Agreements:										
Private Institutions		600,000		—		600,000		600,000		—
Government Entities		158,947		—		158,947		158,947		—
	\$	758,947	\$	—	\$	758,947	\$	—	\$	758,947

<sup>1</sup> The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For repurchase agreements with private institutions, the fair value of securities pledged was \$0.7 billion and \$0.8 billion as of December 31, 2013 and 2012, respectively. For repurchase agreements with government entities, the investment securities pledged to each government entity collectively secure both deposits as well as repurchase agreements. The Company had government entity deposits totaling \$1.2 billion and \$1.4 billion as of December 31, 2013 and 2012, respectively. The investment securities pledged as of December 31, 2013 and 2012 had a fair value of \$1.8 billion and \$2.2 billion, respectively.

## Note 19. Commitments, Contingencies, and Guarantees

The Company's credit commitments as of December 31, 2013 were as follows:

(dollars in thousands)	December 31, 2013
Unfunded Commitments to Extend Credit	\$ 2,314,892
Standby Letters of Credit	58,207
Commercial Letters of Credit	16,387
<b>Total</b>	<b>\$ 2,389,486</b>

### *Unfunded Commitments to Extend Credit*

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

### *Standby and Commercial Letters of Credit*

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Company. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit, and holds cash and deposits as collateral on those standby letters of credit for which collateral is deemed necessary. Assets valued at \$25.7 million secured certain specifically identified standby letters of credit as of December 31, 2013. As of December 31, 2013, the standby and commercial letters of credit had remaining terms ranging from 1 to 13 months.

### *Lease Commitments*

A portion of the Company's headquarters' building is leased with a lease term through 2052. The Company leases certain other branch premises and equipment with lease terms extending through 2048. Most of the leases for premises provide for a base rent over a specified period with renewal options thereafter. Portions of certain properties are subleased for periods expiring in various years through 2022. Lease terms generally specify that the Company is to pay for taxes, maintenance, and other operating costs. Rental expense for all operating leases for the years ended December 31, 2013, 2012, and 2011 were as follows:

(dollars in thousands)	2013	2012	2011
Minimum Rentals	\$ 19,258	\$ 20,429	\$ 20,427
Sublease Rental Income	(6,806)	(5,540)	(5,463)
<b>Total</b>	<b>\$ 12,452</b>	<b>\$ 14,889</b>	<b>\$ 14,964</b>

Future minimum payments for capital leases and non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following as of December 31, 2013:

(dollars in thousands)	Capital Leases	Operating Leases
2014	\$ 665	\$ 14,199
2015	665	12,172
2016	665	11,266
2017	665	9,275
2018	665	8,037
Thereafter	22,594	124,968
<b>Total Future Minimum Lease Payments</b>	<b>25,919</b>	<b>\$ 179,917</b>
Amounts Representing Interest	(17,090)	
<b>Present Value of Net Future Minimum Lease Payments</b>	<b>\$ 8,829</b>	

Minimum future rental income receivable under non-cancelable subleases was \$16.5 million as of December 31, 2013.

### *Contingencies*

The Company, along with other members of Visa are parties to Loss and Judgment Sharing Agreements (the "Agreements"), which provide that the Company along with other member banks of Visa, will share, based on its proportionate interest in Visa, in any losses from certain litigation specified in the Agreements. In March 2008, Visa funded an escrow account from its initial public offering to settle claims covered under the Agreements. In connection with the initial public offering, the Company received restricted Class B common stock in Visa. Should the escrow account established by Visa not be sufficient to cover litigation claims specified in the Agreements, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of December 31, 2013, management believes that the Company's indemnification of Visa, related to the costs of these lawsuits, will be sufficiently funded from the escrow account or through future reductions in the conversion ratio.

In addition to the litigation noted above, the Company is subject to various other pending and threatened legal proceedings arising out of the normal course of business or operations. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the most recent information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. Based on information currently available, management believes that the eventual outcome of these other actions against the Company will not be materially in excess of such amounts accrued by the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may be material to the Company's statement of income for any particular period.

### *Risks Related to Representation and Warranty Provisions*

The Company sells residential mortgage loans in the secondary market primarily to Fannie Mae. The Company also pools Federal Housing Administration ("FHA") insured and U.S. Department of Veterans Affairs ("VA") guaranteed residential mortgage loans for sale to Ginnie Mae. These pools of FHA-insured and VA-guaranteed residential mortgage loans are securitized by Ginnie Mae. The agreements under which the Company sells residential mortgage loans to Fannie Mae or Ginnie Mae and the insurance or guaranty agreements with FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, and other matters. As of December 31, 2013, the unpaid principal balance of the Company's portfolio of residential mortgage loans sold was \$3.0 billion. The agreements under which the Company sells residential mortgage loans require delivery of various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, the Company may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred where required documents are not delivered or are defective. Investors may require the immediate repurchase of a mortgage loan when an underwriting review reveals significant underwriting deficiencies, even if the mortgage loan has subsequently been brought current. Upon receipt of a repurchase request, the Company works with investors or insurers to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor or insurer and to determine if a contractually required repurchase event has occurred. The Company manages the risk associated with potential repurchases or other forms of settlement through careful underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. For the year ended December 31, 2013, the Company repurchased ten residential mortgage loans with an unpaid principal balance totaling \$3.7 million as a result of the representation and warranty provisions contained in these contracts. Six of these loans were delinquent as to principal and interest at the time of repurchase, however, no losses were incurred related to these repurchases. For the year ended December 31, 2013, the Company incurred loan loss reimbursements on four loans totaling \$0.7 million. As of December 31, 2013, there were no pending repurchase requests related to representation and warranty provisions.

### *Risks Relating to Residential Mortgage Loan Servicing Activities*

In addition to servicing loans in the Company's portfolio, substantially all of the loans the Company sells to investors are sold with servicing rights retained. The loans that the Company services were originated either by the Company or by other mortgage loan originators. As servicer, the Company's primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and

administer escrow payments; and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales. Each agreement under which the Company acts as servicer generally specifies a standard of responsibility for actions taken by the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective servicing agreements. However, if the Company commits a material breach of obligations as servicer, the Company may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards vary by investor. These standards and remedies are determined by servicing guides issued by the investors as well as the contract provisions established between the investors and the Company. Remedies could include repurchase of an affected loan. For the year ended December 31, 2013, the Company had no repurchase requests related to loan servicing activities, nor was there any pending repurchase requests as of December 31, 2013.

Although to date repurchase requests related to representation and warranty provisions, and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of December 31, 2013, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of December 31, 2013, 99% of the Company's residential mortgage loans serviced for investors were current. The Company maintains ongoing communications with investors and continues to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in the Company's investor portfolios.

## **Note 20. Fair Value of Assets and Liabilities**

The following is a description of the valuation methodologies and key inputs used to measure assets and liabilities recorded at fair value on a recurring basis.

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

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

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

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. As of December 31, 2013 and 2012, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company's third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

### *Loans Held for Sale*

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

### *Mortgage Servicing Rights*

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

### *Other Assets*

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

### *Derivative Financial Instruments*

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

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012:

(dollars in thousands)	Quoted Prices In Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>December 31, 2013</b>				
<b>Assets:</b>				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 70,693	\$ 326,586	\$ —	\$ 397,279
Debt Securities Issued by States and Political Subdivisions	—	686,802	—	686,802
Debt Securities Issued by Corporations	—	273,501	—	273,501
Mortgage-Backed Securities Issued by				
Residential - Government Agencies	—	653,194	—	653,194
Residential - U.S. Government Sponsored Enterprises	—	23,268	—	23,268
Commercial - Government Agencies	—	209,653	—	209,653
Total Mortgage-Backed Securities	—	886,115	—	886,115
Total Investment Securities Available-for-Sale	70,693	2,173,004	—	2,243,697
Loans Held for Sale	—	6,435	—	6,435
Mortgage Servicing Rights	—	—	3,826	3,826
Other Assets	15,535	—	—	15,535
Derivatives <sup>1</sup>	—	343	21,426	21,769
<b>Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2013</b>	<b>\$ 86,228</b>	<b>\$ 2,179,782</b>	<b>\$ 25,252</b>	<b>\$ 2,291,262</b>
<b>Liabilities:</b>				
Derivatives <sup>1</sup>	\$ —	\$ 904	\$ 21,047	\$ 21,951
<b>Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2013</b>	<b>\$ —</b>	<b>\$ 904</b>	<b>\$ 21,047</b>	<b>\$ 21,951</b>
<b>December 31, 2012</b>				
<b>Assets:</b>				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 470,535	\$ 399,454	\$ —	\$ 869,989
Debt Securities Issued by States and Political Subdivisions	—	782,411	—	782,411
Debt Securities Issued by Corporations	—	84,434	—	84,434
Mortgage-Backed Securities Issued by				
Residential - Government Agencies	—	1,068,660	—	1,068,660
Residential - U.S. Government Sponsored Enterprises	—	37,298	—	37,298
Commercial - Government Agencies	—	524,765	—	524,765
Total Mortgage-Backed Securities	—	1,630,723	—	1,630,723
Total Investment Securities Available-for-Sale	470,535	2,897,022	—	3,367,557
Loans Held for Sale	—	21,374	—	21,374
Mortgage Servicing Rights	—	—	4,761	4,761
Other Assets	12,566	—	—	12,566
Derivatives <sup>1</sup>	—	229	42,381	42,610
<b>Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2012</b>	<b>\$ 483,101</b>	<b>\$ 2,918,625</b>	<b>\$ 47,142</b>	<b>\$ 3,448,868</b>
<b>Liabilities:</b>				
Derivatives <sup>1</sup>	\$ —	\$ 1,185	\$ 32,441	\$ 33,626
<b>Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2012</b>	<b>\$ —</b>	<b>\$ 1,185</b>	<b>\$ 32,441</b>	<b>\$ 33,626</b>

<sup>1</sup> The fair value of each class of derivatives is shown in Note 17 to the Consolidated Financial Statements.

For the years ended December 31, 2013 and 2012, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)	Mortgage Servicing Rights <sup>1</sup>	Net Derivative Assets and Liabilities <sup>2</sup>	Total
<b>Year Ended December 31, 2013</b>			
<b>Balance as of January 1, 2013</b>	\$ 4,761	\$ 9,940	\$ 14,701
Realized and Unrealized Net Gains:			
Included in Net Income	(935)	6,184	5,249
Transfers to Loans Held for Sale	—	(15,745)	(15,745)
<b>Balance as of December 31, 2013</b>	<b>\$ 3,826</b>	<b>\$ 379</b>	<b>\$ 4,205</b>
<b>Total Unrealized Net Gains Included in Net Income Related to Assets Still Held as of December 31, 2013</b>	<b>\$ 127</b>	<b>\$ 379</b>	<b>\$ 506</b>
<b>Year Ended December 31, 2012</b>			
<b>Balance as of January 1, 2012</b>	\$ 7,131	\$ 2,058	\$ 9,189
Realized and Unrealized Net Gains (Losses):			
Included in Net Income	(2,370)	37,518	35,148
Transfers to Loans Held for Sale	—	(29,636)	(29,636)
<b>Balance as of December 31, 2012</b>	<b>\$ 4,761</b>	<b>\$ 9,940</b>	<b>\$ 14,701</b>
<b>Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of December 31, 2012</b>	<b>\$ (863)</b>	<b>\$ 9,940</b>	<b>\$ 9,077</b>

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

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

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2013 and 2012, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Valuation Technique	Description	Significant Unobservable Inputs (weighted-average)		Fair Value	
			December 31,		December 31,	
			2013	2012	2013	2012
Mortgage Servicing Rights	Discounted Cash Flow	Constant Prepayment Rate <sup>1</sup>	7.98%	12.26%	\$ 33,926	\$ 27,904
		Discount Rate <sup>2</sup>	9.70%	5.57%		
Net Derivative Assets and Liabilities:						
Interest Rate Lock Commitments	Pricing Model	Closing Ratio	93.76%	88.86%	\$ 536	\$ 10,188
Interest Rate Swap Agreements	Discounted Cash Flow	Credit Factor	0.74%	0.77%	\$ (157)	\$ (248)

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

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

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

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

Company's Asset/Liability Management Committee is responsible for providing oversight over the valuation methodology and key assumptions.

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

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

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

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets. For the year ended December 31, 2013, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis. For the year ended December 31, 2012, the Company recorded a \$1.1 million impairment charge to fully write-down the net book value of leasehold improvements and other fixed assets related to planned branch closures.

#### ***Fair Value Option***

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

The following table reflects the difference between the aggregate fair value and the aggregate unpaid principal balance of the Company's residential mortgage loans held for sale as of December 31, 2013 and 2012.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
<b>December 31, 2013</b>			
Loans Held for Sale	\$ 6,435	\$ 6,284	\$ 151
<b>December 31, 2012</b>			
Loans Held for Sale	\$ 21,374	\$ 20,492	\$ 882

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company's consolidated statements of income. For the years ended December 31, 2013 and 2012, the net gains or losses were not material as a result of the change in fair value of the Company's residential mortgage loans held for sale.

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

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

#### *Investment Securities Held-to-Maturity*

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

#### *Loans*

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

#### *Time Deposits*

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

#### *Securities Sold Under Agreements to Repurchase*

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

#### *Long-Term Debt*

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

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2013 and 2012. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2013</b>					
Financial Instruments – Assets					
Investment Securities Held-to-Maturity	\$ 4,744,519	\$ 4,697,587	\$ 433,365	\$ 4,264,222	\$ —
Loans <sup>1</sup>	5,707,133	6,062,147	—	—	6,062,147
Financial Instruments – Liabilities					
Time Deposits	1,317,770	1,322,967	—	1,322,967	—
Securities Sold Under Agreements to Repurchase	770,049	846,193	—	846,193	—
Long-Term Debt <sup>2</sup>	165,877	167,049	—	167,049	—
<b>December 31, 2012</b>					
Financial Instruments – Assets					
Investment Securities Held-to-Maturity	\$ 3,595,065	\$ 3,687,676	\$ 195,366	\$ 3,492,310	\$ —
Loans <sup>1</sup>	5,451,935	5,846,906	—	—	5,846,906
Financial Instruments – Liabilities					
Time Deposits	1,599,508	1,609,506	—	1,609,506	—
Securities Sold Under Agreements to Repurchase	758,947	868,199	—	868,199	—
Long-Term Debt <sup>2</sup>	119,185	121,906	—	121,906	—

<sup>1</sup> Net of unearned income and the allowance for loan losses.

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

## Note 21. Bank of Hawaii Corporation Financial Statements

Condensed financial statements of the Parent were as follows:

### Condensed Statements of Comprehensive Income

(dollars in thousands)	Year Ended December 31,		
	2013	2012	2011
Income			
Dividends and Interest from Bank of Hawaii	\$ 133,000	\$ 117,050	\$ 148,356
Other Income	727	570	496
<b>Total Income</b>	<b>133,727</b>	<b>117,620</b>	<b>148,852</b>
Noninterest Expense			
Intercompany Salaries and Services	852	858	867
Other Expenses	2,942	1,795	1,349
<b>Total Noninterest Expense</b>	<b>3,794</b>	<b>2,653</b>	<b>2,216</b>
Income Before Income Tax Benefit and Equity in Undistributed Income of Subsidiaries	129,933	114,967	146,636
Income Tax Benefit	2,211	1,848	1,855
Equity in Undistributed Income of Subsidiaries	18,358	49,261	11,552
<b>Net Income</b>	<b>\$ 150,502</b>	<b>\$ 166,076</b>	<b>\$ 160,043</b>
<b>Comprehensive Income</b>	<b>\$ 89,471</b>	<b>\$ 160,021</b>	<b>\$ 168,341</b>

### Condensed Statements of Condition

(dollars in thousands)	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash with Bank of Hawaii	\$ 64,657	\$ 35,611
Goodwill	14,129	14,129
Income Taxes Receivable and Deferred Tax Assets	2,200	1,381
Other Assets	7,938	7,634
Equity in Net Assets of Subsidiaries	942,157	979,002
<b>Total Assets</b>	<b>\$ 1,031,081</b>	<b>\$ 1,037,757</b>
<b>Liabilities</b>		
Income Taxes Payable	\$ 6,359	\$ 6,320
Other Liabilities	12,746	9,772
<b>Total Liabilities</b>	<b>19,105</b>	<b>16,092</b>
<b>Shareholders' Equity</b>	<b>1,011,976</b>	<b>1,021,665</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,031,081</b>	<b>\$ 1,037,757</b>

## Condensed Statements of Cash Flows

(dollars in thousands)	Year Ended December 31,		
	2013	2012	2011
<b>Operating Activities</b>			
Net Income	\$ 150,502	\$ 166,076	\$ 160,043
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Share-Based Compensation	616	576	(352)
Equity in Undistributed Income of Subsidiaries	(18,358)	(49,261)	(11,552)
Net Change in Other Assets and Other Liabilities	1,980	(493)	1,709
<b>Net Cash Provided by Operating Activities</b>	<b>134,740</b>	<b>116,898</b>	<b>149,848</b>
<b>Financing Activities</b>			
Tax Benefits from Share-Based Compensation	—	—	889
Proceeds from Issuance of Common Stock	14,495	13,730	12,660
Repurchase of Common Stock	(39,655)	(81,444)	(111,544)
Cash Dividends Paid	(80,534)	(81,645)	(84,891)
<b>Net Cash Used in Financing Activities</b>	<b>(105,694)</b>	<b>(149,359)</b>	<b>(182,886)</b>
Net Change in Cash and Cash Equivalents	29,046	(32,461)	(33,038)
Cash and Cash Equivalents at Beginning of Period	35,611	68,072	101,110
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 64,657</b>	<b>\$ 35,611</b>	<b>\$ 68,072</b>

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### *Disclosure Controls and Procedures*

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2013. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

#### *Management's Annual Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2013. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this assessment, the Chief Executive Officer and Chief Financial Officer assert that the Company maintained effective internal control over financial reporting as of December 31, 2013 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP's attestation report on the Company's internal control over financial reporting appears on the following page and is incorporated by reference herein.

#### *Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2013 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of  
Bank of Hawaii Corporation

We have audited Bank of Hawaii Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework, the "COSO criteria"). Bank of Hawaii Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Bank of Hawaii Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of Bank of Hawaii Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 of Bank of Hawaii Corporation and subsidiaries and our report dated February 25, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii  
February 25, 2014

## **Item 9B. Other Information**

None.

## **Part III**

Except as otherwise indicated, the following information required by the Instructions to Form 10-K is incorporated herein by reference from various sections of the Bank of Hawaii Corporation Proxy Statement for the 2014 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year.

### **Item 10. Directors, Executive Officers and Corporate Governance**

"Board of Directors"; "Section 16(a) Beneficial Ownership Reporting Compliance"; and "Audit and Risk Committee Report."

Information regarding the executive officers of the Parent is incorporated by reference from "Executive Officers of the Registrant" in Part I, Item 1 of this report.

The Parent's Board of Directors has determined that Robert Huret, Mark A. Burak and Raymond P. Vara, Jr., members of the Parent's Audit and Risk Committee, are audit committee financial experts within the meaning of Item 407(d)(5) of Regulation S-K. These audit committee financial experts are independent within the meaning of Section 10A(m)(3) of the Exchange Act and the rules of the New York Stock Exchange.

The Company has adopted a written code of ethics within the meaning of Item 406 of Regulation S-K that applies to the Parent's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. A copy of the Code of Ethics for Senior Financial Officers is available on the Company's website, [www.boh.com](http://www.boh.com). The Company intends to provide disclosure of any change to, or waiver from, the Company's Code of Ethics for Senior Financial Officers via its website.

### **Item 11. Executive Compensation**

"Executive Compensation - Compensation Discussion and Analysis"; "Summary Compensation Table"; "Grants of Plan-Based Awards in 2013"; "Outstanding Equity Awards at Fiscal Year-End"; "Option Exercises and Stock Vested in 2013"; "Pension Benefits"; "Nonqualified Deferred Compensation"; "Change in Control, Termination, and Other Arrangements"; "Director Compensation"; "Director Compensation Table"; "Corporate Governance – Human Resources and Compensation Committee Interlocks and Insider Participation"; and "Compensation Committee Report."

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

"Equity Compensation Plan Information" and "Beneficial Ownership."

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

"Certain Relationships and Related Transactions" and "Corporate Governance – Director Independence."

### **Item 14. Principal Accounting Fees and Services**

"Ernst & Young LLP Fees" and "Audit and Risk Committee Pre-Approval Policies and Procedures."

## Part IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a) Financial Statements and Schedules

The following Consolidated Financial Statements of Bank of Hawaii Corporation and Subsidiaries are included in Item 8 of this report:

Consolidated Statements of Income – Years ended December 31, 2013, 2012, and 2011

Consolidated Statements of Comprehensive Income – Years ended December 31, 2013, 2012, and 2011

Consolidated Statements of Condition – December 31, 2013 and 2012

Consolidated Statements of Shareholders' Equity – Years ended December 31, 2013, 2012, and 2011

Consolidated Statements of Cash Flows – Years ended December 31, 2013, 2012, and 2011

Notes to Consolidated Financial Statements

All other schedules to the Consolidated Financial Statements stipulated by Article 9 of Regulation S-X and all other schedules to the financial statements of the registrant required by Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and, therefore, have been omitted.

## Exhibit Table

<u>Exhibit Number</u>	
3.1	Certificate of Incorporation of Bank of Hawaii Corporation (f/k/a Pacific Century Financial Corporation and Bancorp Hawaii, Inc.), as amended (incorporated by reference from Exhibit 3.1 to Bank of Hawaii Corporation's Annual Report on Form 10-K for its fiscal year ended December 31, 2005, as filed on February 28, 2006 (the "2005 10-K")).
3.2	Certificate of Amendment of Certificate of Incorporation of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.1 to Bank of Hawaii Corporation's Current Report on Form 8-K filed on April 30, 2008 (the "April 30, 2008 8-K")).
3.3	Amended and Restated By-Laws of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.2 to the April 30, 2008 8-K).
3.4	Amended and Restated By-Laws of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.2 to Bank of Hawaii Corporation's Current Report on Form 8-K filed on November 19, 2013).
4.1	Instruments defining the rights of holders of long-term debt of Bank of Hawaii Corporation and its consolidated subsidiaries are not filed as exhibits because the amount of debt authorized under any such instruments does not exceed 10% of the total assets of Bank of Hawaii Corporation and its consolidated subsidiaries. Bank of Hawaii Corporation agrees to furnish a copy of any such instrument to the Commission upon request.
10.1	Bank of Hawaii Corporation's Executive Incentive Plan, as amended (incorporated by reference from Exhibit 10.2 to the 2005 10-K).*
10.2	Bank of Hawaii Corporation's Executive Base Salary Deferral Plan (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii Corporation's Current Report on Form 8-K filed on December 22, 2005).*
10.3	Bank of Hawaii Corporation's Directors' Deferred Compensation Plan, as amended (incorporated by reference from Exhibit 10.7 to the 2005 10-K).*
10.4	Bank of Hawaii Corporation's Director Stock Compensation Program, as amended (incorporated by reference from Exhibit 10.8 to the 2005 10-K).*
10.5	Bank of Hawaii Corporation's Amended and Restated Director Stock Compensation Plan (incorporated by reference from Appendix B to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2005 Annual Meeting of Shareholders filed on March 17, 2005).*
10.6	Bank of Hawaii Corporation's Stock Option Plan of 1994, as amended (incorporated by reference from Exhibit 10.12 to the 2005 10-K).*
10.7	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan (incorporated by reference from Appendix C to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2004 Annual Meeting of Shareholders, as filed on March 18, 2004).*
10.8	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan — Form of Stock Option Agreement (incorporated by reference from Exhibit 10.14 to the 2005 10-K).*
10.9	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan — Form of Service-Based Restricted Share Agreement (incorporated by reference from Exhibit 10.15 to the 2005 10-K).*
10.10	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan — Form of Performance-Based Restricted Share Agreement (incorporated by reference from Exhibit 10.16 to the 2005 10-K).*
10.11	Amendment 2007-1 to the Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan (incorporated by reference from Exhibit 10.13 to the Bank of Hawaii Corporation's Annual Report on Form 10-K, as filed on February 25, 2008 (the "2007 10-K")).*
10.12	Amendment 2007-1 to the Bank of Hawaii Corporation Executive Incentive Plan (incorporated by reference from Exhibit 10.16 to the 2007 10-K).*
10.13	Board Resolution for Amendment to the Restricted Stock and Option Awards under the Bank of Hawaii Corporation's Amended and Restated Director Stock Compensation Plan (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 28, 2008).*
10.14	Bank of Hawaii Corporation's Amended and Restated Change-In-Control Retention Plan, (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on December 18, 2009).*
10.15	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan –Restricted Stock Grant Agreement – Ho - (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on April 28, 2010).*
10.16	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Form of Restricted Stock Grant Agreement – Lucien, Rossi & Sellers (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on April 28, 2010).*

- 10.17 Agreement with Kent T. Lucien (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 6, 2010).\*
- 10.18 Amendment 2010-1 to the Bank of Hawaii Corporation Executive Incentive Plan (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 26, 2010).\*
- 10.19 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Form of 2011 Restricted Stock Grant Agreement – Ho, Rossi & Sellers (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on December 20, 2010).\*
- 10.20 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Form of 2011 Restricted Stock Grant Agreement – Lucien (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on December 20, 2010).\*
- 10.21 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Share Appreciation Program (incorporated by reference from Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on March 29, 2011).\*
- 10.22 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan –Share Appreciation Replacement Program (incorporated by reference from Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on November 22, 2011).\*
- 10.23 Amendment to Agreement with Kent T. Lucien (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).\*
- 10.24 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2012 Restricted Stock Grant Agreement (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).\*
- 10.25 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2012 Restricted Stock In Lieu Of Base Salary Grant Agreement (incorporated by reference from Exhibit 10.3 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).\*
- 10.26 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Form of 2012 Nonqualified Stock Option Grant Agreement (incorporated by reference from Exhibit 10.4 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).\*
- 10.27 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2013 Restricted Stock Grant Agreement (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 30, 2013).\*
- 10.28 Amended and Restated Agreement with Kent T Lucien (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 2, 2013).\*
- 10.29 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock and Restricted Stock Unit Grant Agreement - Ho, Biggs & Sellers (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).\*
- 10.30 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock and Restricted Stock Unit Grant Agreement - Lucien & Rossi (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).\*
- 10.31 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock and Restricted Stock Unit Grant Agreement - Ho, Biggs & Sellers (incorporated by reference from Exhibit 10.3 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).\*
- 10.32 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock and Restricted Stock Unit Grant Agreement - Lucien & Rossi (incorporated by reference from Exhibit 10.4 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).\*
- 10.33 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of Special Incentive Agreement - Rossi & Sellers (incorporated by reference from Exhibit 10.5 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).\*
- 10.34 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock Grant Agreement - Biggs - (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K as filed on January 29, 2014).\*
- 10.35 Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of Restricted Stock Units Grant Agreement - Biggs - (incorporated by reference from Exhibit 10.4 to Bank of Hawaii Corporation's Current Report on Form 8-K as filed on January 29, 2014).\*
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification on Chief Executive Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934.

- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data File.
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\* Management contract or compensatory plan or arrangement.

### Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 25, 2014

Bank of Hawaii Corporation

By: /s/ Peter S. Ho

\_\_\_\_\_  
Peter S. Ho  
Chairman of the Board,  
Chief Executive Officer, and  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2014

/s/ Peter S. Ho

\_\_\_\_\_  
Peter S. Ho  
Chairman of the Board,  
Chief Executive Officer, and  
President

/s/ S. Haunani Apoliona

\_\_\_\_\_  
S. Haunani Apoliona, Director

/s/ Mary G. F. Bitterman

\_\_\_\_\_  
Mary G. F. Bitterman, Director

/s/ Mark A. Burak

\_\_\_\_\_  
Mark A. Burak, Director

/s/ Michael J. Chun

\_\_\_\_\_  
Michael J. Chun, Director

/s/ Clinton R. Churchill

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Clinton R. Churchill, Director

/s/ David A. Heenan

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David A. Heenan, Director

/s/ Robert Huret

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Robert Huret, Director

/s/ Kent T. Lucien

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Kent T. Lucien, Director and  
Chief Financial Officer

/s/ Martin A. Stein

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Martin A. Stein, Director

/s/ Donald M. Takaki

\_\_\_\_\_  
Donald M. Takaki, Director

/s/ Barbara J. Tanabe

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Barbara J. Tanabe, Director

/s/ Raymond P. Vara, Jr.

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Raymond P. Vara, Jr., Director

/s/ Robert W. Wo

\_\_\_\_\_  
Robert W. Wo, Director

/s/ Derek J. Norris

\_\_\_\_\_  
Derek J. Norris  
Principal Accounting Officer

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**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)  
Under the Securities Exchange Act of 1934**

I, Peter S. Ho, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Hawaii Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and risk committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2014

/s/ Peter S. Ho

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Peter S. Ho  
Chairman of the Board,  
Chief Executive Officer, and  
President

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)  
Under the Securities Exchange Act of 1934**

I, Kent T. Lucien, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Hawaii Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and risk committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2014

/s/ Kent T. Lucien

Kent T. Lucien  
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350, as Adopted  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

We hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Bank of Hawaii Corporation for the year ended December 31, 2013 (the "Annual Report"):

- fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Bank of Hawaii Corporation.

Date: February 25, 2014

/s/ Peter S. Ho

Peter S. Ho  
Chairman of the Board,  
Chief Executive Officer, and  
President

/s/ Kent T. Lucien

Kent T. Lucien  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Annual Report or as a separate disclosure document.

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