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

x	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
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	for the transition period from _________ to __________

Commission File Number 1-6887
BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	99-0148992
(State of incorporation)	(I.R.S. Employer Identification No.)
130 Merchant Street, Honolulu, Hawaii	96813
(Address of principal executive offices)	(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 x No o
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 o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark 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. o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No x

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

Competition

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

Supervision and Regulation

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

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The Parent

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

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

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

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

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

Bank of Hawaii

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

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

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

The Dodd Frank Act

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

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

Capital Requirements

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

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

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

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

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

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

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

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Dividend Restrictions

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

Transactions with Affiliates and Insiders

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

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

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

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

Volcker Rule

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

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

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund (the "DIF"), which the FDIC maintains by assessing depository institutions an insurance premium. As a result of higher levels of bank failures over the last few years and the dramatic increase in resolution costs of the FDIC, the DIF was depleted. In addition, the amount of FDIC insurance coverage for insured deposits was increased from $100,000 to $250,000 per depositor, per institution, and until January 1, 2013, the insurance coverage for non-interest bearing demand deposits was unlimited. These developments caused increased stress on the DIF. To restore reserves and ensure that the DIF would be able to adequately cover losses from future bank failures, the FDIC approved new deposit insurance rules in November 2009. These new rules required insured depository institutions to prepay their estimated quarterly risk-based assessments for all of 2010, 2011, and 2012. As a result, on December 30, 2009, the Bank prepaid its assessment in the amount of $42.3 million related to years 2010 through 2012. During 2013, the FDIC returned the remaining balance of $15.5 million of our prepaid FDIC assessment.

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

Other Safety and Soundness Regulations

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

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

Community Reinvestment and Consumer Protection Laws

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

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

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

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

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

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

Bank Secrecy Act / Anti-Money Laundering Laws

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

Employees

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

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Executive Officers of the Registrant

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

Peter S. Ho, 48
Chairman and Chief Executive Officer since July 2010 and President since April 2008; Vice Chairman and Chief Banking Officer from January 2006 to April 2008.

Kent T. Lucien, 60
Vice Chairman and Chief Financial Officer since April 2008; Trustee, C. Brewer & Co., Ltd. from April 2006 to December 2007.

Peter M. Biggs, 62
Vice Chairman since February 2011 and Chief Retail Officer since April 2012; Senior Executive Vice President, Consumer Products Division from March 2006 to February 2011.

Sharon M. Crofts, 48
Vice Chairman of Operations and Technology since October 2012; Senior Executive Vice President of Operations from May 2008 to October 2012; Executive Vice President and Chief Compliance Officer from December 2005 to May 2008.

Wayne Y. Hamano, 59
Vice Chairman since December 2008 and Chief Commercial Officer since September 2007 and oversees the Commercial Banking and Investment Services Groups; Senior Executive Vice President, Hawaii Commercial Banking Division from July 2006 to September 2007.

Mark A. Rossi, 64
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007; President of Lane Powell PC from July 2004 to January 2007.

Mary E. Sellers, 57
Vice Chairman and Chief Risk Officer since July 2005.

Donna A. Tanoue, 59
Vice Chairman, Client Relations and Community Activities since February 2007; President of the Bank of Hawaii Foundation since April 2006.

Derek J. Norris, 64
Senior Executive Vice President and Controller since December 2009; Executive Vice President and Controller since December 2008; Executive Vice President and General Auditor from January 2002 to December 2008.

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Item 1A. Risk Factors

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

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

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

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

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

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

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

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

Credit losses could increase if economic conditions stagnate or deteriorate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition may adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our mortgage banking income may experience significant volatility.

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

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

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

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

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

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

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

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable.

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Part II

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

Market Information, Shareholders, and Dividends

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

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

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

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

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

Issuer Purchases of Equity Securities

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

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

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

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

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Performance Graph

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

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

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Item 6. Selected Financial Data

Summary of Selected Consolidated Financial Data

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

Allowance to Loans and Leases Outstanding	1.89 %	2.20 %	2.50 %	2.76 %	2.49 %
Tier 1 Capital Ratio	15.55	16.13	16.68	18.28	14.84
Total Capital Ratio	16.81	17.39	17.95	19.55	16.11
Tier 1 Leverage Ratio	7.07	6.83	6.73	7.15	6.76
Total Shareholders' Equity to Total Assets	7.19	7.44	7.24	7.70	7.22
Tangible Common Equity to Tangible Assets [5]	6.98	7.23	7.03	7.48	6.98
Tangible Common Equity to Risk-Weighted Assets [5]	15.49	17.24	17.93	19.29	15.45
Non-Financial Data					
Full-Time Equivalent Employees	2,196	2,276	2,370	2,399	2,418
Branches and Offices	74	76	81	82	83
ATMs	466	494	506	502	485
Common Shareholders of Record	6,564	6,775	6,977	7,128	7,323

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

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

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

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

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

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Use of Non-GAAP Financial Measures

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

GAAP to Non-GAAP Reconciliation

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

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

Forward-Looking Statements

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

Critical Accounting Policies

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

Reserve for Credit Losses

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

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

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

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

Fair Value Measurements

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

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

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

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

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

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

Leased Asset Residual Values

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

Income Taxes

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

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

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

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Overview

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

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

Hawaii Economy

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

Earnings Summary

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

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

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

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

These items were partially offset by the following:

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

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

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

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

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

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

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

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

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Analysis of Statements of Income

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

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

(dollars in millions)	2013 Average Balance	2013 Income/ Expense	2013 Yield/ Rate		2012 Average Balance	2012 Income/ Expense	2012 Yield/ Rate		2011 Average Balance	2011 Income/ Expense	2011 Yield/ Rate	
Earning Assets												
Interest-Bearing Deposits	$4.0	$—	0.26	%	$3.7	$—	0.26	%	$4.2	$—	0.19	%
Funds Sold	221.2	0.4	0.19		263.5	0.5	0.20		380.2	0.8	0.22	
Investment Securities												
Available-for-Sale	2,822.5	61.6	2.18		3,346.3	75.0	2.24		4,439.8	105.4	2.37	
Held-to-Maturity	4,086.6	91.8	2.25		3,636.7	95.0	2.61		2,279.6	72.2	3.16	
Loans Held for Sale	16.4	0.7	4.18		14.7	0.6	4.29		11.0	0.5	4.54	
Loans and Leases [1]												
Commercial and Industrial	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 [2]	219.2	18.0	8.21		187.1	15.2	8.11		163.8	12.4	7.57	
Total Loans and Leases	5,883.7	253.0	4.30		5,680.3	257.7	4.54		5,349.9	261.8	4.89	
Other	78.3	1.2	1.50		79.9	1.1	1.41		79.9	1.1	1.40	
Total Earning Assets [3]	13,112.7	408.7	3.12		13,025.1	429.9	3.30		12,544.6	441.8	3.52	
Cash and Noninterest-Bearing Deposits	138.9				137.2				135.3			
Other Assets	440.5				446.9				425.1			
Total Assets	$13,692.1				$13,609.2				$13,105.0			
Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$2,140.5	$0.6	0.03	%	$1,938.6	$0.5	0.03	%	$1,786.7	$0.7	0.04	%
Savings	4,461.4	3.9	0.09		4,447.8	4.5	0.10		4,501.0	7.3	0.16	
Time	1,406.2	5.6	0.40		1,524.6	7.4	0.48		1,067.8	10.3	0.96	
Total Interest-Bearing Deposits	8,008.1	10.1	0.13		7,911.0	12.4	0.16		7,355.5	18.3	0.25	
Short-Term Borrowings	31.7	—	0.15		15.1	—	0.14		18.2	—	0.11	
Securities Sold Under	809.4	26.9	3.32		1,335.7	28.9	2.16		1,845.8	29.2	1.58	

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

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

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

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

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

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

[1] The change in interest income and expense not solely due to changes in volume or rate has been allocated on a pro-rata basis to the volume and rate columns.
[2] Comprised of other consumer revolving credit, installment, and consumer lease financing.

Net Interest Income

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

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

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

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

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

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

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

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average balances of our earning assets was a $222.7 million increase in the average balance of our residential mortgage loan portfolio primarily due to strong refinancing activity, resulting from low interest rates, as well as our decision to add more fixed-rate conforming saleable loans to our portfolio.
Average balances of our interest-bearing liabilities remained relatively unchanged at $9.3 billion in 2012 and 2011. Average balances of our interest-bearing deposits increased by $555.5 million in 2012 compared to 2011 primarily due to an increase in average public time deposit balances. This was partially offset by a $510.1 million decrease in average public repurchase agreement balances due to the transfer of local government entities' funds to time deposits noted above.

Provision for Credit Losses

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

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Noninterest Income

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

Noninterest Income Table 3

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

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

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

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

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

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

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

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

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

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Noninterest Expense

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

Noninterest Expense — Table 4

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

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

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

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

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

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

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

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

Income Taxes

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

Provision for Income Taxes and Effective Tax Rates Table 5

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

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

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

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

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Analysis of Business Segments

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

Business Segment Net Income Table 6

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

Retail Banking

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

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

Commercial Banking

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

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

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Investment Services

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

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

Treasury and Other

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

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

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

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Analysis of Statements of Condition

Investment Securities

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

Maturities and Average Yield on Securities

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

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

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

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

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

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

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

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

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

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

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

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

Loans and Leases

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

Loans and Leases Table 8

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

Total Loans and Leases	$6,095,387	$5,854,521	$5,538,304	$5,335,792	$5,759,785

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

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

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

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

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

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

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

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

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

Geographic Distribution of Loan and Lease Portfolio Table 9

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

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

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

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

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

Maturities for Selected Loan Categories [1] Table 10

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

[1] Based on contractual maturities.

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

Goodwill

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

Other Assets

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

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Deposits

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

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

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

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

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

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

Securities Sold Under Agreements to Repurchase

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

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

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

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

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

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

Long-Term Debt

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

Pension and Postretirement Plan Obligations

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

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

Discount Rate Sensitivity Analysis — Table 14

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

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

Foreign Activities

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

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Corporate Risk Profile

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More Table 16

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Impaired Loans

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

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

Loans Modified in a Troubled Debt Restructuring