

BANK OF HAWAII CORP
Form 10-Q
October 26, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2015

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 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)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

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

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

As of October 20, 2015, there were 43,291,544 shares of common stock outstanding.

Table of Contents

Bank of Hawaii Corporation
 Form 10-Q
 Index

	Page
Part I - Financial Information	
Item 1.	Financial Statements (Unaudited)
	<u>Consolidated Statements of Income –</u>
	<u>Three and nine months ended September 30, 2015 and 2014</u>
	<u>2</u>
	<u>Consolidated Statements of Comprehensive Income –</u>
	<u>Three and nine months ended September 30, 2015 and 2014</u>
	<u>3</u>
	<u>Consolidated Statements of Condition –</u>
	<u>September 30, 2015 and December 31, 2014</u>
	<u>4</u>
	<u>Consolidated Statements of Shareholders’ Equity –</u>
	<u>Nine months ended September 30, 2015 and 2014</u>
	<u>5</u>
	<u>Consolidated Statements of Cash Flows –</u>
	<u>Nine months ended September 30, 2015 and 2014</u>
	<u>6</u>
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>
	<u>7</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>47</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>77</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>77</u>
<u>Part II - Other Information</u>	
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>78</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>78</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>78</u>
<u>Signatures</u>	<u>79</u>

Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Interest Income				
Interest and Fees on Loans and Leases	\$75,874	\$68,089	\$220,400	\$197,433
Income on Investment Securities				
Available-for-Sale	10,192	10,286	30,663	31,743
Held-to-Maturity	20,689	26,067	67,928	80,894
Deposits	2	3	7	7
Funds Sold	291	176	818	481
Other	312	302	924	906
Total Interest Income	107,360	104,923	320,740	311,464
Interest Expense				
Deposits	2,410	2,391	7,183	7,142
Securities Sold Under Agreements to Repurchase	6,307	6,523	19,118	19,385
Funds Purchased	3	3	9	10
Other Debt	749	627	1,987	1,903
Total Interest Expense	9,469	9,544	28,297	28,440
Net Interest Income	97,891	95,379	292,443	283,024
Provision for Credit Losses	—	(2,665)	—	(4,864)
Net Interest Income After Provision for Credit Losses	97,891	98,044	292,443	287,888
Noninterest Income				
Trust and Asset Management	11,907	11,716	36,442	35,573
Mortgage Banking	3,291	1,646	8,453	5,455
Service Charges on Deposit Accounts	8,669	9,095	25,409	26,611
Fees, Exchange, and Other Service Charges	13,340	13,390	39,589	39,699
Investment Securities Gains, Net	24	1,858	10,341	6,097
Annuity and Insurance	1,721	2,348	5,650	6,401
Bank-Owned Life Insurance	1,609	1,644	5,431	4,765
Other	2,660	3,253	10,138	9,598
Total Noninterest Income	43,221	44,950	141,453	134,199
Noninterest Expense				
Salaries and Benefits	46,576	45,530	143,966	137,508
Net Occupancy	7,403	9,334	25,341	28,005
Net Equipment	4,804	4,473	14,918	13,745
Data Processing	3,920	3,665	11,366	11,156
Professional Fees	2,258	1,835	6,857	6,708
FDIC Insurance	2,139	1,750	6,347	5,881
Other	24,788	14,443	53,582	42,656
Total Noninterest Expense	91,888	81,030	262,377	245,659
Income Before Provision for Income Taxes	49,224	61,964	171,519	176,428
Provision for Income Taxes	14,948	20,195	53,647	54,577
Net Income	\$34,276	\$41,769	\$117,872	\$121,851
Basic Earnings Per Share	\$0.79	\$0.95	\$2.72	\$2.77
Diluted Earnings Per Share	\$0.79	\$0.95	\$2.71	\$2.75
Dividends Declared Per Share	\$0.45	\$0.45	\$1.35	\$1.35
Basic Weighted Average Shares	43,181,233	43,859,396	43,290,137	44,034,047

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Diluted Weighted Average Shares	43,427,730	44,088,553	43,514,898	44,250,033
---------------------------------	------------	------------	------------	------------

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

2

Table of Contents

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net Income	\$34,276	\$41,769	\$117,872	\$121,851
Other Comprehensive Income, Net of Tax:				
Net Unrealized Gains on Investment Securities	7,051	403	4,735	15,291
Defined Benefit Plans	219	157	659	469
Total Other Comprehensive Income	7,270	560	5,394	15,760
Comprehensive Income	\$41,546	\$42,329	\$123,266	\$137,611

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

Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition (Unaudited)

(dollars in thousands)	September 30, 2015	December 31, 2014
Assets		
Interest-Bearing Deposits in Other Banks	\$3,609	\$2,873
Funds Sold	274,873	360,577
Investment Securities		
Available-for-Sale	2,279,722	2,289,190
Held-to-Maturity (Fair Value of \$4,181,613 and \$4,504,495)	4,121,768	4,466,679
Loans Held for Sale	3,222	5,136
Loans and Leases	7,689,772	6,897,589
Allowance for Loan and Lease Losses	(104,038) (108,688
Net Loans and Leases	7,585,734	6,788,901
Total Earning Assets	14,268,928	13,913,356
Cash and Due From Banks	208,601	172,126
Premises and Equipment, Net	108,987	109,854
Accrued Interest Receivable	47,512	44,654
Foreclosed Real Estate	1,392	2,311
Mortgage Servicing Rights	23,301	24,695
Goodwill	31,517	31,517
Bank-Owned Life Insurance	266,568	262,807
Other Assets	207,317	225,888
Total Assets	\$15,164,123	\$14,787,208
Liabilities		
Deposits		
Noninterest-Bearing Demand	\$4,102,713	\$3,832,943
Interest-Bearing Demand	2,631,542	2,559,570
Savings	5,016,462	4,806,575
Time	1,186,245	1,434,001
Total Deposits	12,936,962	12,633,089
Funds Purchased	8,459	8,459
Securities Sold Under Agreements to Repurchase	632,138	688,601
Other Debt	270,801	173,912
Retirement Benefits Payable	54,978	55,477
Accrued Interest Payable	5,869	5,148
Taxes Payable and Deferred Taxes	25,294	27,777
Other Liabilities	131,268	139,659
Total Liabilities	14,065,769	13,732,122
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2015 - 57,749,071 / 43,342,940 and December 31, 2014 - 57,634,755 / 43,724,208)	575	574
Capital Surplus	539,112	531,932
Accumulated Other Comprehensive Loss	(21,292) (26,686
Retained Earnings	1,293,416	1,234,801
Treasury Stock, at Cost (Shares: September 30, 2015 - 14,406,131 and December 31, 2014 - 13,910,547)	(713,457) (685,535

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Total Shareholders' Equity	1,098,354	1,055,086
Total Liabilities and Shareholders' Equity	\$15,164,123	\$14,787,208

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

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

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre- hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2014	43,724,208	\$574	\$531,932	\$(26,686)	\$1,234,801	\$(685,535)	\$1,055,086
Net Income	—	—	—	—	117,872	—	117,872
Other Comprehensive Income	—	—	—	5,394	—	—	5,394
Share-Based Compensation	—	—	5,698	—	—	—	5,698
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	246,851	1	1,482	—	(376)	11,011	12,118
Common Stock Repurchased	(628,119)	—	—	—	—	(38,933)	(38,933)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(58,881)	—	(58,881)
Balance as of September 30, 2015	43,342,940	\$575	\$539,112	\$(21,292)	\$1,293,416	\$(713,457)	\$1,098,354
Balance as of December 31, 2013	44,490,385	\$572	\$522,505	\$(31,823)	\$1,151,754	\$(631,032)	\$1,011,976
Net Income	—	—	—	—	121,851	—	121,851
Other Comprehensive Income	—	—	—	15,760	—	—	15,760
Share-Based Compensation	—	—	5,831	—	—	—	5,831
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	314,579	1	1,194	—	(318)	7,976	8,853
Common Stock Repurchased	(811,235)	—	—	—	—	(46,910)	(46,910)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(59,948)	—	(59,948)
Balance as of September 30, 2014	43,993,729	\$573	\$529,530	\$(16,063)	\$1,213,339	\$(669,966)	\$1,057,413

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

Table of ContentsBank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	2015	2014
Operating Activities		
Net Income	\$ 117,872	\$ 121,851
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	—	(4,864)
Impairment on Equipment Held for Sale	9,453	—
Depreciation and Amortization	9,541	9,280
Amortization of Deferred Loan and Lease Fees	(1,282)	(1,341)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	38,753	37,592
Share-Based Compensation	5,698	5,831
Benefit Plan Contributions	(1,413)	(1,229)
Deferred Income Taxes	(10,618)	(8,522)
Net Gains on Sales of Loans and Leases	(2,510)	(2,285)
Net Gains on Sales of Investment Securities	(10,341)	(6,097)
Proceeds from Sales of Loans Held for Sale	142,391	64,545
Originations of Loans Held for Sale	(137,293)	(58,448)
Tax Benefits from Share-Based Compensation	(403)	(435)
Net Change in Other Assets and Other Liabilities	9,719	(22,210)
Net Cash Provided by Operating Activities	169,567	133,668
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	256,581	251,633
Proceeds from Sales	68,166	14,609
Purchases	(317,458)	(230,007)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	715,776	586,037
Purchases	(389,213)	(418,825)
Net Change in Loans and Leases	(800,482)	(516,395)
Premises and Equipment, Net	(8,673)	(8,204)
Net Cash Used in Investing Activities	(475,303)	(321,152)
Financing Activities		
Net Change in Deposits	303,873	446,785
Net Change in Short-Term Borrowings	(56,463)	(71,369)
Proceeds from Long-Term Debt	100,000	—
Tax Benefits from Share-Based Compensation	403	435
Proceeds from Issuance of Common Stock	7,244	8,317
Repurchase of Common Stock	(38,933)	(46,910)
Cash Dividends Paid	(58,881)	(59,948)
Net Cash Provided by Financing Activities	257,243	277,310
Net Change in Cash and Cash Equivalents	(48,493)	89,826
Cash and Cash Equivalents at Beginning of Period	535,576	463,746
Cash and Cash Equivalents at End of Period	\$ 487,083	\$ 553,572

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Supplemental Information		
Cash Paid for Interest	\$27,168	\$26,726
Cash Paid for Income Taxes	52,808	46,369
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	787	3,377
Transfers from Loans to Loans Held for Sale	93,539	—

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

Table of Contents

Bank of Hawaii Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Use of Estimates in the Preparation of Financial Statements

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

Accounting Standards Adopted in 2015

In January 2014, the FASB issued ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects (see Note 5 to the Consolidated Financial Statements). The Company adopted ASU No. 2014-01 effective January 1, 2015. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. Prior to adoption of ASU No. 2014-01, the Company accounted for such investments using the effective yield method and continued to do so for these pre-existing investments after adopting ASU No. 2014-01. The Company expects future investments to meet the criteria required for the proportional amortization method and plans to make such an accounting policy election. There

were no new investments being amortized since the adoption of ASU No. 2014-01 on January 1, 2015, and therefore, the adoption of ASU No. 2014-01 has not had a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both: (1) the amount of foreclosed residential real estate property held by the creditor; and (2) the recorded

Table of Contents

investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company adopted ASU No. 2014-04 effective January 1, 2015. The adoption of ASU No. 2014-04 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The amendments in the ASU require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures, effective June 30, 2015, about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings (see Note 6 to the Consolidated Financial Statements). The Company adopted the amendments in this ASU effective January 1, 2015. As of September 30, 2015, all of the Company's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, the adoption of ASU No. 2014-11 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. However, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company adopted ASU No. 2014-12 effective January 1, 2015. As of September 30, 2015, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA and VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be

derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The Company adopted ASU No. 2014-14 effective January 1, 2015. The adoption of ASU No. 2014-14 did not have a material impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which

Table of Contents

sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption is not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date" which defers the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of ASU No. 2015-02 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. ASU No. 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company's current method of accounting for fees paid in a cloud computing arrangement is consistent with the accounting guidance provided by ASU No. 2015-05. Therefore, the adoption of ASU No. 2015-05 is not expected to have a material impact on the Company's Consolidated Financial Statements.

Table of Contents

Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of September 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$363,780	\$5,042	\$(165)	\$368,657
Debt Securities Issued by States and Political Subdivisions	715,515	22,107	(412)	737,210
Debt Securities Issued by Corporations	313,166	390	(2,995)	310,561
Mortgage-Backed Securities:				
Residential - Government Agencies	341,457	8,244	(1,232)	348,469
Residential - U.S. Government-Sponsored Enterprises	407,568	4,693	—	412,261
Commercial - Government Agencies	105,735	—	(3,171)	102,564
Total Mortgage-Backed Securities	854,760	12,937	(4,403)	863,294
Total	\$2,247,221	\$40,476	\$(7,975)	\$2,279,722
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$499,731	\$4,613	\$—	\$504,344
Debt Securities Issued by States and Political Subdivisions	246,884	15,917	—	262,801
Debt Securities Issued by Corporations	155,175	1,691	(823)	156,043
Mortgage-Backed Securities:				
Residential - Government Agencies	2,335,710	39,593	(11,588)	2,363,715
Residential - U.S. Government-Sponsored Enterprises	619,545	6,864	(4)	626,405
Commercial - Government Agencies	264,723	4,321	(739)	268,305
Total Mortgage-Backed Securities	3,219,978	50,778	(12,331)	3,258,425
Total	\$4,121,768	\$72,999	\$(13,154)	\$4,181,613
December 31, 2014				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$325,365	\$5,933	\$(40)	\$331,258
Debt Securities Issued by States and Political Subdivisions	723,474	21,941	(1,445)	743,970
Debt Securities Issued by Corporations	298,272	546	(3,985)	294,833
Mortgage-Backed Securities:				
Residential - Government Agencies	452,493	10,986	(1,043)	462,436
Residential - U.S. Government-Sponsored Enterprises	276,390	2,262	(191)	278,461
Commercial - Government Agencies	186,813	—	(8,581)	178,232
Total Mortgage-Backed Securities	915,696	13,248	(9,815)	919,129
Total	\$2,262,807	\$41,668	\$(15,285)	\$2,289,190
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$498,767	\$2,008	\$(1,159)	\$499,616
Debt Securities Issued by States and Political Subdivisions	249,559	15,459	—	265,018
Debt Securities Issued by Corporations	166,686	109	(3,442)	163,353

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Mortgage-Backed Securities:

Residential - Government Agencies	2,862,369	45,407	(20,636)	2,887,140
Residential - U.S. Government-Sponsored Enterprises	379,365	3,635	(15)	382,985
Commercial - Government Agencies	309,933	241	(3,791)	306,383
Total Mortgage-Backed Securities	3,551,667	49,283	(24,442)	3,576,508
Total	\$4,466,679	\$66,859	\$(29,043)	\$4,504,495

10

Table of Contents

The table below presents an analysis of the contractual maturities of the Company's investment securities as of September 30, 2015. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	\$ 128,506	\$ 129,124
Due After One Year Through Five Years	450,881	454,110
Due After Five Years Through Ten Years	436,542	447,542
Due After Ten Years	73,243	77,701
	1,089,172	1,108,477
Debt Securities Issued by Government Agencies	303,289	307,951
Mortgage-Backed Securities:		
Residential - Government Agencies	341,457	348,469
Residential - U.S. Government-Sponsored Enterprises	407,568	412,261
Commercial - Government Agencies	105,735	102,564
Total Mortgage-Backed Securities	854,760	863,294
Total	\$2,247,221	\$2,279,722
Held-to-Maturity:		
Due in One Year or Less	\$9,994	\$ 10,008
Due After One Year Through Five Years	500,499	505,481
Due After Five Years Through Ten Years	286,833	295,665
Due After Ten Years	104,464	112,034
	901,790	923,188
Mortgage-Backed Securities:		
Residential - Government Agencies	2,335,710	2,363,715
Residential - U.S. Government-Sponsored Enterprises	619,545	626,405
Commercial - Government Agencies	264,723	268,305
Total Mortgage-Backed Securities	3,219,978	3,258,425
Total	\$4,121,768	\$4,181,613

Investment securities with carrying values of \$2.5 billion and \$2.8 billion as of September 30, 2015 and December 31, 2014, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross Gains on Sales of Investment Securities	\$ 1,504	\$ 1,858	\$ 11,821	\$ 6,097
Gross Losses on Sales of Investment Securities	(1,480)	—	(1,480)	—
Net Gains on Sales of Investment Securities	\$ 24	\$ 1,858	\$ 10,341	\$ 6,097

Table of Contents

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

(dollars in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2015						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$33,551	\$(156)	\$5,072	\$(9)	\$38,623	\$(165)
Debt Securities Issued by States and Political Subdivisions	55,896	(412)	—	—	55,896	(412)
Debt Securities Issued by Corporations	101,626	(1,392)	143,489	(1,603)	245,115	(2,995)
Mortgage-Backed Securities:						
Residential - Government Agencies	34,152	(115)	9,832	(1,117)	43,984	(1,232)
Commercial - Government Agencies	—	—	102,564	(3,171)	102,564	(3,171)
Total Mortgage-Backed Securities	34,152	(115)	112,396	(4,288)	146,548	(4,403)
Total	\$225,225	\$(2,075)	\$260,957	\$(5,900)	\$486,182	\$(7,975)
Held-to-Maturity:						
Debt Securities Issued by Corporations						
Mortgage-Backed Securities:						
Residential - Government Agencies	380,442	(2,777)	440,675	(8,811)	821,117	(11,588)
Residential - U.S.	14,425	(4)	—	—	14,425	(4)
Government-Sponsored Enterprises						
Commercial - Government Agencies	27,251	(359)	55,578	(380)	82,829	(739)
Total Mortgage-Backed Securities	422,118	(3,140)	496,253	(9,191)	918,371	(12,331)
Total	\$422,118	\$(3,140)	\$570,499	\$(10,014)	\$992,617	\$(13,154)
December 31, 2014						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$1,729	\$(2)	\$5,546	\$(38)	\$7,275	\$(40)
Debt Securities Issued by States and Political Subdivisions	78,068	(305)	94,543	(1,140)	172,611	(1,445)
Debt Securities Issued by Corporations	73,829	(1,171)	180,335	(2,814)	254,164	(3,985)
Mortgage-Backed Securities:						
Residential - Government Agencies	3,025	(8)	12,215	(1,035)	15,240	(1,043)
Residential - U.S.	103,824	(191)	—	—	103,824	(191)
Government-Sponsored Enterprises						
Commercial - Government Agencies	—	—	178,232	(8,581)	178,232	(8,581)
Total Mortgage-Backed Securities	106,849	(199)	190,447	(9,616)	297,296	(9,815)
Total	\$260,475	\$(1,677)	\$470,871	\$(13,608)	\$731,346	\$(15,285)
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$70,016	\$(134)	\$144,222	\$(1,025)	\$214,238	\$(1,159)
Debt Securities Issued by Corporations	46,196	(349)	82,109	(3,093)	128,305	(3,442)

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Mortgage-Backed Securities:

Residential - Government Agencies	280,967	(1,207)	845,911	(19,429)	1,126,878	(20,636)
Residential - U.S.	45,754	(15)	—	—	45,754	(15)
Government-Sponsored Enterprises						
Commercial - Government Agencies	124,594	(179)	171,091	(3,612)	295,685	(3,791)
Total Mortgage-Backed Securities	451,315	(1,401)	1,017,002	(23,041)	1,468,317	(24,442)
Total	\$567,527	\$ (1,884)	\$1,243,333	\$ (27,159)	\$1,810,860	\$ (29,043)

12

Table of Contents

The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2015, which were comprised of 125 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of September 30, 2015 and December 31, 2014, the gross unrealized losses reported for mortgage-backed securities were primarily related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three and nine months ended September 30, 2015 and 2014 were as follows:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Taxable	\$25,569	\$31,053	\$82,638	\$96,796
Non-Taxable	5,312	5,300	15,953	15,841
Total Interest Income from Investment Securities	\$30,881	\$36,353	\$98,591	\$112,637

As of September 30, 2015, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of \$579.0 million, representing 58% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 91% were credit-rated Aa2 or better by Moody's while most of the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Of the Company's total Hawaii municipal bond holdings, 77% were general obligation issuances. As of September 30, 2015, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

As of September 30, 2015 and December 31, 2014, the carrying value of the Company's Federal Home Loan Bank of Des Moines ("FHLB Des Moines") stock and Federal Reserve Bank stock was as follows:

(dollars in thousands)	September 30, 2015	December 31, 2014
Federal Home Loan Bank Stock	\$20,000	\$47,075
Federal Reserve Bank Stock	19,836	19,299
Total	\$39,836	\$66,374

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

Effective May 31, 2015, FHLB Des Moines completed its previously announced merger with the Federal Home Loan Bank of Seattle ("FHLB Seattle"). The continuing bank, FHLB Des Moines, remains headquartered in Des Moines with a western regional office in Seattle. Prior to the merger, the Company held stock in FHLB Seattle. Pursuant to the terms of the Merger Agreement, each share of FHLB Seattle stock was converted into one share of FHLB Des Moines stock. In addition, upon the merger, the Company's excess FHLB stock was redeemed and the Company's membership effectively transferred to FHLB Des Moines. The merger did not have a material impact on the Company's

Consolidated Financial Statements or the Company's dealings with the continuing bank.

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of September 30, 2015, the conversion ratio was 1.6483.

Table of Contents

During the first nine months of 2015, the Company recorded a \$10.1 million net gain on the sale of 95,000 Visa Class B shares. Concurrent with these sales, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 288,714 Class B shares (475,887 Class A equivalents) that the Company owns are carried at a zero cost basis. The Company also contributed 13,800 Visa Class B restricted shares to the Bank of Hawaii Foundation during the first nine months of 2015. The contribution had no impact on noninterest expense; however, the contribution favorably impacted our effective tax rate in 2015.

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

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commercial		
Commercial and Industrial	\$1,169,817	\$1,055,243
Commercial Mortgage	1,622,119	1,437,513
Construction	129,254	109,183
Lease Financing	202,055	226,189
Total Commercial	3,123,245	2,828,128
Consumer		
Residential Mortgage	2,875,605	2,571,090
Home Equity	993,817	866,688
Automobile	367,640	323,848
Other ¹	329,465	307,835
Total Consumer	4,566,527	4,069,461
Total Loans and Leases	\$7,689,772	\$6,897,589

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income were \$1.8 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively, and \$4.1 million and \$1.6 million for the nine months ended September 30, 2015 and 2014, respectively.

Table of Contents

Allowance for Loan and Lease Losses (the “Allowance”)

The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2015 and 2014. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company’s impairment measurement method and the related recorded investment in loans and leases as of September 30, 2015 and 2014.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$67,005	\$39,001	\$106,006
Loans and Leases Charged-Off	(160)	(4,233)	(4,393)
Recoveries on Loans and Leases Previously Charged-Off	504	1,921	2,425
Net Loans and Leases Recovered (Charged-Off)	344	(2,312)	(1,968)
Provision for Credit Losses	(2,708)	2,708	—
Balance at End of Period	\$64,641	\$39,397	\$104,038
Nine Months Ended September 30, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$64,551	\$44,137	\$108,688
Loans and Leases Charged-Off	(650)	(11,327)	(11,977)
Recoveries on Loans and Leases Previously Charged-Off	1,726	5,601	7,327
Net Loans and Leases Recovered (Charged-Off)	1,076	(5,726)	(4,650)
Provision for Credit Losses	(986)	986	—
Balance at End of Period	\$64,641	\$39,397	\$104,038
As of September 30, 2015			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$1,977	\$3,336	\$5,313
Collectively Evaluated for Impairment	62,664	36,061	98,725
Total	\$64,641	\$39,397	\$104,038
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$29,016	\$39,013	\$68,029
Collectively Evaluated for Impairment	3,094,229	4,527,514	7,621,743
Total	\$3,123,245	\$4,566,527	\$7,689,772
Three Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,886	\$41,952	\$113,838
Loans and Leases Charged-Off	(229)	(3,432)	(3,661)
Recoveries on Loans and Leases Previously Charged-Off	1,202	1,648	2,850
Net Loans and Leases Recovered (Charged-Off)	973	(1,784)	(811)
Provision for Credit Losses	(6,619)	3,954	(2,665)
Balance at End of Period	\$66,240	\$44,122	\$110,362
Nine Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,446	\$44,008	\$115,454
Loans and Leases Charged-Off	(1,863)	(9,833)	(11,696)
Recoveries on Loans and Leases Previously Charged-Off	4,299	7,169	11,468
Net Loans and Leases Recovered (Charged-Off)	2,436	(2,664)	(228)
Provision for Credit Losses	(7,642)	2,778	(4,864)

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Balance at End of Period As of September 30, 2014	\$66,240	\$44,122	\$110,362
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$2,449	\$3,653	\$6,102
Collectively Evaluated for Impairment	63,791	40,469	104,260
Total	\$66,240	\$44,122	\$110,362
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$26,061	\$39,886	\$65,947
Collectively Evaluated for Impairment	2,702,863	3,837,540	6,540,403
Total	\$2,728,924	\$3,877,426	\$6,606,350

15

Table of Contents

Credit Quality Indicators

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

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

Pass: Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.

Special Mention: Loans and leases in the classes within the commercial portfolio segment that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease. The special mention credit quality indicator is not used for classes of loans and leases that are included in the consumer portfolio segment. Management believes that there is a moderate likelihood of some loss related to those loans and leases that are considered special mention.

Classified: Loans and leases in the classes within the commercial portfolio segment that are inadequately protected by the sound worth and paying capacity of the borrower or of the collateral pledged, if any. Classified loans and leases are also those in the classes within the consumer portfolio segment that are past due 90 days or more as to principal or interest. Residential mortgage loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection and the current loan-to-value ratio is 60% or less. Home equity loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection, the first mortgage is with the Company, and the current combined loan-to-value ratio is 60% or less. Residential mortgage and home equity loans may be current as to principal and interest, but may be considered classified for a period of generally up to six months following a loan modification. Following a period of demonstrated performance in accordance with the modified contractual terms, the loan may be removed from classified status. Management believes that there is a distinct possibility that the Company will sustain some loss if the deficiencies related to classified loans and leases are not corrected in a timely manner.

Table of Contents

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2015 and December 31, 2014.

	September 30, 2015				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$1,122,454	\$1,551,159	\$127,541	\$201,473	\$3,002,627
Special Mention	20,726	31,145	88	85	52,044
Classified	26,637	39,815	1,625	497	68,574
Total	\$1,169,817	\$1,622,119	\$129,254	\$202,055	\$3,123,245
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other ¹	Total Consumer
Pass	\$2,859,438	\$989,433	\$367,009	\$328,873	\$4,544,753
Classified	16,167	4,384	631	592	21,774
Total	\$2,875,605	\$993,817	\$367,640	\$329,465	\$4,566,527
Total Recorded Investment in Loans and Leases					\$7,689,772
	December 31, 2014				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$1,001,474	\$1,358,812	\$107,381	\$225,783	\$2,693,450
Special Mention	17,364	45,082	—	17	62,463
Classified	36,405	33,619	1,802	389	72,215
Total	\$1,055,243	\$1,437,513	\$109,183	\$226,189	\$2,828,128
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other ¹	Total Consumer
Pass	\$2,556,140	\$862,258	\$323,232	\$307,123	\$4,048,753
Classified	14,950	4,430	616	712	20,708
Total	\$2,571,090	\$866,688	\$323,848	\$307,835	\$4,069,461
Total Recorded Investment in Loans and Leases					\$6,897,589

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

Table of Contents

Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current ²
As of September 30, 2015								
Commercial and Industrial	\$4,830	\$1,361	\$—	\$ 8,532	\$ 14,723	\$ 1,155,094	\$ 1,169,817	\$ 571
Commercial Mortgage	—	29	—	1,058	1,087	1,621,032	1,622,119	833
Construction	—	—	—	—	—	129,254	129,254	—
Lease Financing	—	—	—	—	—	202,055	202,055	—
Total Commercial	4,830	1,390	—	9,590	15,810	3,107,435	3,123,245	1,404
Consumer Residential Mortgage	6,023	1,526	5,060	14,749	27,358	2,848,247	2,875,605	2,419
Home Equity	2,331	2,345	1,396	3,814	9,886	983,931	993,817	1,683
Automobile	7,827	1,612	631	—	10,070	357,570	367,640	—
Other ¹	2,273	1,454	1,058	—	4,785	324,680	329,465	—
Total Consumer	18,454	6,937	8,145	18,563	52,099	4,514,428	4,566,527	4,102
Total	\$23,284	\$8,327	\$8,145	\$ 28,153	\$67,909	\$7,621,863	\$7,689,772	\$5,506
As of December 31, 2014								
Commercial and Industrial	\$992	\$356	\$2	\$ 9,088	\$ 10,438	\$ 1,044,805	\$ 1,055,243	\$ 7,819
Commercial Mortgage	458	—	—	745	1,203	1,436,310	1,437,513	—
Construction	—	—	—	—	—	109,183	109,183	—
Lease Financing	—	—	—	—	—	226,189	226,189	—
Total Commercial	1,450	356	2	9,833	11,641	2,816,487	2,828,128	7,819
Consumer Residential Mortgage	4,907	2,107	4,506	14,841	26,361	2,544,729	2,571,090	632
Home Equity	3,461	2,661	2,596	3,097	11,815	854,873	866,688	375
Automobile	7,862	1,483	616	—	9,961	313,887	323,848	—
Other ¹	2,416	1,049	941	—	4,406	303,429	307,835	—
Total Consumer	18,646	7,300	8,659	17,938	52,543	4,016,918	4,069,461	1,007
Total	\$20,096	\$7,656	\$8,661	\$ 27,771	\$64,184	\$6,833,405	\$6,897,589	\$8,826

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

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

Table of Contents

Impaired Loans

The following presents by class, information related to impaired loans as of September 30, 2015 and December 31, 2014.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2015			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$14,131	\$24,605	\$—
Commercial Mortgage	7,337	7,337	—
Construction	1,626	1,626	—
Total Commercial	23,094	33,568	—
Total Impaired Loans with No Related Allowance Recorded	\$23,094	\$33,568	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$5,922	\$12,523	\$1,977
Total Commercial	5,922	12,523	1,977
Consumer			
Residential Mortgage	30,253	36,046	3,169
Home Equity	1,191	1,191	13
Automobile	6,238	6,238	117
Other ¹	1,331	1,331	37
Total Consumer	39,013	44,806	3,336
Total Impaired Loans with an Allowance Recorded	\$44,935	\$57,329	\$5,313
Impaired Loans:			
Commercial	\$29,016	\$46,091	\$1,977
Consumer	39,013	44,806	3,336
Total Impaired Loans	\$68,029	\$90,897	\$5,313
December 31, 2014			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$9,763	\$15,013	\$—
Commercial Mortgage	6,480	6,480	—
Construction	1,689	1,689	—
Total Commercial	17,932	23,182	—
Total Impaired Loans with No Related Allowance Recorded	\$17,932	\$23,182	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$7,184	\$13,784	\$2,387
Total Commercial	7,184	13,784	2,387
Consumer			

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Residential Mortgage	32,331	37,989	3,445
Home Equity	1,012	1,012	16
Automobile	5,375	5,375	66
Other ¹	913	913	34
Total Consumer	39,631	45,289	3,561
Total Impaired Loans with an Allowance Recorded	\$46,815	\$59,073	\$5,948
Impaired Loans:			
Commercial	\$25,116	\$36,966	\$2,387
Consumer	39,631	45,289	3,561
Total Impaired Loans	\$64,747	\$82,255	\$5,948

¹ Comprised of other revolving credit and installment financing.

Table of Contents

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 13,368	\$ 96	\$ 10,161	\$ 96
Commercial Mortgage	7,155	67	7,046	56
Construction	1,637	26	2,024	28
Total Commercial	22,160	189	19,231	180
Consumer				
Other ¹	—	—	9	—
Total Consumer	—	—	9	—
Total Impaired Loans with No Related Allowance Recorded	\$ 22,160	\$ 189	\$ 19,240	\$ 180
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 6,105	\$ 24	\$ 7,345	\$ 25
Total Commercial	6,105	24	7,345	25
Consumer				
Residential Mortgage	30,719	265	31,989	269
Home Equity	1,191	9	1,029	13
Automobile	6,013	104	5,345	114
Other ¹	1,218	28	576	12
Total Consumer	39,141	406	38,939	408
Total Impaired Loans with an Allowance Recorded	\$ 45,246	\$ 430	\$ 46,284	\$ 433
Impaired Loans:				
Commercial	\$ 28,265	\$ 213	\$ 26,576	\$ 205
Consumer	39,141	406	38,948	408
Total Impaired Loans	\$ 67,406	\$ 619	\$ 65,524	\$ 613
(dollars in thousands)	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$ 12,074	\$ 304	\$ 11,518	\$ 254
Commercial Mortgage	6,799	198	9,041	167
Construction	1,658	80	1,540	66
Total Commercial	20,531	582	22,099	487
Consumer				
Other ¹	—	—	7	—

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Total Consumer	—	—	7	—
Total Impaired Loans with No Related Allowance Recorded	\$20,531	\$ 582	\$22,106	\$ 487
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$6,401	\$ 78	\$8,260	\$ 80
Total Commercial	6,401	78	8,260	80
Consumer				
Residential Mortgage	31,374	796	31,915	749
Home Equity	1,149	28	952	27
Automobile	5,737	319	5,235	327
Other ¹	1,082	77	471	30
Total Consumer	39,342	1,220	38,573	1,133
Total Impaired Loans with an Allowance Recorded	\$45,743	\$ 1,298	\$46,833	\$ 1,213
Impaired Loans:				
Commercial	\$26,932	\$ 660	\$30,359	\$ 567
Consumer	39,342	1,220	38,580	1,133
Total Impaired Loans	\$66,274	\$ 1,880	\$68,939	\$ 1,700

¹ Comprised of other revolving credit and installment financing.

Table of Contents

For the three and nine months ended September 30, 2015 and 2014, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2015 and 2014, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring (“TDR”) when the Company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were \$66.3 million and \$60.2 million as of September 30, 2015 and December 31, 2014, respectively. There were no commitments to lend additional funds on loans modified in a TDR as of September 30, 2015 and December 31, 2014.

The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a co-borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loan modifications usually involve extending the interest-only monthly payments up to an additional five years with a balloon payment due at maturity, or re-amortizing the remaining balance over a period up to 360 months. Interest rates are not changed for land loan modifications. Home equity modifications are made infrequently and uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

Table of Contents

The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2015 and 2014.

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Three Months Ended September 30, 2015			Loans Modified as a TDR for the Three Months Ended September 30, 2014		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	13	\$ 6,551	\$ —	4	\$ 1,203	\$ 155
Total Commercial	13	6,551	—	4	1,203	155
Consumer						
Residential Mortgage	2	749	—	6	1,581	56
Home Equity	1	168	2	—	—	—
Automobile	47	1,172	22	35	774	10
Other ²	50	344	9	35	255	8
Total Consumer	100	2,433	33	76	2,610	74
Total	113	\$ 8,984	\$ 33	80	\$ 3,813	\$ 229

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Nine Months Ended September 30, 2015			Loans Modified as a TDR for the Nine Months Ended September 30, 2014		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	27	\$ 8,438	\$ 4	16	\$ 5,416	\$ 156
Commercial Mortgage	2	1,179	—	1	332	—
Total Commercial	29	9,617	4	17	5,748	156
Consumer						
Residential Mortgage	12	4,211	84	15	4,886	183
Home Equity	3	370	4	2	158	3
Automobile	119	2,723	51	112	2,213	29
Other ²	102	702	20	53	414	13
Total Consumer	236	8,006	159	182	7,671	228
Total	265	\$ 17,623	\$ 163	199	\$ 13,419	\$ 384

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

² Comprised of other revolving credit and installment financing.

Table of Contents

The following presents by class, all loans modified in a TDR that defaulted during the three and nine months ended September 30, 2015 and 2014, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment (as of period end) ¹	Number of Contracts	Recorded Investment (as of period end) ¹
Commercial				
Commercial and Industrial	—	\$ —	1	\$ 22
Total Commercial	—	—	1	22
Consumer				
Residential Mortgage	2	1,069	—	—
Automobile	3	52	5	64
Other ²	10	56	1	16
Total Consumer	15	1,177	6	80
Total	15	\$ 1,177	7	\$ 102

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment (as of period end) ¹	Number of Contracts	Recorded Investment (as of period end) ¹
Commercial				
Commercial and Industrial	1	\$ 4,341	3	\$ 723
Total Commercial	1	4,341	3	723
Consumer				
Residential Mortgage	3	1,374	2	509
Automobile	6	108	7	110
Other ²	19	98	3	27
Total Consumer	28	1,580	12	646
Total	29	\$ 5,921	15	\$ 1,369

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

² Comprised of other revolving credit and installment financing.

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

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled \$7.0 million as of September 30, 2015.

Note 4. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was \$2.7 billion as of September 30, 2015 and \$2.9 billion as of December 31, 2014. Substantially all of these loans were originated by the Company and sold to third parties on a non-recourse basis with servicing rights retained. These retained servicing rights are recorded as a servicing asset and are initially recorded at fair value (see Note 13 to the Consolidated Financial Statements for more information). Changes to the balance of mortgage servicing rights are recorded in mortgage banking income in the Company's consolidated statements of income.

The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings;

Table of Contents

and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$1.8 million and \$2.0 million for the three months ended September 30, 2015 and 2014, respectively, and \$5.4 million and \$6.0 million for the nine months ended September 30, 2015 and 2014, respectively. Servicing income is recorded in mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and nine months ended September 30, 2015 and 2014, the change in the carrying value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance at Beginning of Period	\$2,188	\$2,960	\$2,604	\$3,826
Change in Fair Value:				
Due to Change in Valuation Assumptions ¹	—	(145)	(251)	(816)
Due to Payoffs	(116)	(72)	(281)	(267)
Total Changes in Fair Value of Mortgage Servicing Rights	(116)	(217)	(532)	(1,083)
Balance at End of Period	\$2,072	\$2,743	\$2,072	\$2,743

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

For the three and nine months ended September 30, 2015 and 2014, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of valuation allowance, was as follows:

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance at Beginning of Period	\$21,238	\$23,437	\$22,091	\$24,297
Servicing Rights that Resulted From Asset Transfers	645	100	1,330	664
Amortization	(633)	(742)	(2,228)	(2,094)
Valuation Allowance Provision	(21)	21	36	(51)
Balance at End of Period	\$21,229	\$22,816	\$21,229	\$22,816
Valuation Allowance:				
Balance at Beginning of Period	\$—	\$(72)	\$(57)	\$—
Valuation Allowance Provision	(21)	21	36	(51)
Balance at End of Period	\$(21)	\$(51)	\$(21)	\$(51)

Fair Value of Mortgage Servicing Rights Accounted for

Under the Amortization Method

Beginning of Period	\$26,205	\$25,848	\$22,837	\$30,100
End of Period	\$24,419	\$24,336	\$24,419	\$24,336

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of September 30, 2015 and December 31, 2014 were as follows:

	September 30,		December	
	2015		31, 2014	
		%		%
Weighted-Average Constant Prepayment Rate ¹	10.01	%	11.62	%

Edgar Filing: BANK OF HAWAII CORP - Form 10-Q

Weighted-Average Life (in years)	6.98		6.28	
Weighted-Average Note Rate	4.23	%	4.28	%
Weighted-Average Discount Rate ²	9.71	%	10.61	%

¹ Represents annualized loan repayment rate assumption.

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

24

Table of Contents

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of September 30, 2015 and December 31, 2014 is presented in the following table.

(dollars in thousands)	September 30, 2015	December 31, 2014
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	\$(285)	\$ (265)
Decrease in fair value from 50 bps adverse change	(565)	(524)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(284)	(250)
Decrease in fair value from 50 bps adverse change	(562)	(495)

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

Note 5. Affordable Housing Projects Tax Credit Partnerships

The Company makes certain equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

The Company is a limited partner in each LIHTC Partnership. Each limited partnership is managed by an unrelated third party general partner who exercises full control over the affairs of the limited partnership. The general partner has all the rights, powers and authority granted or permitted to be granted to a general partner of a limited partnership. Duties entrusted to the general partner of each limited partnership include, but are not limited to: investment in operating companies, company expenditures, investment of excess funds, borrowing funds, employment of agents, disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods, tax elections, bank accounts, insurance, litigation, cash reserve, and use of working capital reserve funds. Except for limited rights granted to consent to certain transactions, the limited partner(s) may not participate in the operation, management, or control of the limited partnership's business, transact any business in the limited partnership's name or have any power to sign documents for or otherwise bind the limited partnership. In addition, the general partner may only be removed by the limited partner(s) in the event the general partner fails to comply with the terms of the agreement or is negligent in performing its duties.

The general partner of each limited partnership has both the power to direct the activities which most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. Therefore, the Company has determined that it is not the primary beneficiary of any LIHTC partnership. The Company uses the effective yield method to account for its pre-2015 investments in these entities. Beginning January 1, 2015, any new investments that meet the requirements of the proportional amortization method will be recognized using the proportional amortization method. As of September 30, 2015, there are no investments accounted for under the proportional amortization method. The Company's net affordable housing tax credit investments and related unfunded commitments were \$70.7 million and \$68.5 million as of September 30, 2015 and December 31, 2014, respectively, and are included in other assets in the consolidated statements of condition.

Table of Contents

Unfunded Commitments

As of September 30, 2015, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)	Amount
2015	\$6,954
2016	20,668
2017	1,148
2018	15
2019	75
Thereafter	67
Total Unfunded Commitments	\$28,927

The following table presents tax credits and other tax benefits recognized and amortization expense related to affordable housing for the three and nine months ended September 30, 2015 and 2014.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Effective Yield Method				
Tax credits and other tax benefits recognized	\$3,353	\$2,646	\$10,095	\$7,956
Amortization Expense in Provision for Income Taxes	1,922	1,402	5,813	4,162

There were no sales or impairment losses of LIHTC investments for the nine months ended September 30, 2015 and 2014.

Note 6. Balance Sheet Offsetting

Interest Rate Swap Agreements (“Swap Agreements”)

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling \$15.6 million and \$16.2 million as of September 30, 2015 and December 31, 2014, respectively. See Note 11 to the Consolidated Financial Statements for more information.

Securities Sold Under Agreements to Repurchase (“Repurchase Agreements”)

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as sales and subsequent repurchases of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. As a result, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase

agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The

26

Table of Contents

collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization in the event of counterparty default.

The following table presents the remaining contractual maturities of the Company's repurchase agreements as of September 30, 2015, disaggregated by the class of collateral pledged.

(dollars in thousands)	Remaining Contractual Maturity of Repurchase Agreements				
	Up to 90 days	91-365 days	1-3 Years	After 3 Years	Total
September 30, 2015					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$—	\$—	\$195,799	\$110,446	\$306,245
Debt Securities Issued by States and Political Subdivisions	2,147	52,001	100	—	54,248
Mortgage-Backed Securities:					
Residential - Government Agencies	2,828	43,089	18,379	108,038	172,334
Residential - U.S. Government-Sponsored Enterprises	—	6,973	10,822	81,516	99,311
Total	\$4,975	\$102,063	\$225,100	\$300,000	\$632,138

Table of Contents

The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of September 30, 2015 and December 31, 2014. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table.

(dollars in thousands)	(i)	(ii)	(iii) = (i)-(ii)	(iv)	Fair Value of Collateral Pledged ¹	(v) = (iii)-(iv) Net Amount
	Gross Amounts Recognized in the Statements of Condition	Gross Amounts Offset in the Statements of Condition	Net Amounts Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Netting Adjustments per Master Netting Arrangements		
September 30, 2015						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	\$305	\$—	\$305	\$305	\$—	\$—
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	15,907	—	15,907	305	—	15,602