

BANK OF HAWAII CORP
Form 10-Q
April 21, 2014
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 March 31, 2014

or

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

Commission File Number: 1-6887

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

Delaware
(State of incorporation)

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

130 Merchant Street, Honolulu, Hawaii
(Address of principal executive offices)
1-888-643-3888

96813
(Zip Code)

(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 ☐

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

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 April 15, 2014, there were 44,429,905 shares of common stock outstanding.

Bank of Hawaii Corporation
Form 10-Q
Index

Page

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

Consolidated Statements of Income –
Three months ended March 31, 2014 and 2013 2

Consolidated Statements of Comprehensive Income –
Three months ended March 31, 2014 and 2013 3

Consolidated Statements of Condition –
March 31, 2014 and December 31, 2013 4

Consolidated Statements of Shareholders' Equity –
Three months ended March 31, 2014 and 2013 5

Consolidated Statements of Cash Flows –
Three months ended March 31, 2014 and 2013 6

Notes to Consolidated Financial Statements (Unaudited) 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 40

Item 3. Quantitative and Qualitative Disclosures About Market Risk 68

Item 4. Controls and Procedures 68

Part II - Other Information

Item 1A. Risk Factors 69

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 69

Item 6. Exhibits 69

Signatures 70

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| (dollars in thousands, except per share amounts) | 2014 | 2013 |
| Interest Income | | |
| Interest and Fees on Loans and Leases | \$63,526 | \$62,820 |
| Income on Investment Securities | | |
| Available-for-Sale | 10,760 | 15,851 |
| Held-to-Maturity | 27,889 | 19,854 |
| Deposits | 3 | 3 |
| Funds Sold | 137 | 59 |
| Other | 302 | 284 |
| Total Interest Income | 102,617 | 98,871 |
| Interest Expense | | |
| Deposits | 2,358 | 2,646 |
| Securities Sold Under Agreements to Repurchase | 6,397 | 7,005 |
| Funds Purchased | 3 | 22 |
| Long-Term Debt | 626 | 638 |
| Total Interest Expense | 9,384 | 10,311 |
| Net Interest Income | 93,233 | 88,560 |
| Provision for Credit Losses | — | — |
| Net Interest Income After Provision for Credit Losses | 93,233 | 88,560 |
| Noninterest Income | | |
| Trust and Asset Management | 11,852 | 11,886 |
| Mortgage Banking | 2,005 | 6,411 |
| Service Charges on Deposit Accounts | 8,878 | 9,301 |
| Fees, Exchange, and Other Service Charges | 12,939 | 11,934 |
| Investment Securities Gains, Net | 2,160 | — |
| Insurance | 2,123 | 2,325 |
| Bank-Owned Life Insurance | 1,602 | 1,297 |
| Other | 3,209 | 4,624 |
| Total Noninterest Income | 44,768 | 47,778 |
| Noninterest Expense | | |
| Salaries and Benefits | 46,897 | 48,675 |
| Net Occupancy | 9,417 | 9,635 |
| Net Equipment | 4,603 | 4,577 |
| Data Processing | 3,649 | 3,266 |
| Professional Fees | 2,260 | 2,226 |
| FDIC Insurance | 2,076 | 1,949 |
| Other | 14,645 | 14,059 |
| Total Noninterest Expense | 83,547 | 84,387 |
| Income Before Provision for Income Taxes | 54,454 | 51,951 |
| Provision for Income Taxes | 15,862 | 15,971 |
| Net Income | \$38,592 | \$35,980 |
| Basic Earnings Per Share | \$0.87 | \$0.81 |
| Diluted Earnings Per Share | \$0.87 | \$0.81 |
| Dividends Declared Per Share | \$0.45 | \$0.45 |
| Basic Weighted Average Shares | 44,193,267 | 44,545,092 |
| Diluted Weighted Average Shares | 44,420,349 | 44,686,632 |

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| (dollars in thousands) | 2014 | 2013 |
| Net Income | \$38,592 | \$35,980 |
| Other Comprehensive Income (Loss), Net of Tax: | | |
| Net Unrealized Gains (Losses) on Investment Securities | 6,271 | (9,641) |
| Defined Benefit Plans | 156 | 78 |
| Total Other Comprehensive Income (Loss) | 6,427 | (9,563) |
| Comprehensive Income | \$45,019 | \$26,417 |

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

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

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

| (dollars in thousands) | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Assets | | |
| Interest-Bearing Deposits | \$4,085 | \$3,617 |
| Funds Sold | 382,154 | 271,414 |
| Investment Securities | | |
| Available-for-Sale | 2,188,064 | 2,243,697 |
| Held to Maturity (Fair Value of \$4,774,032 and \$4,697,587) | 4,777,494 | 4,744,519 |
| Loans Held for Sale | 2,437 | 6,435 |
| Loans and Leases | 6,209,857 | 6,095,387 |
| Allowance for Loan and Lease Losses | (114,126) | (115,454) |
| Net Loans and Leases | 6,095,731 | 5,979,933 |
| Total Earning Assets | 13,449,965 | 13,249,615 |
| Cash and Noninterest-Bearing Deposits | 159,079 | 188,715 |
| Premises and Equipment | 107,323 | 108,636 |
| Accrued Interest Receivable | 46,431 | 43,930 |
| Foreclosed Real Estate | 3,450 | 3,205 |
| Mortgage Servicing Rights | 27,378 | 28,123 |
| Goodwill | 31,517 | 31,517 |
| Other Assets | 437,975 | 430,539 |
| Total Assets | \$14,263,118 | \$14,084,280 |
| Liabilities | | |
| Deposits | | |
| Noninterest-Bearing Demand | \$3,679,410 | \$3,681,128 |
| Interest-Bearing Demand | 2,378,414 | 2,355,608 |
| Savings | 4,515,026 | 4,560,150 |
| Time | 1,471,623 | 1,317,770 |
| Total Deposits | 12,044,473 | 11,914,656 |
| Funds Purchased | 9,982 | 9,982 |
| Short-Term Borrowings | 375 | — |
| Securities Sold Under Agreements to Repurchase | 797,213 | 770,049 |
| Long-Term Debt | 174,695 | 174,706 |
| Retirement Benefits Payable | 35,111 | 34,965 |
| Accrued Interest Payable | 5,743 | 4,871 |
| Taxes Payable and Deferred Taxes | 45,811 | 34,907 |
| Other Liabilities | 120,811 | 128,168 |
| Total Liabilities | 13,234,214 | 13,072,304 |
| Shareholders' Equity | | |
| Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: March 31, 2014 - 57,620,212 / 44,467,593 and December 31, 2013 - 57,480,846 / 44,490,385) | 573 | 572 |
| Capital Surplus | 524,912 | 522,505 |
| Accumulated Other Comprehensive Loss | (25,396) | (31,823) |
| Retained Earnings | 1,170,068 | 1,151,754 |
| Treasury Stock, at Cost (Shares: March 31, 2014 - 13,152,619 and December 31, 2013 - 12,990,461) | (641,253) | (631,032) |
| Total Shareholders' Equity | 1,028,904 | 1,011,976 |

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

| | | |
|--|---------------|---------------|
| Total Liabilities and Shareholders' Equity | \$ 14,263,118 | \$ 14,084,280 |
|--|---------------|---------------|

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

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

| (dollars in thousands) | Common Shares Outstanding | Common Stock | Capital Surplus | Accum. Other Compre- hensive Income (Loss) | Retained Earnings | Treasury Stock | Total |
|--|---------------------------------|-----------------|--------------------|---|----------------------|-------------------|-------------|
| Balance as of December 31, 2013 | 44,490,385 | \$572 | \$522,505 | \$(31,823) | \$1,151,754 | \$(631,032) | \$1,011,976 |
| Net Income | — | — | — | — | 38,592 | — | 38,592 |
| Other Comprehensive Income | — | — | — | 6,427 | — | — | 6,427 |
| Share-Based Compensation | — | — | 1,808 | — | — | — | 1,808 |
| Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits | 222,762 | 1 | 599 | — | (205) | 4,063 | 4,458 |
| Common Stock Repurchased | (245,554) | — | — | — | — | (14,284) | (14,284) |
| Cash Dividends Paid (\$0.45 per share) | — | — | — | — | (20,073) | — | (20,073) |
| Balance as of March 31, 2014 | 44,467,593 | \$573 | \$524,912 | \$(25,396) | \$1,170,068 | \$(641,253) | \$1,028,904 |
| Balance as of December 31, 2012 | 44,754,835 | \$571 | \$515,619 | \$29,208 | \$1,084,477 | \$(608,210) | \$1,021,665 |
| Net Income | — | — | — | — | 35,980 | — | 35,980 |
| Other Comprehensive Loss | — | — | — | (9,563) | — | — | (9,563) |
| Share-Based Compensation | — | — | 1,280 | — | — | — | 1,280 |
| Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits | 277,927 | 1 | 428 | — | (1,553) | 6,395 | 5,271 |
| Common Stock Repurchased | (171,427) | — | — | — | — | (8,299) | (8,299) |
| Cash Dividends Paid (\$0.45 per share) | — | — | — | — | (20,230) | — | (20,230) |
| Balance as of March 31, 2013 | 44,861,335 | \$572 | \$517,327 | \$19,645 | \$1,098,674 | \$(610,114) | \$1,026,104 |

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| (dollars in thousands) | 2014 | 2013 |
| Operating Activities | | |
| Net Income | \$38,592 | \$35,980 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 3,085 | 3,107 |
| Amortization of Deferred Loan and Lease Fees | (482) | (753) |
| Amortization and Accretion of Premiums/Discounts on Investment Securities, Net | 12,157 | 15,848 |
| Share-Based Compensation | 1,808 | 1,280 |
| Benefit Plan Contributions | (326) | (345) |
| Deferred Income Taxes | 4,482 | 134 |
| Net Gains on Sales of Loans and Leases | (821) | (8,586) |
| Net Gains on Investment Securities | (2,160) | — |
| Proceeds from Sales of Loans Held for Sale | 39,206 | 231,026 |
| Originations of Loans Held for Sale | (34,390) | (226,325) |
| Tax Benefits from Share-Based Compensation | (353) | (451) |
| Net Change in Other Assets and Other Liabilities | (11,557) | (23,036) |
| Net Cash Provided by Operating Activities | 49,241 | 27,879 |
| Investing Activities | | |
| Investment Securities Available-for-Sale: | | |
| Proceeds from Prepayments and Maturities | 82,737 | 302,190 |
| Proceeds from Sales | 10,735 | — |
| Purchases | (31,268) | (246,146) |
| Investment Securities Held-to-Maturity: | | |
| Proceeds from Prepayments and Maturities | 177,352 | 283,023 |
| Purchases | (216,533) | (296,836) |
| Net Change in Loans and Leases | (116,377) | 69,411 |
| Premises and Equipment, Net | (1,772) | (2,946) |
| Net Cash Provided by (Used in) Investing Activities | (95,126) | 108,696 |
| Financing Activities | | |
| Net Change in Deposits | 129,817 | (277,622) |
| Net Change in Short-Term Borrowings | 27,539 | 44,771 |
| Proceeds from Long-Term Debt | — | 50,000 |
| Tax Benefits from Share-Based Compensation | 353 | 451 |
| Proceeds from Issuance of Common Stock | 4,105 | 4,863 |
| Repurchase of Common Stock | (14,284) | (8,299) |
| Cash Dividends Paid | (20,073) | (20,230) |
| Net Cash Provided by (Used in) Financing Activities | 127,457 | (206,066) |
| Net Change in Cash and Cash Equivalents | 81,572 | (69,491) |
| Cash and Cash Equivalents at Beginning of Period | 463,746 | 352,861 |
| Cash and Cash Equivalents at End of Period | \$545,318 | \$283,370 |
| Supplemental Information | | |
| Cash Paid for Interest | \$8,512 | \$9,316 |
| Cash Paid for Income Taxes | 1,353 | 6,038 |

Non-Cash Investing Activities:

| | | |
|---|-----|-------|
| Transfer from Loans to Foreclosed Real Estate | 982 | 1,356 |
|---|-----|-------|

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

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

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. 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, 2014.

Use of Estimates in the Preparation of Financial Statements

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

Accounting Standards Adopted in 2014

In July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. The Company adopted the provisions of ASU No. 2013-11 effective January 1, 2014. The adoption of ASU No. 2013-11 had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In January 2014, the FASB issued ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in

proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to continue to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to make such an accounting policy election. The adoption of ASU No. 2014-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of March 31, 2014 and December 31, 2013 were as follows:

| (dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|------------|
| March 31, 2014 | | | | |
| Available-for-Sale: | | | | |
| Debt Securities Issued by the U.S. Treasury and Government Agencies | \$ 368,033 | \$ 6,079 | \$(133) | \$ 373,979 |
| Debt Securities Issued by States and Political Subdivisions | 718,801 | 11,457 | (7,139) | 723,119 |
| Debt Securities Issued by Corporations | 265,040 | 1,103 | (6,582) | 259,561 |
| Mortgage-Backed Securities: | | | | |
| Residential - Government Agencies | 592,588 | 13,743 | (1,348) | 604,983 |
| Residential - U.S. Government-Sponsored Enterprises | 20,034 | 1,374 | — | 21,408 |
| Commercial - Government Agencies | 215,033 | — | (10,019) | 205,014 |
| Total Mortgage-Backed Securities | 827,655 | | | |