

BANK OF HAWAII CORP
Form 10-Q
July 26, 2010
[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 June 30, 2010**

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

130 Merchant Street, Honolulu, Hawaii

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

96813

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(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 ☐

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 July 20, 2010, there were 48,265,874 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 six months ended June 30, 2010 and 2009</u>	2
<u>Consolidated Statements of Condition</u> <u>June 30, 2010, December 31, 2009, and June 30, 2009</u>	3
<u>Consolidated Statements of Shareholders' Equity</u> <u>Six months ended June 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Cash Flows</u> <u>Six months ended June 30, 2010 and 2009</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4.	
<u>Controls and Procedures</u>	46
<u>Part II - Other Information</u>	
Item 1A.	
<u>Risk Factors</u>	47
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 6.	
<u>Exhibits</u>	47
<u>Signatures</u>	48

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands, except per share amounts)	2010	2009	2010	2009
Interest Income				
Interest and Fees on Loans and Leases	\$ 71,997	\$ 83,342	\$ 149,268	\$ 169,934
Income on Investment Securities				
Trading				594
Available-for-Sale	44,989	38,155	88,830	70,456
Held-to-Maturity	1,700	2,369	3,563	4,936
Deposits	3	5	16	15
Funds Sold	396	526	705	1,103
Other	277	276	554	552
Total Interest Income	119,362	124,673	242,936	247,590
Interest Expense				
Deposits	7,930	14,481	16,237	31,506
Securities Sold Under Agreements to Repurchase	6,472	6,477	12,901	13,129
Funds Purchased	6	5	13	10
Long-Term Debt	1,026	859	2,204	3,032
Total Interest Expense	15,434	21,822	31,355	47,677
Net Interest Income	103,928	102,851	211,581	199,913
Provision for Credit Losses	15,939	28,690	36,650	53,577
Net Interest Income After Provision for Credit Losses	87,989	74,161	174,931	146,336
Noninterest Income				
Trust and Asset Management	11,457	11,881	23,165	23,513
Mortgage Banking	3,752	5,443	7,216	14,121
Service Charges on Deposit Accounts	14,856	12,910	28,670	26,296
Fees, Exchange, and Other Service Charges	15,806	15,410	30,310	30,386
Investment Securities Gains, Net	14,951	12	34,972	68
Insurance	2,291	4,744	5,006	10,385
Other	5,761	9,432	11,317	25,428
Total Noninterest Income	68,874	59,832	140,656	130,197
Noninterest Expense				
Salaries and Benefits	47,500	44,180	92,064	91,208
Net Occupancy	10,154	10,008	20,298	20,336
Net Equipment	4,366	4,502	8,924	8,818
Professional Fees	2,091	4,005	4,083	6,554
FDIC Insurance	3,107	8,987	6,207	10,801
Other	18,700	17,902	36,048	39,800
Total Noninterest Expense	85,918	89,584	167,624	177,517
Income Before Provision for Income Taxes	70,945	44,409	147,963	99,016
Provision for Income Taxes	24,381	13,403	48,663	31,970
Net Income	\$ 46,564	\$ 31,006	\$ 99,300	\$ 67,046
Basic Earnings Per Share	\$ 0.97	\$ 0.65	\$ 2.07	\$ 1.41
Diluted Earnings Per Share	\$ 0.96	\$ 0.65	\$ 2.05	\$ 1.40
Dividends Declared Per Share	\$ 0.45	\$ 0.45	\$ 0.90	\$ 0.90
Basic Weighted Average Shares	48,080,485	47,682,604	47,997,996	47,624,521
Diluted Weighted Average Shares	48,415,602	47,948,531	48,352,082	47,876,509

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

Table of Contents**Bank of Hawaii Corporation and Subsidiaries**
Consolidated Statements of Condition (Unaudited)

(dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Assets			
Interest-Bearing Deposits	\$ 4,062	\$ 8,755	\$ 4,537
Funds Sold	355,891	291,546	656,000
Investment Securities			
Available-for-Sale	5,980,759	5,330,834	4,292,911
Held-to-Maturity (Fair Value of \$161,441; \$186,668; and \$214,484)	153,190	181,018	209,807
Loans Held for Sale	13,179	16,544	40,994
Loans and Leases	5,440,911	5,759,785	6,149,911
Allowance for Loan and Lease Losses	(147,358)	(143,658)	(137,416)
Net Loans and Leases	5,293,553	5,616,127	6,012,495
Total Earning Assets	11,800,634	11,444,824	11,216,744
Cash and Noninterest-Bearing Deposits	343,514	254,766	294,022
Premises and Equipment	108,394	110,976	112,681
Customers' Acceptances	412	1,386	2,084
Accrued Interest Receivable	41,420	45,334	43,042
Foreclosed Real Estate	3,192	3,132	438
Mortgage Servicing Rights	25,646	25,970	24,731
Goodwill	31,517	31,517	34,959
Other Assets	501,116	496,922	465,994
Total Assets	\$ 12,855,845	\$ 12,414,827	\$ 12,194,695
Liabilities			
Deposits			
Noninterest-Bearing Demand	\$ 2,214,803	\$ 2,252,083	\$ 2,109,270
Interest-Bearing Demand	1,615,464	1,609,413	1,589,300
Savings	4,423,473	4,405,969	4,054,039
Time	1,070,919	1,142,211	1,267,052
Total Deposits	9,324,659	9,409,676	9,019,661
Funds Purchased	9,832	8,888	8,670
Short-Term Borrowings	7,000	6,900	10,000
Securities Sold Under Agreements to Repurchase	2,081,393	1,618,717	1,799,794
Long-Term Debt	40,300	90,317	91,432
Bankers' Acceptances	412	1,386	2,084
Retirement Benefits Payable	35,669	37,435	54,286
Accrued Interest Payable	5,078	7,026	7,765
Taxes Payable and Deferred Taxes	228,660	229,140	226,936
Other Liabilities	109,831	109,369	128,182
Total Liabilities	11,842,834	11,518,854	11,348,810
Shareholders' Equity			
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: June 30, 2010 - 57,100,287 / 48,264,157; December 31, 2009 - 57,028,239 / 48,018,943; and June 30, 2009 - 57,028,940 / 47,881,083)	570	569	569
Capital Surplus	497,082	494,318	491,784
Accumulated Other Comprehensive Income (Loss)	61,220	6,925	(1,870)
Retained Earnings	895,565	843,521	811,121
Treasury Stock, at Cost (Shares: June 30, 2010 - 8,836,130; December 31, 2009 - 9,009,296; and June 30, 2009 - 9,147,857)	(441,426)	(449,360)	(455,719)
Total Shareholders' Equity	1,013,011	895,973	845,885
Total Liabilities and Shareholders' Equity	\$ 12,855,845	\$ 12,414,827	\$ 12,194,695

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

Table of Contents**Bank of Hawaii Corporation and Subsidiaries**
Consolidated Statements of Shareholders' Equity (Unaudited)

		Common	Capital	Accum.	Retained	Treasury	Compre-
	Total	Stock	Surplus	Other	Earnings	Stock	hensive
(dollars in thousands)				Compre-			Income
				hensive			Income
				Income			Income
				(Loss)			Income
Balance as of December 31, 2009	\$ 895,973	\$ 569	\$ 494,318	\$ 6,925	\$ 843,521	\$ (449,360)	
Comprehensive Income:							
Net Income	99,300				99,300		\$ 99,300
Other Comprehensive Income, Net of Tax:							
Change in Unrealized Gains and Losses on Investment Securities							
Available-for-Sale	53,534			53,534			53,534
Amortization of Net Losses Related to Defined Benefit Plans	761			761			761
Total Comprehensive Income							\$ 153,595
Share-Based Compensation	1,545		1,545				
Common Stock Issued under Purchase and Equity							
Compensation Plans and Related Tax Benefits (312,707 shares)	8,532	1	1,219		(3,902)	11,214	
Common Stock Repurchased (67,493 shares)	(3,280)					(3,280)	
Cash Dividends Paid	(43,354)				(43,354)		
Balance as of June 30, 2010	\$ 1,013,011	\$ 570	\$ 497,082	\$ 61,220	\$ 895,565	\$ (441,426)	
Balance as of December 31, 2008	\$ 790,704	\$ 568	\$ 492,515	\$ (28,888)	\$ 787,924	\$ (461,415)	
Comprehensive Income:							
Net Income	67,046				67,046		\$ 67,046
Other Comprehensive Income, Net of Tax:							
Change in Unrealized Gains and Losses on Investment Securities							
Available-for-Sale	26,302			26,302			26,302
Amortization of Net Losses Related to Defined Benefit Plans	716			716			716
Total Comprehensive Income							\$ 94,064
Share-Based Compensation	944		944				
Common Stock Issued under Purchase and Equity							
Compensation Plans and Related Tax Benefits (152,582 shares)	4,087	1	(1,675)		(791)	6,552	
Common Stock Repurchased (24,870 shares)	(856)					(856)	
Cash Dividends Paid	(43,058)				(43,058)		
Balance as of June 30, 2009	\$ 845,885	\$ 569	\$ 491,784	\$ (1,870)	\$ 811,121	\$ (455,719)	

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

Table of Contents**Bank of Hawaii Corporation and Subsidiaries**
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended	
	June 30,	
	2010	2009
(dollars in thousands)		
Operating Activities		
Net Income	\$ 99,300	\$ 67,046
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	36,650	53,577
Depreciation and Amortization	6,702	6,794
Amortization of Deferred Loan and Lease Fees	(1,147)	(1,216)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	17,964	1,723
Share-Based Compensation	1,545	944
Benefit Plan Contributions	(2,184)	(1,453)
Deferred Income Taxes	(4,975)	(15,978)
Gains on Sale of Insurance Business		(852)
Net Gains on Sales of Leases	(1,614)	(13,204)
Net Gains on Investment Securities	(34,972)	(68)
Net Change in Trading Securities		91,500
Proceeds from Sales of Loans Held for Sale	232,574	670,158
Originations of Loans Held for Sale	(220,497)	(672,979)
Tax Benefits from Share-Based Compensation	(1,585)	(61)
Net Change in Other Assets and Other Liabilities	(31,441)	(5,862)
Net Cash Provided by Operating Activities	96,320	180,069
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	846,480	752,929
Proceeds from Sales	618,108	24,258
Purchases	(2,006,953)	(2,511,199)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	27,731	29,609
Proceeds from Sale of Insurance Business		1,879
Net Change in Loans and Leases	279,973	370,636
Premises and Equipment, Net	(4,120)	(3,355)
Net Cash Used in Investing Activities	(238,781)	(1,335,243)
Financing Activities		
Net Change in Deposits	(85,017)	727,563
Net Change in Short-Term Borrowings	463,720	768,995
Repayments of Long-Term Debt	(50,000)	(143,971)
Tax Benefits from Share-Based Compensation	1,585	61
Proceeds from Issuance of Common Stock	7,207	4,517
Repurchase of Common Stock	(3,280)	(856)
Cash Dividends Paid	(43,354)	(43,058)
Net Cash Provided by Financing Activities	290,861	1,313,251
Net Change in Cash and Cash Equivalents	148,400	158,077
Cash and Cash Equivalents at Beginning of Period	555,067	796,482
Cash and Cash Equivalents at End of Period	\$ 703,467	\$ 954,559
Supplemental Information		
Cash Paid for Interest	\$ 33,303	\$ 53,749
Cash Paid for Income Taxes	89,949	45,565
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	60	92
Transfers from Loans to Loans Held for Sale	8,713	16,634

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 bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its subsidiaries (the "Company") provide a broad range of financial products and services to customers in Hawaii, Guam, and other Pacific Islands. The Parent's principal 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, 2009. 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, 2010.

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.

Fair Value Measurements and Disclosures

In January 2010, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures About Fair Value Measurements*, which added disclosure requirements about transfers in and out of Levels 1 and 2, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The Company adopted certain provisions of this ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2010. The adoption of these provisions, which was subsequently codified into Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, only affected the disclosure requirements for fair value measurements and as a result had no impact on the Company's statements of income and condition. See Note 11 to the Consolidated Financial Statements for the disclosures required by this ASU.

This ASU also requires that Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number as currently permitted. This provision of the ASU is effective for the Company's reporting period ending March 31, 2011. As this provision amends only the disclosure requirements for fair value measurements, the adoption will have no impact on the Company's statements of income and condition.

Future Application of Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which will require the Company to provide a greater level of disaggregated information about the credit quality of the Company's loans and leases and the Allowance for Loan and Lease Losses (the Allowance). This ASU will also require the Company to disclose additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Company's reporting period ending December 31, 2010. As this ASU amends only the disclosure requirements for loans and leases and the Allowance, the adoption will have no impact on the Company's statements of income and condition.

Table of Contents**Note 2. Investment Securities**

The amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's investment securities as of June 30, 2010, December 31, 2009, and June 30, 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(dollars in thousands)				
June 30, 2010				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 647,860	\$ 25,300	\$ (16)	\$ 673,144
Debt Securities Issued by States and Political Subdivisions	51,738	1,889	(13)	53,614
Debt Securities Issued by U.S. Government-Sponsored Enterprises	750	24		774
Mortgage-Backed Securities Issued by Government Agencies	4,993,799	102,993	(5,169)	5,091,623
U.S. Government-Sponsored Enterprises	155,081	6,523		161,604
Total Mortgage-Backed Securities	5,148,880	109,516	(5,169)	5,253,227
Total	\$ 5,849,228	\$ 136,729	\$ (5,198)	\$ 5,980,759
Held-to-Maturity:				
Mortgage-Backed Securities Issued by Government Agencies	\$ 53,136	\$ 3,612	\$	\$ 56,748
U.S. Government-Sponsored Enterprises	100,054	4,639		104,693
Total	\$ 153,190	\$ 8,251	\$	\$ 161,441
December 31, 2009				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 711,223	\$ 11,248	\$ (1,679)	\$ 720,792
Debt Securities Issued by States and Political Subdivisions	52,742	1,391	(17)	54,116
Debt Securities Issued by U.S. Government-Sponsored Enterprises	751	41		792
Mortgage-Backed Securities Issued by Government Agencies	4,015,816	26,900	(20,029)	4,022,687
U.S. Government-Sponsored Enterprises	509,225	23,276	(54)	532,447
Total Mortgage-Backed Securities	4,525,041	50,176	(20,083)	4,555,134
Total	\$ 5,289,757	\$ 62,856	\$ (21,779)	\$ 5,330,834
Held-to-Maturity:				
Mortgage-Backed Securities Issued by Government Agencies	\$ 59,542	\$ 1,879	\$	\$ 61,421
U.S. Government-Sponsored Enterprises	121,476	3,771		125,247
Total	\$ 181,018	\$ 5,650	\$	\$ 186,668
June 30, 2009				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 792,566	\$ 8,549	\$ (2,329)	\$ 798,786
Debt Securities Issued by States and Political Subdivisions	88,083	951	(184)	88,850
Debt Securities Issued by U.S. Government-Sponsored Enterprises	751	57		808
Mortgage-Backed Securities Issued by Government Agencies	1,858,334	15,729	(11,841)	1,862,222
U.S. Government-Sponsored Enterprises	1,257,907	44,481	(7)	1,302,381
Private-Label Mortgage-Backed Securities	235,771	79	(21,300)	214,550
Total Mortgage-Backed Securities	3,352,012	60,289	(33,148)	3,379,153
Other Debt Securities	25,084	231	(1)	25,314
Total	\$ 4,258,496	\$ 70,077	\$ (35,662)	\$ 4,292,911
Held-to-Maturity:				
Mortgage-Backed Securities Issued by Government Agencies	\$ 65,986	\$ 1,316	\$	\$ 67,302
U.S. Government-Sponsored Enterprises	143,821	3,394	(33)	147,182
Total	\$ 209,807	\$ 4,710	\$ (33)	\$ 214,484

Table of Contents

The table below presents an analysis of the contractual maturities of the Company's investment securities as of June 30, 2010. 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
Due in One Year or Less	\$ 62,368	\$ 126	\$	\$ 62,494
Due After One Year Through Five Years	289,120	3,831	(9)	292,942
Due After Five Years Through Ten Years	92,639	3,885	(7)	96,517
Due After Ten Years	256,221	19,371	(13)	275,579
	700,348	27,213	(29)	727,532
Mortgage-Backed Securities issued by Government Agencies	4,993,799	102,993	(5,169)	5,091,623
U.S. Government-Sponsored Enterprises	155,081	6,523		161,604
Total Mortgage-Backed Securities	5,148,880	109,516	(5,169)	5,253,227
Total	\$ 5,849,228	\$ 136,729	\$ (5,198)	\$ 5,980,759
Held-to-Maturity:				
Mortgage-Backed Securities issued by Government Agencies	\$ 53,136	\$ 3,612	\$	\$ 56,748
U.S. Government-Sponsored Enterprises	100,054	4,639		104,693
Total	\$ 153,190	\$ 8,251	\$	\$ 161,441

Investment securities with carrying values of \$3.2 billion as of June 30, 2010, \$2.7 billion as of December 31, 2009, and \$2.8 billion as of June 30, 2009, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

Gross gains on the sales of investment securities were \$15.0 million and less than \$0.1 million for the three months ended June 30, 2010 and 2009, respectively, and were \$35.0 million and \$0.1 million for the six months ended June 30, 2010 and 2009, respectively. Gross losses on the sales of investment securities were not material for the three and six months ended June 30, 2010 and 2009. Realized gains and losses on investment securities were recorded in noninterest income using the specific identification method.

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Table of Contents

The Company's temporarily impaired investment securities as of June 30, 2010, December 31, 2009, and June 30, 2009 were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Gross		Gross		Gross	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$		\$	1,553	\$	1,553
Debt Securities Issued by States and Political Subdivisions			320	(13)	320	(13)
Mortgage-Backed Securities Issued by Government Agencies	643,794	(5,169)			643,794	(5,169)
Total Temporarily Impaired Investment Securities	\$ 643,794	\$ (5,169)	\$ 1,873	\$ (29)	\$ 645,667	\$ (5,198)
December 31, 2009						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 347,324	\$ (1,656)	\$ 1,703	\$ (23)	\$ 349,027	\$ (1,679)
Debt Securities Issued by States and Political Subdivisions	878	(5)	322	(12)	1,200	(17)
Mortgage-Backed Securities Issued by Government Agencies	2,171,588	(20,029)			2,171,588	(20,029)
U.S. Government-Sponsored Enterprises	8,982	(54)			8,982	(54)
Total Mortgage-Backed Securities	2,180,570	(20,083)			2,180,570	(20,083)
Total Temporarily Impaired Investment Securities	\$ 2,528,772	\$ (21,744)	\$ 2,025	\$ (35)	\$ 2,530,797	\$ (21,779)
June 30, 2009						
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$ 100,915	\$ (2,287)	\$ 1,780	\$ (42)	\$ 102,695	\$ (2,329)
Debt Securities Issued by States and Political Subdivisions	32,453	(170)	320	(14)	32,773	(184)
Mortgage-Backed Securities Issued by Government Agencies	897,348	(11,841)			897,348	(11,841)
U.S. Government-Sponsored Enterprises	17,969	(40)			17,969	(40)
Private-Label Mortgage-Backed Securities	2,724	(506)	187,340	(20,794)	190,064	(21,300)
Total Mortgage-Backed Securities	918,041	(12,387)	187,340	(20,794)	1,105,381	(33,181)
Other Debt Securities			34	(1)	34	(1)
Total Temporarily Impaired Investment Securities	\$ 1,051,409	\$ (14,844)	\$ 189,474	\$ (20,851)	\$ 1,240,883	\$ (35,695)

The Company does not believe that the investment securities that were in an unrealized loss position as of June 30, 2010, which were comprised of 41 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of June 30, 2010, the gross unrealized losses reported for mortgage-backed securities related to investment securities issued by the Government National Mortgage Association.

Table of Contents**Note 3. Mortgage Servicing Rights**

The Company's portfolio of residential mortgage loans serviced for third parties was \$3.1 billion as of June 30, 2010 and December 31, 2009, and \$3.0 billion as of June 30, 2009. All of the Company's residential mortgage loans sold to third parties are sold on a non-recourse basis. The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$2.1 million and \$1.9 million for the three months ended June 30, 2010 and 2009, respectively, and \$4.1 million and \$3.8 million for the six months ended June 30, 2010 and 2009, respectively. Servicing income is recorded as a component of mortgage banking income in the Company's Consolidated Statements of Income. The Company's residential mortgage loan servicing portfolio is comprised primarily of fixed rate loans concentrated in Hawaii.

For the three and six months ended June 30, 2010 and 2009, the change in the fair value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2010	2009	2010	2009
Balance at Beginning of Period	\$ 14,807	\$ 17,904	\$ 15,332	\$ 19,553
Changes in Fair Value:				
Due to Change in Valuation Assumptions ¹	(554)	198	(646)	107
Due to Paydowns and Other ²	(413)	(1,269)	(846)	(2,827)
Total Changes in Fair Value of Mortgage Servicing Rights	(967)	(1,071)	(1,492)	(2,720)
Balance at End of Period	\$ 13,840	\$ 16,833	\$ 13,840	\$ 16,833

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

² Principally represents changes due to loan payoffs.

For the three and six months ended June 30, 2010 and 2009, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of a valuation allowance, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2010	2009	2010	2009
Balance at Beginning of Period	\$ 11,275	\$ 5,624	\$ 10,638	\$ 1,796
Servicing Rights that Resulted From Asset Transfers	896	2,444	1,841	6,367
Amortization	(365)	(170)	(673)	(265)
Balance at End of Period	\$ 11,806	\$ 7,898	\$ 11,806	\$ 7,898
Valuation Allowance:				
Balance at Beginning of Period	\$	\$	\$	\$ 292

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Recoveries					(292)
Balance at End of Period	\$		\$	\$	\$
Mortgage Servicing Rights Accounted for Under the Amortization Method, Net of a Valuation Allowance	\$	11,806	\$	7,898	\$
				\$	11,806
				\$	7,898
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method					
Beginning of Period	\$	16,453	\$	6,158	\$
End of Period	\$	15,044	\$	10,301	\$
				\$	14,853
				\$	15,044
				\$	1,504
				\$	10,301

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Table of Contents

The key assumptions used in estimating the fair value of the Company's mortgage servicing rights as of June 30, 2010, December 31, 2009, and June 30, 2009 were as follows:

	June 30, 2010	December 31, 2009	June 30, 2009
Weighted-Average Constant Prepayment Rate ¹	15.11%	14.45%	15.16%
Weighted-Average Life (in years)	5.21	5.55	5.19
Weighted-Average Note Rate	5.20%	5.27%	5.41%
Weighted-Average Discount Rate ²	7.04%	8.00%	7.95%

1 Represents annualized loan repayment rate assumption.

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

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of June 30, 2010, December 31, 2009, and June 30, 2009 is presented in the following table.

(dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Constant Prepayment Rate			
Decrease in fair value from 25 basis points (bps) adverse change	\$ (329)	\$ (315)	\$ (279)
Decrease in fair value from 50 bps adverse change	(653)	(624)	(551)
Discount Rate			
Decrease in fair value from 25 bps adverse change	(378)	(385)	(326)
Decrease in fair value from 50 bps adverse change	(743)	(755)	(645)

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 4. Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as

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collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's Consolidated Statements of Condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts and are delivered to and held as collateral by third party trustees.

As of June 30, 2010, the contractual maturities of the Company's securities sold under agreements to repurchase were as follows:

(dollars in thousands)		Amount
Overnight	\$	240,000
2 to 30 Days		885,097
31 to 90 Days		237,900
Over 90 Days		718,396
Total	\$	2,081,393

Table of Contents**Note 5. Comprehensive Income**

The following table presents the components of comprehensive income for the three and six months ended June 30, 2010 and 2009:

(dollars in thousands)	Before Tax Amount		Tax Effect		Net of Tax
Three Months Ended June 30, 2010					
Net Income	\$	70,945	\$	24,381	\$ 46,564
Other Comprehensive Income (Loss):					
Net Unrealized Gains on Investment Securities Available-for-Sale		85,443		33,596	51,847
Reclassification of Net Gains on Investment Securities Available-for-Sale Included in Net Income		(14,951)		(5,881)	(9,070)
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale		70,492		27,715	42,777
Amortization of Net Losses Related to Defined Benefit Plans		595		215	380
Change in Accumulated Other Comprehensive Income (Loss)		71,087		27,930	43,157
Total Comprehensive Income	\$	142,032	\$	52,311	\$ 89,721
Three Months Ended June 30, 2009					
Net Income	\$	44,409	\$	13,403	\$ 31,006
Other Comprehensive Income (Loss):					
Net Unrealized Losses on Investment Securities Available-for-Sale		(1,515)		(581)	(934)
Reclassification of Net Gains on Investment Securities Available-for-Sale Included in Net Income		(12)		(5)	(7)
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale		(1,527)		(586)	(941)
Amortization of Net Losses Related to Defined Benefit Plans		611		221	390
Change in Accumulated Other Comprehensive Income (Loss)		(916)		(365)	(551)
Total Comprehensive Income	\$	43,493	\$	13,038	\$ 30,455
Six Months Ended June 30, 2010					
Net Income	\$	147,963	\$	48,663	\$ 99,300
Other Comprehensive Income (Loss):					
Net Unrealized Gains on Investment Securities Available-for-Sale		125,426		51,199	74,227
Reclassification of Net Gains on Investment Securities Available-for-Sale Included in Net Income		(34,972)		(14,279)	(20,693)
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale		90,454		36,920	53,534
Amortization of Net Losses Related to Defined Benefit Plans		1,189		428	761
Change in Accumulated Other Comprehensive Income (Loss)		91,643		37,348	54,295
Total Comprehensive Income	\$	239,606	\$	86,011	\$ 153,595
Six Months Ended June 30, 2009					
Net Income	\$	99,016	\$	31,970	\$ 67,046
Other Comprehensive Income (Loss):					
Net Unrealized Gains on Investment Securities Available-for-Sale		41,164		14,819	26,345
Reclassification of Net Gains on Investment Securities Available-for-Sale Included in Net Income		(68)		(25)	(43)
Change in Unrealized Gains and Losses on Investment Securities Available-for-Sale		41,096		14,794	26,302
Amortization of Net Losses Related to Defined Benefit Plans		1,119		403	716
Change in Accumulated Other Comprehensive Income (Loss)		42,215		15,197	27,018
Total Comprehensive Income	\$	141,231	\$	47,167	\$ 94,064

Table of Contents**Note 6. Earnings Per Share**

There were no adjustments to net income, the numerator, for purposes of computing basic earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Denominator for Basic Earnings Per Share	48,080,485	47,682,604	47,997,996	47,624,521
Dilutive Effect of Stock Options	326,553	248,550	327,528	231,537
Dilutive Effect of Restricted Stock	8,564	17,377	26,558	20,451
Denominator for Diluted Earnings Per Share	48,415,602	47,948,531	48,352,082	47,876,509

For the three months ended June 30, 2010 and 2009, 256,702 and 486,365 shares, respectively, of stock options and restricted stock were outstanding but not included in the calculation of diluted earnings per share as they were antidilutive. For the six months ended June 30, 2010 and 2009, 279,472 and 484,029 shares, respectively, of stock options and restricted stock were outstanding but not included in the calculation of diluted earnings per share as they were antidilutive.

Table of Contents

Note 7. Business Segments

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

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

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, and installment loans. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers retail life insurance products and provides merchant services to its small business customers. Products and services from Retail Banking are delivered to customers through 71 Hawaii branch locations, 487 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, and deposit and cash management products. Commercial lending, deposit, and cash management services are offered to middle-market and large companies in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders domiciled in Hawaii. Commercial Banking also includes syndicated lending activities, international banking, and operations at the Bank's 12 branches in the Pacific Islands.

Investment Services

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

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

Treasury

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

Other organizational units (Technology, Operations, Marketing, Human Resources, Finance, Credit and Risk Management, and Corporate and Regulatory Administration) included in Treasury 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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Table of Contents

Selected business segment financial information as of and for the three and six months ended June 30, 2010 and 2009 were as follows:

(dollars in thousands)		Retail Banking		Commercial Banking		Investment Services		Treasury and Other		Consolidated Total
Three Months Ended June 30, 2010										
Net Interest Income	\$	48,253	\$	36,336	\$	4,215	\$	15,124	\$	103,928
Provision for Credit Losses		9,871		6,206		(127)		(11)		15,939
Net Interest Income After Provision for Credit Losses		38,382		30,130		4,342		15,135		87,989
Noninterest Income		25,806		11,697		14,310		17,061		68,874
Noninterest Expense		(43,436)		(24,977)		(15,553)		(1,952)		(85,918)
Income Before Provision for Income Taxes		20,752		16,850		3,099		30,244		70,945
Provision for Income Taxes		(7,678)		(5,866)		(1,147)		(9,690)		(24,381)
Net Income	\$	13,074	\$	10,984	\$	1,952	\$	20,554	\$	46,564
Total Assets as of June 30, 2010	\$	3,155,472	\$	2,328,378	\$	312,676	\$	7,059,319	\$	12,855,845
Three Months Ended June 30, 2009										
Net Interest Income	\$	55,843	\$	41,425	\$	4,326	\$	1,257	\$	102,851
Provision for Credit Losses		12,753		15,192		746		(1)		28,690
Net Interest Income After Provision for Credit Losses		43,090		26,233		3,580		1,258		74,161
Noninterest Income		25,252		16,538		14,615		3,427		59,832
Noninterest Expense		(43,937)		(27,596)		(15,797)		(2,254)		(89,584)
Income Before Provision for Income Taxes		24,405		15,175		2,398		2,431		44,409
Provision for Income Taxes		(9,047)		(5,436)		(887)		1,967		(13,403)
Net Income	\$	15,358	\$	9,739	\$	1,511	\$	4,398	\$	31,006
Total Assets as of June 30, 2009	\$	3,554,288	\$	2,659,944	\$	267,546	\$	5,712,917	\$	12,194,695
Six Months Ended June 30, 2010										
Net Interest Income	\$	97,565	\$	77,485	\$	8,538	\$	27,993	\$	211,581
Provision for Credit Losses		25,227		11,347		88		(12)		36,650
Net Interest Income After Provision for Credit Losses		72,338		66,138		8,450		28,005		174,931
Noninterest Income		49,273		21,715		29,337		40,331		140,656
Noninterest Expense		(85,769)		(48,839)		(29,598)		(3,418)		(167,624)
Income Before Provision for Income Taxes		35,842		39,014		8,189		64,918		147,963
Provision for Income Taxes		(13,261)		(13,874)		(3,031)		(18,497)		(48,663)
Net Income	\$	22,581	\$	25,140	\$	5,158	\$	46,421	\$	99,300
Total Assets as of June 30, 2010	\$	3,155,472	\$	2,328,378	\$	312,676	\$	7,059,319	\$	12,855,845
Six Months Ended June 30, 2009										
Net Interest Income (Loss)	\$	111,093	\$	81,166	\$	8,318	\$	(664)	\$	199,913
Provision for Credit Losses		29,322		22,950		1,550		(245)		53,577
Net Interest Income (Loss) After Provision for Credit Losses		81,771		58,216		6,768		(419)		146,336
Noninterest Income		53,666		40,364		29,060		7,107		130,197
Noninterest Expense		(87,786)		(53,381)		(32,357)		(3,993)		(177,517)
Income Before Provision for Income Taxes		47,651		45,199		3,471		2,695		99,016
Provision for Income Taxes		(17,651)		(16,522)		(1,282)		3,485		(31,970)
Net Income	\$	30,000	\$	28,677	\$	2,189	\$	6,180	\$	67,046
Total Assets as of June 30, 2009	\$	3,554,288	\$	2,659,944	\$	267,546	\$	5,712,917	\$	12,194,695

Table of Contents**Note 8. Pension Plans and Postretirement Benefit Plan**

The components of net periodic benefit cost for the Company's pension plans and the postretirement benefit plan for the three and six months ended June 30, 2010 and 2009 were as follows:

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2010	2009	2010	2009
Three Months Ended June 30,				
Service Cost	\$	\$	\$ 117	\$ 109
Interest Cost	1,294	1,285	440	419
Expected Return on Plan Assets	(1,642)	(1,332)		
Amortization of:				
Prior Service Credit			(53)	(53)
Net Actuarial Losses (Gains)	724	732	(76)	(119)
Net Periodic Benefit Cost	\$ 376	\$ 685	\$ 428	\$ 356
Six Months Ended June 30,				
Service Cost	\$	\$	\$ 234	\$ 219
Interest Cost	2,588	2,569	879	839
Expected Return on Plan Assets	(3,284)	(2,664)		
Amortization of:				
Prior Service Credit			(106)	(107)
Net Actuarial Losses (Gains)	1,448	1,464	(152)	(238)
Net Periodic Benefit Cost	\$ 752	\$ 1,369	\$ 855	\$ 713

The net periodic benefit cost for the Company's pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the Consolidated Statements of Income. For the three and six months ended June 30, 2010, the Company contributed \$0.6 million and \$1.2 million, respectively, to the pension plans. For the three and six months ended June 30, 2010, the Company contributed \$0.8 million and \$1.0 million, respectively, to the postretirement benefit plan. The Company expects to contribute \$3.0 million to the pension plans and \$1.4 million to the postretirement benefit plan for the year ending December 31, 2010.

Note 9. Derivative Financial Instruments

The following table presents the Company's derivative financial instruments, their estimated fair values, and balance sheet location as of June 30, 2010, December 31, 2009, and June 30, 2009:

	As of June 30, 2010		As of December 31, 2009		As of June 30, 2009	
Derivative Financial Instruments Not Designated						
as Hedging Instruments¹ (dollars in thousands)	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Interest Rate Lock Commitments	\$ 2,471	\$ 199	\$ 564	\$ 580	\$ 1,261	\$ 340

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Forward Commitments	251	902	1,123	5	1,007	374
Interest Rate Swap Agreements	30,079	30,344	18,834	18,998	19,911	20,091
Foreign Exchange Contracts	504	621	175	402	247	381
Total	\$ 33,305	\$ 32,066	\$ 20,696	\$ 19,985	\$ 22,426	\$ 21,186

1 Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the Consolidated Statements of Condition.

The following table presents the Company's derivative financial instruments and the amount and location of the net gains and losses recognized in the statements of income for the three and six months ended June 30, 2010 and 2009:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses) Recognized in the Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
Interest Rate Lock Commitments	Mortgage Banking	\$ 4,886	\$ 97	\$ 7,245	\$ 7,022
Forward Commitments	Mortgage Banking	(1,689)	1,306	(2,008)	1,893
Interest Rate Swap Agreements	Other Noninterest Income	(41)	635	113	777
Foreign Exchange Contracts	Other Noninterest Income	667	713	1,413	1,311
Total		\$ 3,823	\$ 2,751	\$ 6,763	\$ 11,003

Table of Contents

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

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

Derivative financial instruments are required to be carried at their estimated fair value on the Company's Consolidated Statements of Condition. As of June 30, 2010, December 31, 2009, and June 30, 2009, the Company did not designate any derivative financial instruments as accounting hedges. The Bank's free-standing derivative financial instruments have been recorded at fair value on the Company's Consolidated Statements of Condition. These financial instruments have been limited to interest rate lock commitments, forward commitments, interest rate swap agreements, and foreign exchange contracts.

The Company enters into interest rate lock commitments for residential mortgage loans that the Company intends to sell in the secondary market. Interest rate exposure from interest rate lock commitments is hedged with forward commitments for the future sale of residential mortgage loans. The interest rate lock commitments and forward commitments are free-standing derivatives which are carried at estimated fair value with changes recorded in the mortgage banking component of noninterest income. Changes in the estimated fair value of interest rate lock commitments and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates this risk by entering into equal and offsetting interest rate swap agreements with highly rated third parties. The interest rate swap agreements are free-standing derivatives which are carried at estimated fair value with changes included in other noninterest income in the Company's Consolidated Statements of Income.

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

Table of Contents**Note 10. Credit Commitments**

The Company's credit commitments as of June 30, 2010 December 31, 2009, and June 30, 2009 were as follows:

	June 30,	December 31,	June 30,
(dollars in thousands)	2010	2009	2009
Unfunded Commitments to Extend Credit	\$ 1,960,602	\$ 2,039,056	\$ 2,137,914
Standby Letters of Credit	92,958	84,012	89,742
Commercial Letters of Credit	24,386	23,163	21,109
Total Credit Commitments	\$ 2,077,946	\$ 2,146,231	\$ 2,248,765

Unfunded Commitments to Extend Credit

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

Standby and Commercial Letters of Credit

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

Table of Contents

Note 11. Fair Value of Assets and Liabilities

Fair Value Hierarchy

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

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

Fair values of investment securities available-for-sale were primarily measured using information from a third-party pricing service. This pricing service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. If quoted prices were available in an active market, investment securities were classified as Level 1 measurements. Level 1 investment securities included debt securities issued by the U.S. Treasury. If quoted prices in active markets were not available, fair values were estimated primarily by the use of pricing models. Level 2 investment securities were primarily comprised of mortgage-backed securities issued by government agencies and U.S. government-sponsored enterprises. In certain cases where there were

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limited or less transparent information provided by the Company's third-party pricing service, fair value was estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service.

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of June 30, 2010, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

Table of Contents

Mortgage Servicing Rights

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

Other Assets

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

Derivative Financial Instruments

Derivative financial instruments recorded at fair value on a recurring basis are comprised of interest rate lock commitments, forward commitments, interest rate swap agreements, and foreign exchange contracts. The fair values of interest rate lock commitments are calculated using a discounted cash flow approach utilizing inputs such as the fall-out ratio. The fall-out ratio is derived from the Bank's internal data and is adjusted using significant management judgment as to the percentage of loans which are currently in a lock position which will ultimately not close. Interest rate lock commitments are deemed Level 3 measurements as significant unobservable inputs and management judgment are required. The fair values of forward commitments are deemed Level 2 measurements as they are primarily based on quoted prices from the secondary market based on the settlement date of the contracts, interpolated or extrapolated, if necessary, to estimate a fair value as of the end of the reporting period. The fair values of interest rate swap agreements are also calculated using a discounted cash flow approach and utilize inputs such as the London Inter Bank Offered Rate swap curve, effective date, maturity date, notional amount, and stated interest rate. Interest rate swap agreements are deemed Level 3 measurements as significant unobservable inputs and management judgment are required. The fair values of foreign exchange contracts are calculated using the Bank's multi-currency accounting system which utilizes contract specific information such as currency, maturity date, contractual amount, and strike price, along with market data information such as spot rates of the specific currency and yield curves. Foreign exchange contracts are deemed Level 2 measurements because while they are valued using the Bank's multi-currency accounting system, significant management judgment or estimation is not required.

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

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Table of Contents

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2010, December 31, 2009, and June 30, 2009:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
(dollars in thousands)							
June 30, 2010							
Investment Securities Available-for-Sale							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	670,957	\$	2,187	\$	\$	673,144
Debt Securities Issued by States and Political Subdivisions				53,614			53,614
Debt Securities Issued by U.S. Government-Sponsored Enterprises				774			774
Mortgage-Backed Securities Issued by Government Agencies				5,091,623			5,091,623
U.S. Government-Sponsored Enterprises				161,604			161,604
Total Mortgage-Backed Securities				5,253,227			5,253,227
Total Investment Securities Available-for-Sale		670,957		5,309,802			5,980,759
Mortgage Servicing Rights						13,840	13,840
Other Assets		9,697					9,697
Net Derivative Assets and Liabilities				(768)		2,007	1,239
Total Assets Measured at Fair Value on a Recurring Basis as of June 30, 2010							
	\$	680,654	\$	5,309,034	\$	15,847	\$ 6,005,535
December 31, 2009							
Investment Securities Available-for-Sale							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	718,388	\$	2,404	\$	\$	720,792
Debt Securities Issued by States and Political Subdivisions				54,116			54,116
Debt Securities Issued by U.S. Government-Sponsored Enterprises				792			792
Mortgage-Backed Securities Issued by Government Agencies				4,022,687			4,022,687
U.S. Government-Sponsored Enterprises				532,447			532,447
Total Mortgage-Backed Securities				4,555,134			4,555,134
Total Investment Securities Available-for-Sale		718,388		4,612,446			5,330,834
Mortgage Servicing Rights						15,332	15,332
Other Assets		8,979					8,979
Net Derivative Assets and Liabilities				891		(180)	711
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2009							
	\$	727,367	\$	4,613,337	\$	15,152	\$ 5,355,856
June 30, 2009							
Investment Securities Available-for-Sale							
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	796,021	\$	2,765	\$	\$	798,786
Debt Securities Issued by States and Political Subdivisions				88,850			88,850
Debt Securities Issued by U.S. Government-Sponsored Enterprises				808			808
Mortgage-Backed Securities Issued by Government Agencies				1,862,222			1,862,222
U.S. Government-Sponsored Enterprises				1,302,381			1,302,381
Private-Label Mortgage-Backed Securities				214,550			214,550
Total Mortgage-Backed Securities				3,379,153			3,379,153
Other Debt Securities				25,314			25,314
Total Investment Securities Available-for-Sale		796,021		3,496,890			4,292,911
Mortgage Servicing Rights						16,833	16,833
Other Assets		7,767					7,767
Net Derivative Assets and Liabilities				499		741	1,240
Total Assets Measured at Fair Value on a Recurring Basis as of June 30, 2009							
	\$	803,788	\$	3,497,389	\$	17,574	\$ 4,318,751

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Table of Contents

For the three and six months ended June 30, 2010 and 2009, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

		Mortgage		Net Derivative	
Assets (dollars in thousands)		Servicing Rights 1		Assets and Liabilities 2	Total
Three Months Ended June 30, 2010					
Balance as of April 1, 2010	\$	14,807		\$ 337	\$ 15,144
Realized and Unrealized Net Gains (Losses):					
Included in Net Income		(967)		4,845	3,878
Purchases, Sales, Issuances, and Settlements, Net		-		(3,175)	(3,175)
Balance as of June 30, 2010	\$	13,840		\$ 2,007	\$ 15,847
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2010					
	\$	(554)		\$ 2,007	\$ 1,453
			Mortgage		Net Derivative
Assets (dollars in thousands)		Servicing Rights 1		Assets and Liabilities 2	Total
Three Months Ended June 30, 2009					
Balance as of April 1, 2009	\$	17,904		\$ 2,745	\$ 20,649
Realized and Unrealized Net Gains (Losses):					
Included in Net Income		(1,071)		732	(339)
Purchases, Sales, Issuances, and Settlements, Net		-		(2,736)	(2,736)
Balance as of June 30, 2009	\$	16,833		\$ 741	\$ 17,574
Total Unrealized Net Gains Included in Net Income Related to Assets Still Held as of June 30, 2009					
	\$	198		\$ 741	\$ 939
			Mortgage		Net Derivative
Assets (dollars in thousands)		Servicing Rights 1		Assets and Liabilities 2	Total
Six Months Ended June 30, 2010					
Balance as of January 1, 2010	\$	15,332		\$ (180)	\$ 15,152
Realized and Unrealized Net Gains (Losses):					
Included in Net Income		(1,492)		7,358	5,866
Purchases, Sales, Issuances, and Settlements, Net		-		(5,171)	(5,171)
Balance as of June 30, 2010	\$	13,840		\$ 2,007	\$ 15,847
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2010					
	\$	(646)		\$ 2,007	\$ 1,361
			Investment Securities		Net Derivative
Assets (dollars in thousands)		Available-for-Sale 3	Servicing Rights 1	Assets and Liabilities 2	Total
Six Months Ended June 30, 2009					
Balance as of January 1, 2009	\$	55,715	\$ 19,553	\$ 3,051	\$ 78,319
Realized and Unrealized Net Gains (Losses):					
Included in Net Income	-		(2,720)	7,799	5,079
Purchases, Sales, Issuances, and Settlements, Net	(55,715)		-	(10,109)	(65,824)
Balance as of June 30, 2009	\$	-	\$ 16,833	\$ 741	\$ 17,574
Total Unrealized Net Gains Included in Net Income Related to Assets Still Held as of June 30, 2009					
	\$	-	\$ 107	\$ 741	\$ 848

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Liabilities (dollars in thousands)	Long-Term Debt 4		Total
Six Months Ended June 30, 2009			
Balance as of January 1, 2009	\$	119,275	\$ 119,275
Unrealized Net Gains Included in Net Income		(304)	(304)
Purchases, Sales, Issuances, and Settlements, Net		(118,971)	(118,971)
Balance as of June 30, 2009	\$	-	\$ -

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

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

3 Unrealized gains and losses related to investment securities available-for-sale are reported as a component of other comprehensive income in the Company's Consolidated Statements of Condition.

4 Realized and unrealized gains and losses related to long-term debt were reported as a component of other noninterest income in the Company's Consolidated Statements of Income.

Table of Contents

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or impairment write-downs of individual assets. As of June 30, 2010, the Company's residential mortgage loans held for sale with a carrying amount of \$13.5 million were written down to their estimated fair value of \$13.2 million, resulting in an unrealized loss of \$0.3 million. The estimated fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets, and therefore, were classified as Level 2 measurements. As of June 30, 2010, December 31, 2009, and June 30, 2009, there were no other adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

Disclosures about Fair Value of Financial Instruments

These disclosures exclude financial instruments that are recorded at fair value on a recurring basis on the Company's Consolidated Statements of Condition as well as short-term financial assets such as cash and cash equivalents, and liabilities such as short-term borrowings, for which the carrying amounts approximate fair value. The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Investment Securities Held-to-Maturity

The fair value of the Company's investment securities held-to-maturity was primarily measured using information from a third-party pricing service. Quoted prices in active markets were used whenever available. If quoted prices were not available, estimated fair values were measured using pricing models or other valuation techniques such as the present value of future cash flows, adjusted for credit loss assumptions.

Loans Held for Sale

The estimated fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets. The estimated fair value of the Company's commercial loans held for sale was determined based on agreed upon sales prices.

Loans

The estimated fair value of the Company's loans was determined by discounting the expected future cash flows of pools of loans with similar characteristics. Loans were first segregated by type such as commercial, real estate, and consumer, and were then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Deposit Liabilities

The estimated fair values of the Company's noninterest-bearing and interest-bearing demand deposits and savings deposits were equal to the amount payable on demand (i.e., their carrying amounts) because these products have no stated maturity. The estimated fair values of the Company's time deposits were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits with similar remaining maturities. The estimated fair values of the Company's deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Long-Term Debt

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

The following presents the carrying amount and fair values of the Company's financial instruments as of June 30, 2010, December 31, 2009, and June 30, 2009:

(dollars in thousands)	June 30, 2010		December 31, 2009		June 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Instruments - Assets						
Investment Securities						
Held-to-Maturity	\$ 153,190	\$ 161,441	\$ 181,018	\$ 186,668	\$ 209,807	\$ 214,484
Loans Held for Sale	13,179	13,179	16,544	16,552	40,994	41,054
Loans ¹	4,902,804	5,183,981	5,217,472	5,443,649	5,565,816	5,606,390
Financial Instruments - Liabilities						
Deposits	9,324,659	9,338,284	9,409,676	9,421,423	9,019,661	9,033,246
Long-Term Debt ²	31,338	33,517	81,338	83,265	82,437	83,171

¹ Comprised of loans, net of unearned income and the allowance for loan losses.

² Excludes capitalized lease obligations.

[Table of Contents](#)

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

Forward-Looking Statements

This report contains forward-looking statements concerning, among other things, the economic and business environment in our service area and elsewhere, credit quality, our contributions to the Company's pension plans and the postretirement benefit plan, 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; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) the effect of the increase in government intervention in the U.S. financial system; 4) competitive pressure among financial services and products; 5) the impact of recent legislative initiatives; 6) changes in financial services industry regulation, and particularly, the anticipated comprehensive overhaul of the regulatory system for the financial services industry; 7) changes in fiscal and monetary policies of the markets in which we operate; 8) actual or alleged conduct which could harm our reputation; 9) changes in accounting standards; 10) changes in tax laws or regulations or the interpretation of such laws and regulations; 11) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 12) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 13) unpredicted costs and other consequences of legal or regulatory matters involving the Company; 14) resumption of the Parent's common stock repurchase program; and 15) natural disasters, or adverse weather, public health, and other conditions impacting us and our customers' operations. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, refer to the section entitled "Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2009, and subsequent periodic and current reports, filed with the U.S. Securities and Exchange Commission (the "SEC"). Words such as appears, may, believes, anticipates, expects, intends, targeted, plans, and similar expressions are intended to identify forward-looking statements but are not exclusive means of identifying such statements. We do not undertake an obligation to update forward-looking statements to reflect later events or circumstances.

Reclassifications

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

Overview

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

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

Our vision is exceptional people building exceptional value for our customers, our island communities, our shareholders, and each other. Maximizing shareholder value over time remains our governing objective.

In striving to achieve our vision and governing objective, our business plan is balanced between growth and risk management, including the flexibility to adjust, given the uncertainties in the current economy. We remain concerned about the economy, continued market volatility, and the unintended consequences of increased government intervention. For the remainder of 2010, we intend to continue to focus on asset quality, reserve and capital levels, and liquidity, as well as opportunities to further serve our customers.

Hawaii Economy

Hawaii's economy was slightly improved during the second quarter of 2010. Visitor arrivals have improved and spending appears to be stable. Job growth remains weak across most business sectors and unemployment, although significantly better than the national average, is expected to remain high. The State's seasonally-adjusted unemployment rate as of June 30, 2010 was 6.3% compared with a national rate of 9.5%. Home sales volume statewide continues to improve and prices on Oahu have stabilized, although sales prices on Hawaiian islands other than Oahu continue to lag. Private construction activity remains low; however, increased activity is anticipated due to Federal and State stimulus plans.

Financial Highlights

For the second quarter of 2010, net income was \$46.6 million, an increase of \$15.6 million or 50% compared to the second quarter of 2009. Diluted earnings per share were \$0.96 per share, an increase of \$0.31 per share from the second quarter of 2009. Our higher net income for the second quarter of 2010 was primarily due to the following:

- Net interest income increased by \$1.1 million in the second quarter of 2010. The increase was primarily due to lower funding costs and an increase in interest income from our larger investment securities portfolio. This increase was largely offset by lower yields earned on our investment securities and a

[Table of Contents](#)

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decrease in our loan balances as a result of pay downs and reduced customer demand.

- The provision for credit losses (the Provision) decreased by \$12.8 million in the second quarter of 2010, reflective of lower levels of net charge-offs.
- Net gains from the sale of investment securities increased by \$14.9 million in the second quarter of 2010.
- Federal Deposit Insurance Corporation (FDIC) insurance expense decreased by \$5.9 million in the second quarter of 2010. This decrease was primarily due to the Company's \$5.7 million share of an industry-wide FDIC assessment recorded in the second quarter of 2009.

The impact of these items was partially offset by an increase in salaries and benefits expense in the second quarter of 2010, primarily due to a \$3.3 million accrual for cash grants to purchase company stock.

For the first six months of 2010, net income was \$99.3 million, an increase of \$32.3 million or 48% compared to the first six months of 2009. Diluted earnings per share were \$2.05 per share, an increase of \$0.65 per share from the first six months of 2009. Our higher net income for the first six months of 2010 was primarily due to the following:

- Net interest income increased by \$11.7 million for the first six months of 2010. The increase was primarily due to lower funding costs and an increase in interest income from our larger investment securities portfolio. This increase was largely offset by lower yields earned on our investment securities and a decrease in our loan balances as a result of pay downs and reduced customer demand.
- The Provision decreased by \$16.9 million for the first six months of 2010, reflective of lower levels of net charge-offs.
- Net gains from the sale of investment securities increased by \$34.9 million for the first six months of 2010.
- Our FDIC insurance expense decreased by \$4.6 million for the first six months of 2010, primarily due to the Company's \$5.7 million share of an industry-wide FDIC assessment recorded in the second quarter of 2009.

The impact of these items was partially offset by a \$6.9 million decrease in mortgage banking income as a result of lower loan origination volume. We also recorded a \$10.0 million gain from the sale of our equity interest in two watercraft leveraged leases in the first quarter of 2009.

A more detailed discussion of the changes in the various components of net income is presented in the following sections of MD&A.

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We also continued to strengthen our balance sheet during the first six months of 2010, with higher reserves for credit losses, liquidity, and capital.

- Our Allowance for Loan and Lease Losses (the Allowance) was \$147.4 million as of June 30, 2010, an increase of \$3.7 million or 3% from December 31, 2009. The ratio of our Allowance to total loans and leases outstanding increased to 2.71% as of June 30, 2010, compared to 2.49% as of December 31, 2009. Based on the net charge-offs of loans and leases for the last several quarters, our current loss projections, as well as economic and risk indicators, we believe that further increases to the Allowance may not be necessary. However, this determination will be dependent on future events and therefore there can be no assurance that additional reserves will not be necessary.
- Non-performing assets were \$43.2 million as of June 30, 2010, a decrease of \$5.1 million or 11% from December 31, 2009.
- As of June 30, 2010, we continued to maintain a significant balance of excess reserves with the Federal Reserve Bank (FRB). We maintained \$355.9 million in excess reserves invested with the FRB as of June 30, 2010, an increase of \$64.3 million or 22% from December 31, 2009.
- We continued to conservatively invest excess liquidity in mortgage-backed securities issued by the Government National Mortgage Association, as well as in U.S. Treasury securities.
- We continued to increase our capital levels during the first six months of 2010. Shareholders' equity was \$1.0 billion as of June 30, 2010, an increase of \$117.0 million or 13% from December 31, 2009. We have not repurchased shares of our common stock under our share repurchase program since October 2008. We plan to resume our share repurchases in the third quarter of 2010 in an orderly and disciplined manner, but the amount and timing will depend on market conditions and various other factors.
- Our Tier 1 capital ratio was 16.92% as of June 30, 2010 compared to 14.84% as of December 31, 2009. Our ratio of tangible common equity to risk-weighted assets was 18.57% as of June 30, 2010, compared to 15.45% as of December 31, 2009.

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Table of Contents

Table 1 presents our financial highlights for the three and six months ended June 30, 2010 and 2009 and as of June 30, 2010, December 31, 2009, and June 30, 2009.

Financial Highlights

	Three Months Ended June 30,		Six Months Ended June 30,		Table 1
(dollars in thousands, except per share amounts)	2010	2009	2010	2009	
For the Period:					
Operating Results					
Net Interest Income	\$ 103,928	\$ 102,851	\$ 211,581	\$ 199,913	
Provision for Credit Losses	15,939	28,690	36,650	53,577	
Total Noninterest Income	68,874	59,832	140,656	130,197	
Total Noninterest Expense	85,918	89,584	167,624	177,517	
Net Income	46,564	31,006	99,300	67,046	
Basic Earnings Per Share	0.97	0.65	2.07	1.41	
Diluted Earnings Per Share	0.96	0.65	2.05	1.40	
Dividends Declared Per Share	0.45	0.45	0.90	0.90	
Performance Ratios					
Return on Average Assets	1.48%	1.06%	1.60%	1.18%	
Return on Average Shareholders' Equity	19.01	14.49	20.73	16.13	
Efficiency Ratio 1	49.72	55.07	47.59	53.78	
Operating Leverage 2	(11.10)	(8.04)	20.98	(14.62)	
Net Interest Margin 3	3.51	3.73	3.61	3.75	
Dividend Payout Ratio 4	46.39	69.23	43.48	63.83	
Average Shareholders' Equity to Average Assets	7.79	7.30	7.73	7.34	
Average Balances					
Average Loans and Leases	\$ 5,522,423	\$ 6,258,403	\$ 5,604,218	\$ 6,351,938	
Average Assets	12,603,233	11,753,580	12,491,132	11,426,766	
Average Deposits	9,387,621	9,222,130	9,389,110	8,988,053	
Average Shareholders' Equity	982,233	858,139	965,745	838,288	
Market Price Per Share of Common Stock					
Closing	\$ 48.35	\$ 35.83	\$ 48.35	\$ 35.83	
High	54.10	41.42	54.10	45.24	
Low	45.00	31.35	41.60	25.33	
		June 30, 2010	December 31, 2009	June 30, 2009	
As of Period End:					
Balance Sheet Totals					
Loans and Leases	\$ 5,440,911	\$ 5,759,785	\$ 6,149,911		
Total Assets	12,855,845	12,414,827	12,194,695		
Total Deposits	9,324,659	9,409,676	9,019,661		
Long-Term Debt	40,300	90,317	91,432		
Total Shareholders' Equity	1,013,011	895,973	845,885		
Asset Quality					
Allowance for Loan and Lease Losses	\$ 147,358	\$ 143,658	\$ 137,416		
Non-Performing Assets 5	43,241	48,331	39,054		
Financial Ratios					
Allowance to Loans and Leases Outstanding	2.71%	2.49%	2.23%		
Tier 1 Capital Ratio 6	16.92	14.84	12.52		
Total Capital Ratio 7	18.19	16.11	13.78		
Leverage Ratio 8	7.09	6.76	6.64		

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Tangible Common Equity to Total Assets ⁹	7.63	6.96	6.65
Tangible Common Equity to Risk-Weighted Assets ⁹	18.57	15.45	13.02

Non-Financial Data

Full-Time Equivalent Employees	2,427	2,418	2,533
Branches and Offices	83	83	85
ATMs	487	485	486

- 1 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and total noninterest income).
- 2 Operating leverage is defined as the percentage change in income before the provision for credit losses and the provision for income taxes. Measures are presented on a linked quarter basis.
- 3 Net interest margin is defined as net interest income, on a taxable equivalent basis, as a percentage of average earning assets.
- 4 Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share.
- 5 Excluded from non-performing assets are contractually binding non-accrual loans held for sale of \$4.2 million and \$5.2 million as of December 31, 2009 and June 30, 2009, respectively.
- 6 Tier 1 Capital Ratio as of December 31, 2009 and June 30, 2009 was revised from 14.88% and 12.56%, respectively.
- 7 Total Capital Ratio as of December 31, 2009 and June 30, 2009 was revised from 16.15% and 13.82%, respectively.
- 8 Leverage Ratio as of December 31, 2009 and June 30, 2009 was revised from 6.78% and 6.66%, respectively.
- 9 Tangible common equity, a non-GAAP financial measure, is defined by the Company as shareholders' equity minus goodwill and intangible assets. Intangible assets are included as a component of other assets in the Consolidated Statements of Condition.

Table of Contents**Analysis of Statements of Income**

Average balances, related income and expenses, and resulting yields and rates are presented in Table 2. An analysis of the change in net interest income, on a taxable equivalent basis, is presented in Table 3.

Average Balances and Interest Rates - Taxable Equivalent Basis												Table 2	
(dollars in millions)	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009			Six Months Ended June 30, 2010			Six Months Ended June 30, 2009			
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	
Earning Assets													
Interest-Bearing													
Deposits	\$ 5.3	\$	0.17%	\$ 5.2	\$	0.36%	\$ 5.6	\$	0.56%	\$ 5.0	\$	0.59%	
Funds Sold	586.8	0.4	0.27	833.2	0.5	0.25	525.2	0.7	0.27	872.8	1.1	0.25	
Investment Securities													
Trading										24.3	0.6	4.90	
Available-for-Sale	5,531.2	45.2	3.27	3,662.1	38.5	4.21	5,386.9	89.3	3.32	3,148.3	71.0	4.51	
Held-to-Maturity	160.2	1.7	4.25	219.9	2.4	4.31	167.1	3.6	4.26	227.4	4.9	4.34	
Loans Held for Sale	8.5	0.1	4.46	24.1	0.2	4.21	8.7	0.6	14.27	23.0	0.5	4.30	
Loans and Leases 1													
Commercial and													
Industrial	765.5	7.9	4.12	984.1	9.9	4.02	776.9	18.1	4.69	1,007.6	20.3	4.06	
Commercial Mortgage	826.2	10.5	5.10	763.8	9.9	5.22	832.1	21.0	5.10	747.3	19.5	5.27	
Construction	100.3	1.3	5.28	144.5	1.5	4.03	104.1	2.7	5.13	149.3	3.1	4.12	
Commercial Lease													
Financing	400.8	3.0	2.95	450.2	3.5	3.13	404.1	6.3	3.14	456.5	7.2	3.14	
Residential Mortgage	2,109.1	29.9	5.66	2,359.0	34.6	5.88	2,134.7	60.8	5.70	2,398.0	71.0	5.92	
Home Equity	875.8	10.9	5.01	999.3	12.6	5.07	892.5	22.2	5.01	1,013.9	25.6	5.10	
Automobile	249.4	4.7	7.63	325.5	6.5	7.96	260.9	9.9	7.68	340.8	13.4	7.95	
Other 2	195.3	3.7	7.63	232.0	4.6	7.89	198.9	7.6	7.70	238.5	9.3	7.88	
Total Loans and Leases	5,522.4	71.9	5.22	6,258.4	83.1	5.32	5,604.2	148.6	5.33	6,351.9	169.4	5.36	
Other	79.8	0.3	1.39	79.7	0.3	1.39	79.8	0.6	1.39	79.7	0.6	1.39	
Total Earning Assets 3	11,894.2	119.6	4.03	11,082.6	125.0	4.52	11,777.5	243.4	4.15	10,732.4	248.1	4.64	
Cash and													
Noninterest-Bearing													
Deposits	221.0			203.9			225.4			223.6			
Other Assets	488.0			467.1			488.2			470.8			
Total Assets	\$ 12,603.2			\$ 11,753.6			\$ 12,491.1			\$ 11,426.8			
Interest-Bearing Liabilities													
Interest-Bearing													
Deposits													
Demand	\$ 1,659.8	0.3	0.06	\$ 1,907.7	0.3	0.07	\$ 1,660.8	0.5	0.07	\$ 1,898.2	0.6	0.07	
Savings	4,477.8	4.2	0.38	4,036.9	7.8	0.77	4,456.1	8.7	0.39	3,786.4	16.0	0.85	
Time	1,093.0	3.4	1.24	1,330.6	6.4	1.92	1,114.7	7.0	1.27	1,415.2	14.9	2.12	
Total Interest-Bearing													
Deposits	7,230.6	7.9	0.44	7,275.2	14.5	0.80	7,231.6	16.2	0.45	7,099.8	31.5	0.89	
Short-Term Borrowings	17.7		0.13	16.4		0.12	23.2		0.11	17.6		0.11	
Securities Sold Under													
Agreements													
to Repurchase	1,785.2	6.5	1.44	1,168.2	6.5	2.20	1,659.2	12.9	1.55	1,052.4	13.1	2.48	
Long-Term Debt	74.4	1.0	5.52	71.1	0.8	4.84	82.3	2.2	5.37	109.4	3.0	5.56	
Total Interest-Bearing Liabilities	9,107.9	15.4	0.68	8,530.9	21.8	1.02	8,996.3	31.3	0.70	8,279.2	47.6	1.16	
Net Interest Income		\$ 104.2			\$ 103.2			\$ 212.1			\$ 200.5		

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Interest Rate Spread	3.35%	3.50%	3.45%	3.48%
Net Interest Margin	3.51%	3.73%	3.61%	3.75%
Noninterest-Bearing				
Demand Deposits	2,157.0	1,946.9	2,157.5	1,888.3
Other Liabilities	356.1	417.7	371.6	421.0
Shareholders' Equity	982.2	858.1	965.7	838.3
Total Liabilities and Shareholders' Equity	\$ 12,603.2	\$ 11,753.6	\$ 12,491.1	\$ 11,426.8

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 \$237,000 and \$331,000 for the three months ended June 30, 2010 and 2009, respectively, and \$476,000 and \$557,000 for the six months ended June 30, 2010 and 2009, respectively.

Table of Contents**Analysis of Change in Net Interest Income - Taxable Equivalent Basis****Table 3**

		Six Months Ended June 30, 2010 Compared to June 30, 2009			
(dollars in millions)	Volume 1		Rate 1		Total
Change in Interest Income:					
Funds Sold	\$ (0.5)	\$	0.1	\$	(0.4)
Investment Securities					
Trading	(0.3)		(0.3)		(0.6)
Available-for-Sale	40.6		(22.3)		18.3
Held-to-Maturity	(1.3)				(1.3)
Loans Held for Sale	(0.5)		0.6		0.1
Loans and Leases					
Commercial and Industrial	(5.1)		2.9		(2.2)
Commercial Mortgage	2.2		(0.7)		1.5
Construction	(1.0)		0.6		(0.4)
Commercial Lease Financing	(0.9)				(0.9)
Residential Mortgage	(7.6)		(2.6)		(10.2)
Home Equity	(3.0)		(0.4)		(3.4)
Automobile	(3.0)		(0.5)		(3.5)
Other 2	(1.5)		(0.2)		(1.7)
Total Loans and Leases	(19.9)		(0.9)		(20.8)
Total Change in Interest Income	18.1		(22.8)		(4.7)
Change in Interest Expense:					
Interest-Bearing Deposits					
Demand	(0.1)				(0.1)
Savings	2.4		(9.7)		(7.3)
Time	(2.7)		(5.2)		(7.9)
Total Interest-Bearing Deposits	(0.4)		(14.9)		(15.3)
Securities Sold Under Agreements to Repurchase	5.8		(6.0)		(0.2)
Long-Term Debt	(0.7)		(0.1)		(0.8)
Total Change in Interest Expense	4.7		(21.0)		(16.3)
Change in Net Interest Income	\$ 13.4	\$	(1.8)	\$	11.6

1 The changes for each category of interest income and expense are allocated between the portion of changes attributable to the variance in volume and rate for that category.

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

Net Interest Income

Net interest income is affected by both changes in interest rates (rate) and the amount and composition of earning assets and interest-bearing liabilities (volume). Net interest margin is calculated as the yield on average earning assets minus the interest rate paid on average interest-bearing liabilities.

As demand for new lending opportunities remained soft in 2009 and 2010, we invested some of our liquidity into investment securities.

Net interest income, on a taxable equivalent basis, increased by \$1.0 million or 1% in the second quarter of 2010 and by \$11.6 million or 6% for the first six months of 2010 compared to the same periods in 2009 primarily due to lower funding costs on our interest-bearing liabilities. Our net interest margin decreased by 22 basis points in the second quarter of 2010 and by 14 basis points for the first six months compared to the same periods in 2009.

Rates paid on our interest-bearing liabilities decreased by 34 basis points in the second quarter of 2010 and by 46 basis points for the first six months of 2010 compared to the same periods in 2009, reflective of the re-pricing of our liabilities at lower interest rates. Rates paid on our interest-bearing deposits decreased by 36 basis points in the second quarter of 2010 and by 44 basis points for the first six months of 2010 compared to the same periods in 2009. Rates paid on our securities sold under agreement to repurchase decreased by 76 basis points in the second quarter of 2010 and by 93 basis points for the first six months of 2010 compared to the same periods in 2009 primarily due to lower rates paid on placements with government entities. Partially offsetting our lower funding costs in 2010 were lower yields earned on our interest-earning assets. Yields on our interest-earning assets decreased by 49 basis points in both the second quarter and first six months of 2010 compared to the same periods in 2009 primarily due to the lower yields in our investment securities available-for-sale portfolio. Although average balances of our investment securities available-for-sale portfolio increased

[Table of Contents](#)

from 2009, yields decreased by 94 basis points in the second quarter of 2010 and by 119 basis points for the first six months of 2010 compared to the same periods in 2009 as a result of our lower risk investment strategy. Also contributing to the lower yields on our interest-earning assets was a 22 basis point decrease in our yields earned on our residential mortgage loan portfolio in both the second quarter and first six months of 2010 compared to the same periods in 2009, primarily due to customers refinancing their loans at lower interest rates. Partially offsetting the lower yields on these interest-earning assets was a 125 basis point increase in our yields on construction loans in the second quarter of 2010 and a 101 basis point increase in our yields on construction loans for the first six months of 2010 compared to the same periods in 2009, primarily due to interest income received on a loan payoff that was previously on non-accrual status.

Average balances of our interest-earning assets increased by \$811.6 million or 7% in the second quarter of 2010 and by \$1.0 billion or 10% for the first six months of 2010 compared to the same periods in 2009. Average balances in our investment securities available-for-sale portfolio increased by \$1.9 billion in the second quarter of 2010 and by \$2.2 billion for the first six months of 2010 compared to the same periods in 2009, primarily due to the deployment of funds made in mortgage-backed securities issued by government agencies. Partially offsetting the increase in our investment securities available-for-sale portfolio was a \$736.0 million or 12% decrease in our average loan and lease balances in the second quarter of 2010 and a \$747.7 million or 12% decrease in our average loan and lease balances for the first six months of 2010 compared to the same periods in 2009. These decreases were due to continued pay downs in loan and lease balances, along with weak demand for new lending opportunities. Average balances of our interest-bearing liabilities increased by \$577.0 million or 7% in the second quarter of 2010 and by \$717.1 million or 9% for the first six months of 2010 compared to the same periods in 2009, primarily due to an increase in average balances in our savings deposits and securities sold under agreements to repurchase. The increase in average balances in our savings deposits from 2009 was primarily due to the continued success of our bonus rate savings and business money market savings products. This was partially offset by a decrease in our average time deposit balances as some customers moved their deposits to more liquid savings products and to investments offering higher yields and in our average interest-bearing demand deposit balances as some customers sought higher yielding deposit products. The increase in our securities sold under agreements to repurchase from 2009 was primarily due to new placements to accommodate local government entities.

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 the 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 credit quality. We recorded a Provision of \$15.9 million in the second quarter of 2010 and \$36.7 million for the first six months of 2010 compared to a Provision of \$28.7 million in the second quarter of 2009 and \$53.6 million for the first six months of 2009. The lower Provision recorded in the second quarter of 2010 and for the first six months of 2010 was reflective of slightly improving economic conditions. For further discussion on the Allowance, see the Corporate Risk Profile Reserve for Credit Losses section in MD&A.

Noninterest Income

Noninterest income increased by \$9.0 million or 15% in the second quarter of 2010 and by \$10.5 million or 8% for the first six months of 2010 compared to the same periods in 2009.

Mortgage banking income decreased by \$1.7 million or 31% in the second quarter of 2010 compared to the same period in 2009. This decrease was primarily due to lower loan origination volume for the quarter, the result of lower refinancing activity in the second quarter of 2010 compared to the same period in 2009. Residential mortgage loan originations were \$144.9 million in the second quarter of 2010, a \$164.6 million or 53% decrease compared to the same period in 2009. Residential mortgage loan sales were \$106.5 million in the second quarter of 2010, a \$160.4 million or 60% decrease compared to the same period in 2009.

Mortgage banking income decreased by \$6.9 million or 49% for the first six months of 2010 compared to the same period in 2009. This decrease was primarily due to lower loan origination volume for the first six months of 2010 compared to the same period in 2009. Residential mortgage loan originations were \$295.0 million for the first six months of 2010, a \$503.4 million or 63% decrease compared to the same period in 2009. Residential mortgage loan sales were \$216.5 million for the first six months of 2010, a \$448.8 million or 67% decrease compared to the same period in 2009.

Service charges on deposit accounts increased by \$1.9 million or 15% in the second quarter of 2010 compared to the same period in 2009. This increase was primarily due to an increase in overdraft fees resulting from higher transaction volume and account growth. Service charges on deposit accounts increased by \$2.4 million or 9% for the first six months of 2010 compared to the same period in 2009. This increase was primarily due to a \$3.0 million increase in overdraft fees, partially offset by a \$0.5 million decrease in account analysis fees due to fewer accounts on analysis and an increase in fee waivers. Beginning on July 1, 2010 for new customers and August 15, 2010 for existing customers, federal rules will prohibit a financial institution from assessing a fee to complete an ATM withdrawal or one-time debit card transaction which will cause an overdraft unless the customer consents in advance ("opt-in"). We charged customers approximately \$7.7 million in the second quarter of 2010 and approximately

[Table of Contents](#)

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\$13.9 million for the first six months of 2010 in overdraft fees for ATM and one-time debit card transactions.

Fees, exchange, and other service charges were \$15.8 million in the second quarter of 2010 and \$30.3 million for the first six months of 2010 and remained relatively flat compared to the same periods in 2009. Under the newly passed Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, debit card interchange fees will be regulated by the FRB. Included in fees, exchange, and other service charges were approximately \$5.7 million in the second quarter of 2010 and approximately \$10.9 million for the first six months of 2010 in debit card interchange fees.

Net gains from the sales of investment securities were \$15.0 million in the second quarter of 2010 and \$35.0 million for the first six months of 2010. We primarily sold available-for-sale investment securities to preserve capital levels while managing our duration and extension risk in a volatile interest rate environment. Net gains from the sales of investment securities in the second quarter of 2009 and for the first six months of 2009 were each less than \$0.1 million.

Insurance income decreased by \$2.5 million or 52% in the second quarter of 2010 and by \$5.4 million or 52% for the first six months of 2010 compared to the same periods in 2009. These decreases were largely due to the sale of assets of our retail insurance brokerage operation, Bank of Hawaii Insurance Services, Inc. in the second quarter of 2009, and our wholesale insurance business, BOH Wholesale Insurance Agency, Inc. (formerly known as Triad Insurance Agency, Inc.) in the fourth quarter of 2009.

Other noninterest income decreased by \$3.7 million or 39% in the second quarter of 2010 compared to the same period in 2009. This decrease was primarily due to a \$2.8 million gain resulting from the sale of our equity interest in a cargo aircraft

leveraged lease in the second quarter of 2009, as well as a \$0.9 million gain related to the aforementioned sale of our retail insurance brokerage operation. Also contributing to the decrease was a \$0.6 million decrease in fees from our customer related interest rate swap program and a \$0.4 million decrease in income from bank-owned life insurance. Partially offsetting the decrease in other noninterest income was a \$1.2 million gain resulting from the sale of our interest in a single investor railcar lease in the second quarter of 2010.

Other noninterest income decreased by \$14.1 million or 55% for the first six months of 2010 compared to the same period in 2009. This decrease was primarily due to a \$10.0 million gain from the sale of our equity interest in two watercraft leveraged leases in the first quarter of 2009, as well as the gains resulting from the aforementioned sale of our equity interest in a cargo aircraft leveraged lease and the sale of our retail insurance brokerage operation in the second quarter of 2009. Also contributing to the decrease was the aforementioned decrease in fees from our customer related interest rate swap program and a \$0.5 million decrease in income from bank-owned life insurance. Partially offsetting the decrease in other noninterest income was the previously mentioned \$1.2 million gain resulting from the sale of our interest in a single investor railcar lease in the second quarter of 2010.

Noninterest Expense

Noninterest expense decreased by \$3.7 million or 4% in the second quarter of 2010 and by \$9.9 million or 6% for the first six months of 2010 compared to the same periods in 2009.

Table 4 presents the components of salaries and benefits expense for the second quarter of 2010 and 2009 and for the first six months of 2010 and 2009.

Salaries and Benefits
Table 4

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(dollars in thousands)				
Salaries	\$ 29,942	\$ 30,732	\$ 59,085	\$ 60,577
Incentive Compensation	3,447	3,407	6,893	6,699
Share-Based Compensation and Cash Grants for the Purchase of Company Stock	3,984	604	4,540	1,391
Commission Expense	1,259	1,750	2,605	4,005
Retirement and Other Benefits	3,857	3,804	7,966	8,423
Payroll Taxes	2,331	2,344	5,764	5,844
Medical, Dental, and Life Insurance	2,481	1,236	4,961	3,900
Separation Expense	199	303	250	369
Total Salaries and Benefits	\$ 47,500	\$ 44,180	\$ 92,064	\$ 91,208

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Salaries and benefits expense increased by \$3.3 million or 8% in the second quarter of 2010 compared to the same period in 2009. This increase was primarily due to a \$3.3 million accrual for cash grants for the purchase of company stock recorded in the second quarter of 2010, as well as a \$1.5 million reduction in reserves for medical and dental expenses recorded in the second quarter of 2009. The increase in

salaries and benefits expense was partially offset by a \$0.8 million decrease in salaries primarily due to fewer full-time equivalent employees and a \$0.5 million decrease in commission expense, primarily in our mortgage banking business.

Table of Contents

Salaries and benefits expense increased by \$0.9 million or 1% for the first six months of 2010 compared to the same period in 2009. This increase was primarily due to a \$3.1 million increase in share-based compensation and cash grants for the purchase of company stock, as well as the previously noted \$1.5 million reduction in reserves for medical and dental expenses recorded in the second quarter of 2009. The increase in salaries and benefits expense was partially offset by a \$1.5 million decrease in salaries primarily due to fewer full-time equivalent employees, a \$1.4 million decrease in commission expense, and a \$0.6 million decrease in retirement plan expense.

Professional fees decreased by \$1.9 million or 48% in the second quarter of 2010 and by \$2.5 million or 38% for the first six months of 2010 compared to the same periods in 2009. The decreases were primarily due to higher legal fees and other professional services expenses recorded in 2009.

FDIC insurance expense decreased by \$5.9 million or 65% in the second quarter of 2010 and by \$4.6 million or 43% for the first six months of 2010 compared to the same periods in 2009. The decreases were primarily due to the Company's \$5.7 million share of an industry-wide assessment by the FDIC recorded in the second quarter of 2009. The decrease for the first six months of 2010 was partially offset by the Company utilizing its credits from the Federal Deposit Insurance Reform Act of 2005, which were available to offset our deposit insurance assessments. These credits were fully utilized by the end of the first quarter of 2009.

Other noninterest expense increased by \$0.8 million or 4% in the second quarter of 2010 compared to the same period in 2009. This increase was primarily due to:

- \$0.6 million increase in unrealized losses related to deferred compensation arrangements;
- \$0.5 million increase in mileage program travel expense due to the increase in cost per mile; and
- \$0.4 million increase in insurance expense.

This increase was partially offset by a \$1.0 million decrease in operational losses.

Other noninterest expense decreased by \$3.8 million or 9% for the first six months of 2010 compared to the same period in 2009. This decrease was primarily due to:

- \$2.2 million decrease in operational losses;
- \$1.5 million increase of the general legal reserve recorded in 2009; and
- \$0.9 million premium related to the early repayment of our privately placed notes recorded in 2009.

This decrease was partially offset by a \$1.0 million increase in mileage program travel expense due to the increase in cost per mile.

Provision for Income Taxes

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Table 5 presents our provision for income taxes and effective tax rates for the second quarter of 2010 and 2009 and the first six months of 2010 and 2009.

Provision for Income Taxes and Effective Tax Rates

Table 5

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands)	2010	2009	2010	2009
Provision for Income Taxes	\$ 24,381	\$ 13,403	\$ 48,663	\$ 31,970
Effective Tax Rates	34.37%	30.18%	32.89%	32.29%

The higher effective tax rate for the second quarter of 2010 compared to the same period in 2009 was primarily due to a benefit recorded in 2009 on the termination of a leveraged lease transaction.

The higher effective tax rate for the first six months of 2010 compared to the same period in 2009 was primarily due to the benefit recorded in 2009 noted above being greater than the benefit on the expected utilization of capital losses on the sale of a low-income housing investment recorded in the first quarter of 2010.

Table of Contents**Analysis of Statements of Condition***Investment Securities*

The carrying value of our investment securities was \$6.1 billion as of June 30, 2010, \$5.5 billion as of December 31, 2009, and \$4.5 billion as of June 30, 2009. The increase in the carrying value of our investment securities from December 31, 2009 and June 30, 2009 was primarily due to additional investments made in mortgage-backed securities issued by government agencies. These investments in high grade securities with base durations of less than three years, allow us to maintain flexibility to redeploy funds as opportunities may arise. Gross unrealized gains in our investment securities portfolio were \$145.0 million as of June 30, 2010, \$68.5 million as of December 31, 2009, and \$74.8 million as of June 30, 2009.

Gross unrealized losses on our temporarily impaired investment securities were \$5.2 million as of June 30, 2010, \$21.8 million as of December 31, 2009, and \$35.7 million as of June 30, 2009. As of June 30, 2010, the gross unrealized losses were primarily related to mortgage-backed securities issued by government agencies attributable to changes in interest rates, relative to when the investment securities were purchased.

As of June 30, 2010, 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. As of June 30, 2010, we also did not own any private-label mortgage backed securities. See Note 2 to the Consolidated Financial Statements for more information.

Loans and Leases

Table 6 presents the composition of our loan and lease portfolio by major categories.

Loan and Lease Portfolio Balances

	June 30, 2010	December 31, 2009	Table 6 June 30, 2009
(dollars in thousands)			
Commercial			
Commercial and Industrial	\$ 758,851	\$ 795,167	\$ 932,444
Commercial Mortgage	816,165	841,431	788,226
Construction	88,823	108,395	140,455
Lease Financing	399,744	412,933	468,030
Total Commercial	2,063,583	2,157,926	2,329,155
Consumer			
Residential Mortgage	2,087,380	2,190,677	2,309,971
Home Equity	861,196	921,571	977,632
Automobile	238,671	283,937	309,877
Other 1	190,081	205,674	223,276
Total Consumer	3,377,328	3,601,859	3,820,756
Total Loans and Leases	\$ 5,440,911	\$ 5,759,785	\$ 6,149,911

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

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Total loans and leases as of June 30, 2010 decreased by \$318.9 million or 6% from December 31, 2009 and decreased by \$709.0 million or 12% from June 30, 2009.

Commercial loans and leases as of June 30, 2010 decreased by \$94.3 million or 4% from December 31, 2009, with balances decreasing in all commercial lending categories. Demand for commercial lending opportunities continues to remain soft as a result of current economic conditions. Commercial loans and leases as of June 30, 2010 decreased by \$265.6 million or 11% from June 30, 2009. Commercial loans and leases decreased in all lending categories, except for commercial mortgage, which was consistent with the slow economy in Hawaii and our efforts to reduce risk in our

positions in Shared National Credits and leveraged leases. The increase in our commercial mortgage portfolio from June 30, 2009 was primarily due to our purchase of a \$47.5 million portfolio of seasoned loans, secured by real estate in Hawaii, in the fourth quarter of 2009.

Consumer loans and leases as of June 30, 2010 decreased by \$224.5 million or 6% from December 31, 2009 and decreased by \$443.4 million or 12% from June 30, 2009. Balances in all consumer lending categories decreased over the past 12 months due to reduced customer demand in a slow economy as well as our disciplined underwriting approach.

Table of Contents

Table 7 presents the composition of our loan and lease portfolio by geographic area and by major categories.

Geographic Distribution of Loan and Lease Portfolio

		June 30, 2010	December 30, 2009	Table 7 June 30, 2009
(dollars in thousands)				
Commercial				
Hawaii				
	Commercial and Industrial	\$ 625,127	\$ 632,415	\$ 685,333
	Commercial Mortgage	752,353	769,303	701,135
	Construction	88,823	108,395	134,638
	Lease Financing	44,680	39,664	45,507
U.S. Mainland 1				
	Commercial and Industrial	66,837	90,345	171,062
	Commercial Mortgage	2,296	2,570	14,086
	Construction			5,817
	Lease Financing	319,285	335,507	385,064
Guam				
	Commercial and Industrial	57,653	62,197	64,151
	Commercial Mortgage	59,379	66,113	69,667
	Lease Financing	16,639	18,600	18,293
Other Pacific Islands				
	Commercial and Industrial	6,204	7,047	8,470
	Commercial Mortgage	35	1,330	1,510
Foreign 2				
	Commercial and Industrial	3,030	3,163	3,428
	Commercial Mortgage	2,102	2,115	1,828
	Lease Financing	19,140	19,162	19,166
Total Commercial		2,063,583	2,157,926	2,329,155
Consumer				
Hawaii				
	Residential Mortgage	1,904,932	1,996,713	2,103,104
	Home Equity	822,934	879,903	931,010
	Automobile	178,068	208,130	219,346
	Other 3	150,780	159,010	167,695
U.S. Mainland 1				
	Home Equity	17,284	19,659	23,222
	Automobile	22,895	29,645	36,302
Guam				
	Residential Mortgage	175,542	186,374	198,941
	Home Equity	18,556	19,043	20,223
	Automobile	34,982	42,482	49,799
	Other 3	20,140	23,630	27,475
Other Pacific Islands				
	Residential Mortgage	6,906	7,590	7,926
	Home Equity	2,422	2,966	3,177
	Automobile	2,726	3,680	4,430
	Other 3	19,144	23,027	28,096
Foreign 2				
	Other 3	17	7	10
Total Consumer		3,377,328	3,601,859	3,820,756
Total Loans and Leases		\$ 5,440,911	\$ 5,759,785	\$ 6,149,911

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

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

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

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

Credits and leveraged lease financing. Our consumer loan and lease portfolio includes limited lending activities on the U.S. Mainland.

Table of Contents*Other Assets*

Table 8 presents the major components of other assets as of June 30, 2010, December 31, 2009, and June 30, 2009.

Other Assets

	Table 8	
	June 30,	December 31,
(dollars in thousands)	2010	2009
	2009	2009
Bank-Owned Life Insurance	\$ 205,881	\$ 202,649
Federal and State Tax Deposits	83,400	82,500
Federal Home Loan Bank and Federal Reserve Bank Stock	79,817	79,758
Prepaid Expenses	45,114	49,789
Low-Income Housing and Other Equity Investments	26,869	27,814
Derivative Financial Instruments	33,305	20,696
Accounts Receivable	11,626	13,821
Other	15,104	19,895
Total Other Assets	\$ 501,116	\$ 496,922

Other assets as of June 30, 2010 increased by \$4.2 million or 1% from December 31, 2009. The increase in other assets from December 31, 2009 was primarily due to an \$11.2 million increase in the estimated fair value of our customer-related interest rate swap accounts, which have off-setting amounts recorded in other liabilities. Also contributing to the increase in other assets was a \$3.2 million increase in the value of our bank-owned life insurance. This was partially offset by a \$4.7 million decrease in prepaid expenses, primarily due to the amortization of prepaid FDIC assessments, as well as a \$4.6 million decrease in credit card charges in the process of settlement.

Other assets as of June 30, 2010 increased by \$35.1 million or 8% from June 30, 2009. The increase in other assets from June 30, 2009 was primarily due to a \$42.3 million prepayment of our FDIC quarterly risk-based assessments for 2010, 2011, and 2012 which was made in December 2009. The remaining balance of this prepayment to the FDIC was \$36.9 million as of June 30, 2010. Also contributing to the increase in other assets was a \$10.2 million increase in the estimated fair value of our customer-related interest rate swap accounts, which have off-setting amounts recorded in other liabilities, as well as a \$6.6 million increase in the value of our bank-owned life insurance. This was partially offset by a \$6.5 million decrease in accounts receivable, primarily due to the sale of BOH Wholesale Insurance Agency, Inc., a \$5.8 million decrease in credit card charges in the process of settlement, and a \$3.0 million decrease in payments made on capital projects in the process of completion.

As of June 30, 2010, the carrying value of our Federal Home Loan Bank of Seattle (FHLB) stock was \$61.3 million. Our investment in the FHLB is a condition of membership and, as such, is required to obtain credit and other services from the FHLB. As of March 31, 2010, the FHLB met all of its regulatory capital requirements, but remained classified as undercapitalized by its primary regulator, the Federal Housing Finance Agency, due to several factors including the possibility that further declines in the value of its private-label mortgage-backed securities could cause it to fall below its risk-based capital requirements. Due to this determination, the FHLB remains unable to repurchase or redeem capital stock or to pay dividends. The Bank continues to use and has access to the services of the FHLB. Management considers several factors in evaluating impairment including the commitment of the issuer to perform its obligations and to provide services to the Bank. Based upon the foregoing, management has not recorded an impairment of the carrying value of our FHLB stock as of June 30, 2010.

Table of Contents*Deposits*

Table 9 presents the composition of our deposits by major customer categories.

Deposits				Table 9
(dollars in thousands)	June 30, 2010	December 31, 2009		June 30, 2009
Consumer	\$ 4,925,579	\$ 4,926,567	\$	4,747,612
Commercial	4,036,679	4,115,286		3,829,035
Public and Other	362,401	367,823		443,014
Total Deposits	\$ 9,324,659	\$ 9,409,676	\$	9,019,661

Deposit balances as of June 30, 2010 decreased by \$85.0 million or 1% from December 31, 2009. The decrease was primarily due to a \$102.3 million decrease in consumer and business time deposits, a \$68.2 million decrease in our business money market savings accounts, and a \$16.3 million decrease in consumer interest bearing demand accounts. This was partially offset by a \$107.9 million increase in our consumer bonus rate savings products.

Deposit balances as of June 30, 2010 increased by \$305.0 million or 3% from June 30, 2009. The increase was primarily due to a \$314.6 million increase in our consumer bonus rate savings products, a \$165.1 million increase in our personal and business non-interest bearing demand accounts, and a \$146.8 million increase in our business money market savings accounts. This was partially offset by a \$196.1 million decrease in our time deposits and a \$94.6 million decrease in our public savings products.

Table 10 presents the composition of our savings deposits.

Savings Deposits				Table 10
(dollars in thousands)	June 30, 2010	December 31, 2009		June 30, 2009
Money Market	\$ 1,892,920	\$ 1,967,554	\$	1,769,023
Regular Savings	2,530,553	2,438,415		2,285,016
Total Savings Deposits	\$ 4,423,473	\$ 4,405,969	\$	4,054,039

Table 11 presents our quarterly average balance of time deposits of \$100,000 or more.

Average Time Deposits of \$100,000 or More				Table 11
	June 30,	Three Months Ended December 31,		June 30,

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(dollars in thousands)	2010		2009	
Average Time Deposits	\$	631,204	\$	670,985
			\$	738,488

Borrowings and Long-Term Debt

Borrowings consisted of funds purchased and short-term borrowings, including commercial paper. Borrowings were \$16.8 million as of June 30, 2010, a \$1.0 million or 7% increase from December 31, 2009, and a \$1.8 million or 10% decrease from June 30, 2009. We manage the level of our borrowings to provide adequate sources of liquidity. Due to our high level of deposits and increased capital levels, we have minimized the level of borrowings as a source of funds.

Long-term debt was \$40.3 million as of June 30, 2010, a \$50.0 million or 55% decrease from December 31, 2009, and a \$51.1 million or 56% decrease from June 30, 2009. The decrease in long-term debt from December 31, 2009 and June 30, 2009 was primarily due to a \$50.0 million FHLB advance that we repaid in the second quarter of 2010.

Table of Contents*Securities Sold Under Agreements to Repurchase*

Table 12 presents the composition of our securities sold under agreements to repurchase as of June 30, 2010, December 31, 2009, and June 30, 2009.

Securities Sold Under Agreements to Repurchase

	June 30, 2010	December 31, 2009	Table 12 June 30, 2009
(dollars in thousands)			
Government Entities	\$ 1,406,393	\$ 943,717	\$ 1,124,794
Private Institutions	675,000	675,000	675,000
Total Securities Sold Under Agreements to Repurchase	\$ 2,081,393	\$ 1,618,717	\$ 1,799,794

Securities sold under agreements to repurchase as of June 30, 2010 increased by \$462.7 million or 29% from December 31, 2009 and by \$281.6 million or 16% from June 30, 2009. The increase in balances from December 31, 2009 and June 30, 2009 was primarily due to new placements to accommodate local government entities. As of June 30, 2010, the weighted average maturity was 29 days for our securities sold under agreements to repurchase with government entities and 6.8 years for securities sold under agreements to repurchase with private institutions, subject to the private institutions' right to terminate agreements at earlier specified dates which could decrease the weighted average maturity to 1.3 years. As of June 30, 2010, \$100.0 million of our securities sold under agreements to repurchase placed with private institutions were indexed to the London Inter Bank Offered Rate (LIBOR) with the remaining \$575.0 million at fixed interest rates. If the agreements indexed to LIBOR with private institutions are not terminated by specified dates, the interest rates on the agreements become fixed, at rates ranging from 4.25% to 4.50%, for the remaining term of the respective agreements. As of June 30, 2010, the weighted average interest rate for outstanding agreements with government entities and private institutions was 0.07% and 3.83%, respectively. We have not entered into agreements in which the securities sold and the related liability was not recorded in the Consolidated Statements of Condition.

Shareholders' Equity

As of June 30, 2010, shareholders' equity was \$1.0 billion, an increase of \$117.0 million or 13% from December 31, 2009, and an increase of \$167.1 million or 20% from June 30, 2009. The increase in shareholders' equity from December 31, 2009 was primarily due to earnings for the first six months of 2010 of \$99.3 million and changes in the fair value of our investment securities available-for-sale, net of tax, of \$53.5 million. The change in fair value of our investment securities available-for-sale, net of tax, was primarily due to a lower interest rate environment and the larger investment securities portfolio as of June 30, 2010. This was partially offset by cash dividends paid of \$43.4 million. Consistent with our strategy to build capital levels, we have not repurchased shares of our common stock under our share repurchase program since October 2008. We plan to resume the purchase of common stock in the third quarter of 2010 in an orderly and disciplined manner, but the amount and timing will depend on market conditions and various other factors. Further discussion on our capital structure is included in the Corporate Risk Profile Capital Management section of MD&A.

Table of Contents**Analysis of Business Segments**

Our business segments are Retail Banking, Commercial Banking, Investment Services, and Treasury.

Table 13 summarizes net income from our business segments for the three and six months ended June 30, 2010 and 2009. Additional information about segment performance is presented in Note 7 to the Consolidated Financial Statements.

Business Segment Net Income**Table 13**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands)	2010	2009	2010	2009
Retail Banking	\$ 13,074	\$ 15,358	\$ 22,581	\$ 30,000
Commercial Banking	10,984	9,739	25,140	28,677
Investment Services	1,952	1,511	5,158	2,189
Total	26,010	26,608	52,879	60,866
Treasury and Other	20,554	4,398	46,421	6,180
Consolidated Total	\$ 46,564	\$ 31,006	\$ 99,300	\$ 67,046

Retail Banking

Net income decreased by \$2.3 million or 15% in the second quarter of 2010 compared to the same period in 2009 primarily due to a decrease in net interest income. This was partially offset by a decrease in the Provision. The \$7.6 million decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio, and lower loan and lease balances, partially offset by higher average deposit balances. The \$2.9 million decrease in the Provision was primarily due to a reduction in the allocation to the segment's home equity portfolio.

Net income decreased by \$7.4 million or 25% for the first six months of 2010 compared to the same period in 2009 primarily due to a decrease in net interest income and noninterest income. This was partially offset by a decrease in the Provision and noninterest expense. The \$13.5 million 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. The \$4.4 million decrease in noninterest income was primarily due to lower mortgage banking income, partially offset by higher overdraft fees. As previously noted, beginning July 1, 2010 for new customers and August 15, 2010 for existing

Commercial Banking

Net income increased by \$1.2 million or 13% in the second quarter of 2010 compared to the same period in 2009 primarily due to decreases in the Provision and noninterest expense. This was partially offset by decreases in net interest income and noninterest income. The \$9.0 million decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment. The \$2.6 million decrease in noninterest expense was primarily due to the sale of assets of our wholesale and retail insurance businesses in 2009. The \$5.1 million decrease in net interest income was primarily due to lower earnings credits on the segment's deposit portfolio. The \$4.8 million decrease in noninterest income was primarily due to the sale of assets of our wholesale and retail insurance businesses in 2009, as well as a \$2.8 million gain resulting from the sale of our equity interest in a cargo aircraft leveraged lease in the second quarter of 2009.

Net income decreased \$3.5 million or 12% for the first six months of 2010 compared to the same period in 2009 primarily due to lower noninterest income and net interest income. This was partially offset by decreases in the Provision and noninterest expense. The \$18.6 million decrease in noninterest income was

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customers, federal rules will prohibit a financial institution from assessing a fee to complete an ATM withdrawal or one-time debit card transaction which will cause an overdraft unless the customer consents in advance (opt-in). The \$4.1 million decrease in the Provision was primarily due to a lower allocation to the segment s home equity portfolio. The \$2.0 million decrease in noninterest expense was primarily due to a decrease in FDIC insurance expense and lower commissions expense, primarily in our mortgage banking business.

primarily due to a \$10.0 million gain on the sale of our equity interest in two watercraft leveraged leases and the sale of assets of our wholesale and retail insurance businesses in 2009. The \$3.7 million 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. The \$11.6 million decrease in the Provision was primarily due to lower net charge-offs of loans and leases in the segment. The \$4.5 million decrease in noninterest expense was primarily due to the sale of assets of our wholesale and retail insurance businesses in 2009.

Table of Contents

Investment Services

Net income increased by \$0.4 million or 29% in the second quarter of 2010 compared to the same period in 2009 primarily due to a decrease in the Provision. The \$0.9 million decrease in the Provision was due to lower net charge-offs of loans in the segment.

Net income increased by \$3.0 million for the first six months of 2010 compared to the same period in 2009 primarily due to decreases in noninterest expense and the Provision. The \$2.8 million decrease in noninterest expense was primarily due to lower legal fees and operational losses. The \$1.5 million decrease in the Provision was due to lower net charge-offs of loans in the segment.

Treasury

Net income increased by \$16.2 million in the second quarter of 2010 compared to the same period in 2009, primarily due to an increase in noninterest income and net interest income. The \$13.6 million increase in noninterest income was primarily due to higher gains on the sales of investment securities. The \$13.9 million increase in net interest income was primarily due to lower funding costs of the segment's deposit balances.

Net income increased by \$40.2 million for the first six months of 2010 compared to the same period in 2009 primarily due to an increase in net interest income and noninterest income. The \$28.7 million increase in net interest income was primarily due to lower funding costs of the segment's deposit balances, and our larger investment securities portfolio. The \$33.2 million increase in noninterest income was primarily due to higher gains on the sales of investment securities.

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

Table of Contents**Corporate Risk Profile***Credit Risk*

As of June 30, 2010, our overall credit risk position is reflective of a slightly improving economy, while non-performing assets (NPAs) remain at elevated levels.

The downward risk migration we have experienced in our loan portfolio appears to have moderated based on current asset quality measures but we remain vigilant in light of an uncertain macroeconomic environment. As of June 30, 2010, the higher risk segments within our loan portfolio continue to be concentrated in residential home building, residential land loans, and home equity loans.

We also continue to have higher risk in our air transportation leasing portfolio. Relative to our total loan and lease portfolio, domestic air transportation carriers continue to demonstrate a higher risk profile due to fuel costs, pension plan obligations, consumer demand, and marginal pricing power. We believe that volatile fuel costs, coupled with a weak economy, could place additional pressure on the financial health of air transportation carriers for the foreseeable future.

Since the start of the downturn, we have increased monitoring of the loan and lease portfolio to identify higher risk segments. We have also actively managed exposures with deteriorating asset quality to reduce levels of potential loss exposure and have systematically built our reserves and capital base to deal with both anticipated and unforeseen issues. Risk management activities have included making policy changes to tighten underwriting and curtailing activities in higher risk segments. We have also conducted detailed analysis of portfolio segments and stress tested those segments to ensure that reserve and capital levels are appropriate. We are also performing frequent loan and lease-level risk monitoring and risk rating which provides opportunities for early interventions to allow for credit exits or restructuring, loan and lease sales, and voluntary workouts and liquidations.

As noted in Table 14, balances in our loan and lease portfolio which demonstrate a higher risk profile have decreased from December 31, 2009.

Higher Risk Loans and Leases Outstanding

	June 30, 2010	December 31, 2009	Table 14 June 30, 2009
(dollars in thousands)			
Residential Home Building 1	\$ 18,993	\$ 31,067	\$ 22,850
Residential Land Loans 2	30,262	37,873	47,871
Home Equity Loans 3	25,055	28,076	21,832
Air Transportation Leases 4	39,165	50,426	62,148

1 Residential home building loans were \$41.4 million as of June 30, 2010, \$60.3 million as of December 31, 2009, and \$89.3 million as of June 30, 2009. Higher risk loans within this segment are defined as those loans with a well-defined weakness or weaknesses that jeopardize the orderly repayment of the loan.

2 We consider all of our residential land loans, which are consumer loans secured by unimproved lots, to be of higher risk due to the volatility in the value of the underlying collateral.

3 Higher risk home equity loans are defined as those loans originated in 2005 or later, with current monitoring credit scores below 600, and with original loan-to-value (LTV) ratios greater than 70%.

4 We consider all of our air transportation leases to be of higher risk due to the weak financial profile of the industry.

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Higher risk exposure in our residential home building portfolio was \$19.0 million as of June 30 2010, of which \$3.3 million was included in NPAs. As of June 30, 2010, \$5.9 million of this higher risk exposure relates to residential development projects on Hawaiian islands other than Oahu. The decrease in this higher risk segment from December 31, 2009 was primarily due to the sale of a \$10.0 million exposure to a regional home builder with operations on Oahu in the second quarter of 2010.

Our Hawaii residential land loan portfolio was \$ 30.3 million as of June 30, 2010, of which \$25.6 million related to properties on Hawaiian islands other than Oahu. The decrease in this higher risk segment from December 31, 2009 was primarily due to loan pay downs.

The higher risk segment within our Hawaii home equity lending portfolio was \$25.1 million or 3% of our total home equity loans outstanding as of June 30, 2010. The decrease in this higher risk segment from December 31, 2009 was primarily due to loan charge-offs and pay downs.

As of June 30, 2010, air transportation leases totaled \$39.2 million, of which \$27.9 million was comprised of four leveraged leases on aircraft that were originated in the 1990 s and prior. The decrease in this higher risk segment from December 31, 2009 was primarily due to the sale of our equity interest in an aircraft leveraged lease in the first quarter of 2010.

All of these higher risk loans and leases have been considered in our quarterly evaluation of the adequacy of the Allowance.

Table of Contents*Non-Performing Assets*

Table 15 presents information on NPAs 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 15
(dollars in thousands)	June 30, 2010		December 31, 2009	June 30, 2009
Non-Performing Assets 1				
Non-Accrual Loans and Leases				
Commercial				
Commercial and Industrial	\$ 741	\$	6,646	\$ 10,511
Commercial Mortgage	3,476		1,167	1,219
Construction	5,640		8,154	6,548
Lease Financing	63		631	956
Total Commercial	9,920		16,598	19,234
Consumer				
Residential Mortgage	27,491		19,893	16,265
Home Equity	2,638		5,153	2,567
Other 2			550	550
Total Consumer	30,129		25,596	19,382
Total Non-Accrual Loans and Leases	40,049		42,194	38,616
Non-Accrual Loans Held for Sale				
Foreclosed Real Estate	3,192		3,132	438
Total Non-Performing Assets	\$ 43,241	\$	48,331	\$ 39,054
Accruing Loans and Leases Past Due 90 Days or More				
Commercial				
Commercial and Industrial	\$	\$	623	\$ 13
Lease Financing			120	
Total Commercial			743	13
Consumer				
Residential Mortgage	9,019		8,979	4,657
Home Equity	2,256		2,210	2,879
Automobile	464		875	769
Other 2	1,161		886	1,270
Total Consumer	12,900		12,950	9,575
Total Accruing Loans and Leases Past Due 90 Days or More	\$ 12,900	\$	13,693	\$ 9,588
Total Loans and Leases	\$ 5,440,911	\$	5,759,785	\$ 6,149,911
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases				
	0.74%		0.73%	0.63%
Ratio of Non-Performing Assets to Total Loans and Leases, Loans Held for Sale, and Foreclosed Real Estate				
	0.79%		0.84%	0.63%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases, Commercial Loans Held for Sale, and Commercial Foreclosed Real Estate				
	0.62%		1.03%	0.82%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate				
	0.90%		0.72%	0.52%
	1.03%		1.07%	0.79%

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Ratio of Non-Performing Assets and Accruing Loans and
Leases Past Due 90 Days or More
to Total Loans and Leases, Loans Held for Sale, and Foreclosed
Real Estate

Quarter to Quarter Changes in Non-Performing Assets ¹

Balance at Beginning of Quarter	\$	41,624	\$	48,536	\$	40,329
Additions		10,761		14,874		22,459
Reductions						
Payments		(4,414)		(4,128)		(15,593)
Return to Accrual Status				(1,818)		(230)
Sales of Foreclosed Real Estate				(38)		
Charge-offs/Write-downs		(4,730)		(9,095)		(7,911)
Total Reductions		(9,144)		(15,079)		(23,734)
Balance at End of Quarter	\$	43,241	\$	48,331	\$	39,054

¹ Excluded from non-performing assets were contractually binding non-accrual loans held for sale of \$4.2 million and \$5.2 million as of December 31, 2009 and June 30, 2009, respectively.

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

Table of Contents

NPAs consist of non-accrual loans and leases, including those held for sale 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, sold, transferred to foreclosed real estate, or are no longer classified as non-accrual because they return to accrual status.

Total NPAs were \$43.2 million as of June 30, 2010, a decrease of \$5.1 million from December 31, 2009. The ratio of our NPAs to total loans and leases, loans held for sale, and foreclosed real estate was 0.79% as of June 30, 2010, compared to 0.84% as of December 31, 2009. Although NPAs are at lower levels compared to December 31, 2009, NPAs are expected to increase in the near-term due to an often lengthy legal resolution process associated with real estate-secured loans in Hawaii.

Commercial and industrial NPAs decreased by \$5.9 million from December 31, 2009, primarily due to \$4.1 million in net charge-offs and \$1.8 million in resolutions.

Commercial mortgage NPAs increased by \$2.3 million from December 31, 2009 due to the addition of three loans. Each of these loans was evaluated for impairment and we have taken partial charge-offs on all three.

Construction NPAs decreased by \$5.5 million from December 31, 2009, primarily due to the payoff of two loans totaling \$4.3 million. Non-accrual loan exposure in this portfolio is comprised of three construction loans. We have evaluated each of these loans for impairment, have taken partial charge-offs on two of these loans, and believe that we are well-secured on the third loan.

Residential mortgage NPAs increased by \$7.7 million from December 31, 2009, primarily due to slower dispositions of loans in this category. Additions to residential mortgage NPAs declined during the second quarter of 2010. As of June 30, 2010, our residential mortgage loan NPAs were comprised of 96 loans with a weighted average current LTV ratio of 73.6%.

Impaired loans are defined as loans which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. As of June 30, 2010, impaired loans were \$29.4 million and were comprised of \$19.5 million in commercial and consumer loans whose terms had been modified in a troubled debt restructuring (TDR) and \$9.9 million in non-accrual commercial loans. Impaired loans were \$24.7 million as of December 31, 2009 and \$33.8 million as of June 30, 2009. Impaired loans had a related Allowance of \$3.5 million as of June 30, 2010, \$2.3 million as of December 31, 2009, and \$7.9 million as of June 30, 2009. We have previously recorded charge-offs of \$15.7 million related to our impaired loans as of June 30, 2010.

Table 16 presents information on loans whose terms had been modified in a TDR.

	Loans Modified in a Troubled Debt Restructuring			Table 16
	June 30,	December 31,		June 30,
(dollars in thousands)	2010	2009		2009
Restructured Loans on Accrual Status	\$ 13,558	\$ 7,274		\$ 2,307
Restructured Loans Included in Non-Accrual Loans or Accruing Loans Past Due 90 Days or More	5,915	1,911		645
Total Restructured Loans	\$ 19,473	\$ 9,185		\$ 2,952

As of June 30, 2010, our loans whose terms had been modified in a TDR were primarily in our commercial and industrial, residential mortgage, and consumer automobile loan portfolios. Loans modified in a TDR were primarily the result of the modification of interest rates to below market rates and extensions of maturity dates.

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 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 \$12.9 million as of June 30, 2010, a \$0.8 million decrease from December 31, 2009, and a \$3.3 million increase from June 30, 2009. The decrease in loans and leases past due 90 days or more and still accruing interest from December 31, 2009 was primarily due to the repayment of a commercial loan. The increase in loans and leases past due 90 days or more and still accruing interest from June 30, 2009 was primarily due to increased delinquency activity in our residential mortgage loans.

Home equity NPAs decreased by \$2.5 million from December 31, 2009, primarily due to increased charge-offs during the first quarter of 2010 due to a change in our charge-off policy requiring a full balance charge-off when the borrower becomes 90 days past due and we do not hold the first mortgage.

Table of Contents*Reserve for Credit Losses*

Table 17 presents the activity in our reserve for credit losses.

Reserve for Credit Losses**Table 17**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
(dollars in thousands)				
Balance at Beginning of Period	\$ 151,777	\$ 139,835	\$ 149,077	\$ 128,667
Loans and Leases Charged-Off				
Commercial				
Commercial and Industrial	(3,056)	(12,249)	(6,962)	(18,713)
Commercial Mortgage	(1,000)		(1,303)	
Construction	(1,417)		(2,274)	
Lease Financing	(107)	(4,473)	(297)	(4,493)
Consumer				
Residential Mortgage	(4,377)	(1,814)	(7,632)	(2,641)
Home Equity	(2,886)	(3,303)	(10,322)	(5,619)
Automobile	(1,752)	(2,121)	(3,779)	(5,103)
Other 1	(2,530)	(3,643)	(5,352)	(7,220)
Total Loans and Leases Charged-Off	(17,125)	(27,603)	(37,921)	(43,789)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial				
Commercial and Industrial	367	228	1,225	770
Commercial Mortgage			24	
Lease Financing	11	30	12	32
Consumer				
Residential Mortgage	236	126	658	271
Home Equity	197	76	297	172
Automobile	826	735	1,579	1,462
Other 1	549	718	1,176	1,423
Total Recoveries on Loans and Leases Previously Charged-Off	2,186	1,913	4,971	4,130
Net Loans and Leases Charged-Off	(14,939)	(25,690)	(32,950)	(39,659)
Provision for Credit Losses	15,939	28,690	36,650	53,577
Provision for Unfunded Commitments				250
Balance at End of Period 2	\$ 152,777	\$ 142,835	\$ 152,777	\$ 142,835
Components				
Allowance for Loan and Lease Losses	\$ 147,358	\$ 137,416	\$ 147,358	\$ 137,416
Reserve for Unfunded Commitments	5,419	5,419	5,419	5,419
Total Reserve for Credit Losses	\$ 152,777	\$ 142,835	\$ 152,777	\$ 142,835
Average Loans and Leases Outstanding	\$ 5,522,423	\$ 6,258,403	\$ 5,604,218	\$ 6,351,938
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding (annualized)	1.09%	1.65%	1.19%	1.26%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	2.71%	2.23%	2.71%	2.23%

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

2 Included in this analysis is activity related to the Company's reserve for unfunded commitments, which is separately recorded in other liabilities in the Consolidated Statements of Condition.

We maintain a Reserve that consists of two components, the Allowance and a Reserve for Unfunded Commitments (Unfunded Reserve). The Reserve provides for the risk of credit losses inherent in the loan and lease portfolio and is based on loss estimates derived from a comprehensive quarterly evaluation. The evaluation reflects analyses of individual

borrowers and historical loss experience, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors.

Table of Contents

The level of the Allowance is adjusted by recording an expense or recovery through the Provision. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense. The Provision exceeded net charge-offs of loans and leases for the second quarter of 2010 by \$1.0 million and by \$3.7 million for the first six months of 2010.

Net charge-off activity in our commercial lending portfolios decreased by \$11.3 million in the second quarter of 2010 and by \$12.8 million for the first six months of 2010 compared to the same periods in 2009. This decrease was primarily due to several large charge-offs recorded in 2009 related to loan sales in our commercial and industrial portfolio. The charge-offs in our commercial lending portfolios for the first six months of 2010 was primarily due to Hawaii small to middle-market borrowers that have been adversely impacted by the slow economy in Hawaii.

Net charge-off activity in our consumer lending portfolios increased by \$6.1 million for the first six months of 2010 compared to the same period in 2009, with \$5.6 million of that increase occurring in the first quarter of 2010. The increase in consumer lending charge-offs in the first quarter of 2010 was primarily due to increased losses in our home equity and residential mortgage portfolios. The increase in net charge-offs in these portfolios was primarily due to the prolonged effects of a weak economy in Hawaii.

As of June 30, 2010, the Allowance was \$147.4 million or 2.71% of total loans and leases outstanding. This represents an increase of 22 basis points from December 31, 2009 and an increase of 48 basis points from June 30, 2009.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of June 30, 2010, based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The Reserve for Unfunded Commitments

Market Risk

Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates, and equity prices. We are exposed to market risk as a consequence of the normal course of conducting our business activities. Our market risk management process involves measuring, monitoring, controlling, and managing risks that can significantly impact our statements of income and condition. In this management process, market risks are balanced with expected returns in an effort to enhance earnings performance, while limiting volatility. The activities associated with these market risks are categorized into trading and other than trading.

Our trading activities include foreign currency and foreign exchange contracts that expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our other than trading activities include normal business transactions that expose our balance sheet profile to varying degrees of market risk.

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

The potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments.

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Unfunded Reserve was \$5.4 million as of June 30, 2010, unchanged from December 31, 2009 and June 30, 2009. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities or loan and lease equivalency factors.

Our earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the U.S. government and its agencies, particularly the FRB. The monetary policies of the FRB influence, to a significant extent, the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

Table of Contents

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

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

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

A key element in our ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model.

The model is used to estimate and measure the balance sheet sensitivity to changes in interest rates. These estimates are based on assumptions on the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. The model's analytics include the effects of standard prepayment options on mortgages and customer withdrawal options for deposits. While such assumptions are inherently uncertain, we believe that these assumptions are reasonable. As a result, the simulation model attempts to capture the dynamic nature of the balance sheet.

We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 18 presents, as of June 30, 2010 and 2009, an estimate of the change in net interest income during a quarterly time frame that would result from a gradual change in interest rates, moving in a parallel fashion over the entire yield curve, over the next 12-month period, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. Based on the net interest income simulation as of June 30, 2010, net interest income sensitivity to changes in interest rates as of June 30, 2010 was more sensitive to changes in interest rates compared to the sensitivity profile as of June 30, 2009. As a result of our strategy to shorten the investment portfolio's duration, net interest income is now asset sensitive. Economic conditions and government intervention continue to cause interest rates to remain relatively low.

Net Interest Income Sensitivity Profile**Table 18**

(dollars in thousands)	Change in Net Interest Income Per Quarter			
	June 30, 2010		June 30, 2009	
Change in Interest Rates (basis points)				
+200	\$	960	0.9%	\$ (605) (0.6)%
+100		747	0.7	(403) (0.4)
-100		(1,600)	(1.5)	(403) (0.4)

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

Table 19 presents, as of June 30, 2010 and 2009, an estimate of the change in the MVE that would occur from an instantaneous 100 and 200 basis point increase or a 100 basis point decrease in interest rates, moving in a parallel fashion over the entire yield curve. The MVE sensitivity increased as of June 30, 2010 compared to June 30, 2009, as a result of changes in the composition of the balance sheet,

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profile, net interest income may increase. We also use the Market Value of Equity (MVE) sensitivity analysis to estimate the net present value change in our net assets (i.e., assets, liabilities, and off-balance sheet instruments) from changes in interest rates. The MVE was approximately \$1.9 billion as of June 30, 2010 and 2009.

particularly from a decrease in the investment portfolio duration. Significantly higher interest rates could reduce the value of our investment portfolio while a significant decline in interest rates effectively creates a 0% interest rate environment which could reduce the estimated value of our deposits and increase runoff in our mortgage assets.

Table of Contents**Market Value of Equity Sensitivity Profile****Table 19**

(dollars in thousands)	Change in Market Value of Equity			
	June 30, 2010		June 30, 2009	
Change in Interest Rates (basis points)				
+200	\$	(79,205)	(4.1)%	\$ (27,465) (1.5)%
+100		(13,830)	(0.7)	13,945 0.7
-100		(95,580)	(4.9)	(48,606) (2.6)

Further enhancing the MVE sensitivity analysis is:

- value-at-risk metrics;
- key rate analysis;
- duration of equity analysis; and
- exposure to basis risk and non-parallel yield curve shifts.

There are inherent limitations to these measures; however, used along with the MVE sensitivity analysis, we obtain better overall insight for managing our exposures to changes in interest rates. Based on the additional analyses, we estimate that our greatest exposure is in scenarios where interest rates fall significantly from current levels.

Liquidity Management

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

U.S. Treasury securities. These investments in high grade securities with relatively short duration, allows us to maintain flexibility to redeploy funds as opportunities arise.

Capital Management

The Company and the Bank are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can cause certain mandatory and discretionary actions by regulators that, if undertaken, could have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation to ensure capital adequacy. As of June 30, 2010, the Company and the Bank were well capitalized under this regulatory framework. There have been no conditions or events since June 30, 2010 that management believes have changed either the Company's or the Bank's capital classifications.

As of June 30, 2010, our shareholders' equity was \$1.0 billion, a \$117.0 million or 13% increase from December 31, 2009, and a \$167.1 million or 20% increase from June 30, 2009. In response to a slowing economy and economic uncertainty, we began in the second half of 2008 to increase capital. As of June 30, 2010, our Tier 1 capital ratio was 16.92%, our total capital ratio was 18.19%, our leverage ratio was 7.09%, and our ratio of tangible common equity to risk-weighted assets was 18.57%.

The Parent has not repurchased shares of common stock since October 2008, except for purchases from employees in connection with income tax withholdings related to the vesting of restricted stock and shares purchased for our Rabbi Trust. As of June 30, 2010, remaining buyback authority under the Parent's share repurchase program was \$85.4 million of the total \$1.70 billion repurchase amount authorized by the Parent's Board of Directors. We plan to resume our share repurchases in the third quarter of

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In an effort to satisfy our liquidity needs, we actively manage our assets and liabilities. The potential sources of short-term liquidity include interest-bearing deposits as well as the ability to sell certain assets including investment securities available-for-sale. Assets generate long-term liquidity through cash flows from investment securities and loans. With respect to liabilities, short-term liquidity is generated from securities sold under agreements to repurchase and other short-term funding sources such as federal funds while long-term liquidity is generated through growth in deposits and long-term debt.

2010 in an orderly and disciplined manner, but the amount and timing will depend on market conditions and various other factors.

In July 2010, the Parent's Board of Directors declared a quarterly cash dividend of \$0.45 per share on the Parent's outstanding shares. The dividend will be payable on September 15, 2010 to shareholders of record at the close of business on August 31, 2010.

We continued to maintain a strong liquidity position during the second quarter of 2010. Total deposits were \$9.3 billion as of June 30, 2010, an \$85.0 million or 1% decrease from December 31, 2009, and a \$305.0 million or 3% increase from June 30, 2009. During 2010, we continued to invest excess liquidity conservatively in mortgage-backed securities issued by the Government National Mortgage Association, as well as in

Table of Contents

Table 20 presents our regulatory capital and ratios as of June 30, 2010, December 31, 2009, and June 30, 2009.

Regulatory Capital and Ratios

		June 30, 2010	December 31, 2009	Table 20 June 30, 2009
(dollars in thousands)				
Regulatory Capital				
Shareholders' Equity	\$	1,013,011	\$ 895,973	\$ 845,885
Less:				
Goodwill		31,517	31,517	34,959
Postretirement Benefit Liability Adjustments		5,479	5,644	6,858
Net Unrealized Gains on Investment Securities		79,824	26,290	22,025
Other		2,367	2,398	2,275
Tier 1 Capital		893,824	830,124	779,768
Allowable Reserve for Credit Losses		67,121	70,909	78,643
Total Regulatory Capital	\$	960,945	\$ 901,033	\$ 858,411
Risk-Weighted Assets	\$	5,283,996	\$ 5,594,532	\$ 6,227,230
Key Regulatory Capital Ratios				
Tier 1 Capital Ratio 1		16.92%	14.84%	12.52%
Total Capital Ratio 2		18.19	16.11	13.78
Leverage Ratio 3		7.09	6.76	6.64

1 Tier 1 Capital Ratio as of December 31, 2009 and June 30, 2009 was revised from 14.88% and 12.56%, respectively.

2 Total Capital Ratio as of December 31, 2009 and June 30, 2009 was revised from 16.15% and 13.82%, respectively.

3 Leverage Ratio as of December 31, 2009 and June 30, 2009 was revised from 6.78% and 6.66%, respectively.

Off-Balance Sheet Arrangements and Contractual Obligations*Off-Balance Sheet Arrangements*

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships. Such entities are often referred to as Variable Interest Entities (VIEs). We routinely sell residential mortgage loans to investors, with servicing rights retained. All of our residential mortgage loans sold to third parties are sold on a non-recourse basis.

Contractual Obligations

Our contractual obligations have not changed materially since previously reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section of MD&A.

Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2010. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2010. There were no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Part II - Other Information****Item 1A. Risk Factors**

A wide range of regulatory initiatives directed at the financial services industry have been proposed in recent months. One of those initiatives, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Bureau of Consumer Financial Protection (the "BCFP"), and will require the BCFP and other federal agencies to implement many new rules. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations will impact the Company's business. However, compliance with these new laws and regulations will result in additional costs, which may adversely impact the Company's results of operations, financial condition or liquidity, any of which may impact the market price of the Parent's common stock.

Other than the additional risk factor mentioned above, there are no material changes from the risk factors set forth under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Parent's repurchases of equity securities for the second quarter of 2010 were as follows:

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
April 1 - 30, 2010	36,148	\$ 52.64		\$ 85,356,214
May 1 - 31, 2010	121	52.52		85,356,214
June 1 - 30, 2010	630	46.91		85,356,214
Total	36,899	\$ 52.54		

1 The shares purchased in the second quarter of 2010 were shares purchased from employees in connection with option exercises paid with the Parent's common stock, income tax withholdings related to stock option exercises, and shares purchased for a Rabbi Trust. 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 June 30, 2010, \$85.4 million remained of the total \$1.70 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.

Item 6. Exhibits

A list of exhibits to this Form 10-Q is set forth on the Exhibit Index and is incorporated herein by reference.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 26, 2010

Bank of Hawaii Corporation

By: /s/ Allan R. Landon
Allan R. Landon
Chairman of the Board and
Chief Executive Officer

By: /s/ Kent T. Lucien
Kent T. Lucien
Chief Financial Officer

Table of Contents

Exhibit Index

Exhibit Number

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data File
