

BANK OF HAWAII CORP
Form 10-Q
October 27, 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 September 30, 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 99-0148992
(State of incorporation) (I.R.S. Employer Identification No.)

130 Merchant Street, Honolulu, Hawaii 96813
(Address of principal executive offices) (Zip Code)

1-888-643-3888
(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

As of October 21, 2014, there were 43,875,556 shares of common stock outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2014	2013	2014	2013
Interest Income				
Interest and Fees on Loans and Leases	\$68,089	\$63,918	\$197,433	\$189,467
Income on Investment Securities				
Available-for-Sale	10,286	12,038	31,743	42,962
Held-to-Maturity	26,067	24,137	80,894	63,180
Deposits	3	3	7	7
Funds Sold	176	177	481	310
Other	302	301	906	870
Total Interest Income	104,923	100,574	311,464	296,796
Interest Expense				
Deposits	2,391	2,500	7,142	7,725
Securities Sold Under Agreements to Repurchase	6,523	6,551	19,385	20,307
Funds Purchased	3	4	10	36
Long-Term Debt	627	632	1,903	1,941
Total Interest Expense	9,544	9,687	28,440	30,009
Net Interest Income	95,379	90,887	283,024	266,787
Provision for Credit Losses	(2,665)	) —	(4,864)) —
Net Interest Income After Provision for Credit Losses	98,044	90,887	287,888	266,787
Noninterest Income				
Trust and Asset Management	11,716	11,717	35,573	35,692
Mortgage Banking	1,646	4,132	5,455	16,363
Service Charges on Deposit Accounts	9,095	9,385	26,611	27,798
Fees, Exchange, and Other Service Charges	13,390	12,732	39,699	37,799
Investment Securities Gains, Net	1,858	—	6,097	—
Insurance	2,348	2,177	6,401	6,895
Bank-Owned Life Insurance	1,644	1,365	4,765	3,997
Other	3,253	3,618	9,598	12,401
Total Noninterest Income	44,950	45,126	134,199	140,945
Noninterest Expense				
Salaries and Benefits	45,530	46,552	137,508	140,568
Net Occupancy	9,334	9,847	28,005	29,143
Net Equipment	4,473	4,572	13,745	13,529
Data Processing	3,665	3,697	11,156	10,013
Professional Fees	1,835	2,119	6,708	6,736
FDIC Insurance	1,750	1,913	5,881	5,811
Other	14,443	14,277	42,656	42,745
Total Noninterest Expense	81,030	82,977	245,659	248,545
Income Before Provision for Income Taxes	61,964	53,036	176,428	159,187
Provision for Income Taxes	20,195	15,332	54,577	47,740
Net Income	\$41,769	\$37,704	\$121,851	\$111,447
Basic Earnings Per Share	\$0.95	\$0.85	\$2.77	\$2.51
Diluted Earnings Per Share	\$0.95	\$0.85	\$2.75	\$2.50
Dividends Declared Per Share	\$0.45	\$0.45	\$1.35	\$1.35
Basic Weighted Average Shares	43,859,396	44,267,356	44,034,047	44,433,967
Diluted Weighted Average Shares	44,088,553	44,479,472	44,250,033	44,588,777

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 September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Net Income	\$41,769	\$37,704	\$121,851	\$111,447
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	403	(6,986)	) 15,291	(63,199)
Defined Benefit Plans	157	202	469	481
Total Other Comprehensive Income (Loss)	560	(6,784)	) 15,760	(62,718)
Comprehensive Income	\$42,329	\$30,920	\$137,611	\$48,729

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

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Assets		
Interest-Bearing Deposits	\$3,883	\$3,617
Funds Sold	377,303	271,414
Investment Securities		
Available-for-Sale	2,220,913	2,243,697
Held-to-Maturity (Fair Value of \$4,576,396 and \$4,697,587)	4,557,614	4,744,519
Loans Held for Sale	2,382	6,435
Loans and Leases	6,606,350	6,095,387
Allowance for Loan and Lease Losses	(110,362)	(115,454)
Net Loans and Leases	6,495,988	5,979,933
Total Earning Assets	13,658,083	13,249,615
Cash and Noninterest-Bearing Deposits	172,386	188,715
Premises and Equipment	107,560	108,636
Accrued Interest Receivable	46,641	43,930
Foreclosed Real Estate	3,562	3,205
Mortgage Servicing Rights	25,559	28,123
Goodwill	31,517	31,517
Other Assets	464,858	430,539
Total Assets	\$14,510,166	\$14,084,280
Liabilities		
Deposits		
Noninterest-Bearing Demand	\$3,824,544	\$3,681,128
Interest-Bearing Demand	2,369,434	2,355,608
Savings	4,738,364	4,560,150
Time	1,429,099	1,317,770
Total Deposits	12,361,441	11,914,656
Funds Purchased	8,459	9,982
Securities Sold Under Agreements to Repurchase	700,203	770,049
Long-Term Debt	173,926	174,706
Retirement Benefits Payable	35,152	34,965
Accrued Interest Payable	6,086	4,871
Taxes Payable and Deferred Taxes	42,468	34,907
Other Liabilities	125,018	128,168
Total Liabilities	13,452,753	13,072,304
Shareholders' Equity		
Common Stock (\$.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2014 - 57,633,855 / 43,993,729 and December 31, 2013 - 57,480,846 / 44,490,385)	573	572
Capital Surplus	529,530	522,505
Accumulated Other Comprehensive Loss	(16,063)	(31,823)
Retained Earnings	1,213,339	1,151,754
Treasury Stock, at Cost (Shares: September 30, 2014 - 13,640,126 and December 31, 2013 - 12,990,461)	(669,966)	(631,032)
Total Shareholders' Equity	1,057,413	1,011,976
Total Liabilities and Shareholders' Equity	\$14,510,166	\$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	—	—	—	—	121,851	—	121,851
Other Comprehensive Income	—	—	—	15,760	—	—	15,760
Share-Based Compensation	—	—	5,831	—	—	—	5,831
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	314,579	1	1,194	—	(318)	7,976	8,853
Common Stock Repurchased	(811,235)	—	—	—	—	(46,910)	(46,910)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(59,948)	—	(59,948)
Balance as of September 30, 2014	43,993,729	\$573	\$529,530	\$(16,063)	\$1,213,339	\$(669,966)	\$1,057,413
Balance as of December 31, 2012	44,754,835	\$571	\$515,619	\$29,208	\$1,084,477	\$(608,210)	\$1,021,665
Net Income	—	—	—	—	111,447	—	111,447
Other Comprehensive Loss	—	—	—	(62,718)	—	—	(62,718)
Share-Based Compensation	—	—	4,226	—	—	—	4,226
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	444,951	1	665	—	(2,458)	13,521	11,729
Common Stock Repurchased	(660,539)	—	—	—	—	(33,193)	(33,193)
Cash Dividends Declared (\$1.35 per share)	—	—	—	—	(60,470)	—	(60,470)
Balance as of September 30, 2013	44,539,247	\$572	\$520,510	\$(33,510)	\$1,132,996	\$(627,882)	\$992,686

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

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

	Nine Months Ended September 30,	
(dollars in thousands)	2014	2013
Operating Activities		
Net Income	\$121,851	\$111,447
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	(4,864)) —
Depreciation and Amortization	9,280	9,068
Amortization of Deferred Loan and Lease Fees	(1,341)	) (2,756)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	37,592	45,609
Share-Based Compensation	5,831	4,226
Benefit Plan Contributions	(1,229)	) (949)
Deferred Income Taxes	(8,522)	) (8,762)
Net Gains on Sales of Loans and Leases	(2,285)	) (17,604)
Net Gains on Sales of Investment Securities	(6,097)) —
Proceeds from Sales of Loans Held for Sale	64,545	594,735
Originations of Loans Held for Sale	(58,448)	) (577,055)
Tax Benefits from Share-Based Compensation	(435)	) (592)
Net Change in Other Assets and Other Liabilities	(22,210)	) 11,700
Net Cash Provided by Operating Activities	133,668	169,067
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	251,633	794,899
Proceeds from Sales	14,609	—
Purchases	(230,007)	) (403,373)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	586,037	804,440
Purchases	(418,825)	) (1,293,784)
Net Change in Loans and Leases	(516,395)	) (159,403)
Premises and Equipment, Net	(8,204)	) (9,244)
Net Cash Used in Investing Activities	(321,152)	) (266,465)
Financing Activities		
Net Change in Deposits	446,785	78,652
Net Change in Short-Term Borrowings	(71,369)	) 86,979
Proceeds from Long-Term Debt	—	50,000
Tax Benefits from Share-Based Compensation	435	592
Proceeds from Issuance of Common Stock	8,317	11,193
Repurchase of Common Stock	(46,910)	) (33,193)
Cash Dividends Paid	(59,948)	) (60,470)
Net Cash Provided by Financing Activities	277,310	133,753
Net Change in Cash and Cash Equivalents	89,826	36,355
Cash and Cash Equivalents at Beginning of Period	463,746	352,861
Cash and Cash Equivalents at End of Period	\$553,572	\$389,216
Supplemental Information		
Cash Paid for Interest	\$26,726	\$28,163

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Cash Paid for Income Taxes	46,369	54,644
Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	—	579,888
Transfer from Loans to Foreclosed Real Estate	3,377	3,829

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 used 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.

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

In June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The amendments in the ASU

require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual reporting periods beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual reporting periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. As of September 30, 2014, all of the Company's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, the adoption of ASU No. 2014-11 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. However, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for interim or annual reporting periods beginning after December 15, 2015; early adoption is permitted. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As of September 30, 2014, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU No. 2014-14 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-14 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 September 30, 2014 and December 31, 2013 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$341,116	\$6,400	\$(106)	\$347,410
Debt Securities Issued by States and Political Subdivisions	711,253	21,568	(1,695)	731,126
Debt Securities Issued by Corporations	298,333	717	(5,972)	293,078
Mortgage-Backed Securities:				
Residential - Government Agencies	493,031	12,351	(1,284)	504,098
Residential - U.S. Government-Sponsored Enterprises	157,672	1,449	(128)	158,993
Commercial - Government Agencies	195,589	—	(9,381)	186,208
Total Mortgage-Backed Securities	846,292	13,800	(10,793)	849,299
Total	\$2,196,994	\$42,485	\$(18,566)	\$2,220,913
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$498,619	\$1,918	\$(2,578)	\$497,959
Debt Securities Issued by States and Political Subdivisions	250,439	16,738	—	267,177
Debt Securities Issued by Corporations	170,487	169	(3,207)	167,449
Mortgage-Backed Securities:				
Residential - Government Agencies	3,034,148	44,125	(32,699)	3,045,574
Residential - U.S. Government-Sponsored Enterprises	284,683	1,507	(448)	285,742
Commercial - Government Agencies	319,238	69	(6,812)	312,495
Total Mortgage-Backed Securities	3,638,069	45,701	(39,959)	3,643,811
Total	\$4,557,614	\$64,526	\$(45,744)	\$4,576,396
December 31, 2013				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$390,873	\$6,640	\$(234)	\$397,279
Debt Securities Issued by States and Political Subdivisions	691,861	8,396	(13,455)	686,802
Debt Securities Issued by Corporations	280,172	1,165	(7,836)	273,501
Mortgage-Backed Securities:				
Residential - Government Agencies	641,227	13,816	(1,849)	653,194
Residential - U.S. Government-Sponsored Enterprises	21,865	1,403	—	23,268
Commercial - Government Agencies	219,859	—	(10,206)	209,653
Total Mortgage-Backed Securities	882,951	15,219	(12,055)	886,115
Total	\$2,245,857	\$31,420	\$(33,580)	\$2,243,697
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$433,987	\$3,045	\$(3,667)	\$433,365
Debt Securities Issued by States and Political Subdivisions	253,039	817	(133)	253,723
Debt Securities Issued by Corporations	190,181	—	(5,708)	184,473

Mortgage-Backed Securities:

Residential - Government Agencies	3,523,343	31,786	(66,572)	3,488,557
Residential - U.S. Government-Sponsored Enterprises	21,602	1,423	—	23,025
Commercial - Government Agencies	322,367	—	(7,923)	314,444
Total Mortgage-Backed Securities	3,867,312	33,209	(74,495)	3,826,026
Total	\$4,744,519	\$37,071	\$(84,003)	\$4,697,587

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of September 30, 2014. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	\$ 19,928	\$ 20,091
Due After One Year Through Five Years	287,496	292,869
Due After Five Years Through Ten Years	653,258	657,028
Due After Ten Years	108,982	115,734
	1,069,664	1,085,722
Debt Securities Issued by Government Agencies	281,038	285,892
Mortgage-Backed Securities:		
Residential - Government Agencies	493,031	504,098
Residential - U.S. Government-Sponsored Enterprises	157,672	158,993
Commercial - Government Agencies	195,589	186,208
Total Mortgage-Backed Securities	846,292	849,299
Total	\$ 2,196,994	\$ 2,220,913
Held-to-Maturity:		
Due in One Year or Less	\$ 89,643	\$ 91,049
Due After One Year Through Five Years	408,976	406,911
Due After Five Years Through Ten Years	198,123	204,053
Due After Ten Years	222,803	230,572
	919,545	932,585
Mortgage-Backed Securities:		
Residential - Government Agencies	3,034,148	3,045,574
Residential - U.S. Government-Sponsored Enterprises	284,683	285,742
Commercial - Government Agencies	319,238	312,495
Total Mortgage-Backed Securities	3,638,069	3,643,811
Total	\$ 4,557,614	\$ 4,576,396

Investment securities with carrying values of \$2.7 billion and \$2.6 billion as of September 30, 2014 and December 31, 2013, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three and nine months ended September 30, 2014 and 2013. There were no sales of investment securities for the three and nine months ended September 30, 2013.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross Gains on Sales of Investment Securities	\$ 1,858	\$ —	\$ 6,097	\$ —
Gross Losses on Sales of Investment Securities	—	—	—	—
Net Gains on Sales of Investment Securities	\$ 1,858	\$ —	\$ 6,097	\$ —

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

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2014						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$615	\$ (1)	\$14,066	\$ (105)	\$14,681	\$ (106)
Debt Securities Issued by States and Political Subdivisions	37,690	(60)	124,512	(1,635)	162,202	(1,695)
Debt Securities Issued by Corporations	49,084	(916)	203,105	(5,056)	252,189	(5,972)
Mortgage-Backed Securities:						
Residential - Government Agencies	225	(1)	13,048	(1,283)	13,273	(1,284)
Residential - U.S.	89,409	(128)	—	—	89,409	(128)
Government-Sponsored Enterprises						
Commercial - Government Agencies	—	—	186,208	(9,381)	186,208	(9,381)
Total Mortgage-Backed Securities	89,634	(129)	199,256	(10,664)	288,890	(10,793)
Total	\$177,023	\$ (1,106)	\$540,939	\$ (17,460)	\$717,962	\$ (18,566)
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$163,211	\$ (786)	\$163,959	\$ (1,792)	\$327,170	\$ (2,578)
Debt Securities Issued by Corporations	52,015	(264)	79,589	(2,943)	131,604	(3,207)
Mortgage-Backed Securities:						
Residential - Government Agencies	317,928	(2,379)	938,218	(30,320)	1,256,146	(32,699)
Residential - U.S.	182,312	(448)	—	—	182,312	(448)
Government-Sponsored Enterprises						
Commercial - Government Agencies	89,680	(614)	217,580	(6,198)	307,260	(6,812)
Total Mortgage-Backed Securities	589,920	(3,441)	1,155,798	(36,518)	1,745,718	(39,959)
Total	\$805,146	\$ (4,491)	\$1,399,346	\$ (41,253)	\$2,204,492	\$ (45,744)
December 31, 2013						
Available-for-Sale:						
Debt Securities Issued by the U.S.						
Treasury and Government Agencies	\$26,181	\$ (225)	\$2,117	\$ (9)	\$28,298	\$ (234)
Debt Securities Issued by States and Political Subdivisions	415,718	(10,934)	42,607	(2,521)	458,325	(13,455)
Debt Securities Issued by Corporations	200,364	(7,836)	—	—	200,364	(7,836)
Mortgage-Backed Securities:						
Residential - Government Agencies	76,744	(781)	10,027	(1,068)	86,771	(1,849)
Commercial - Government Agencies	164,478	(7,935)	45,175	(2,271)	209,653	(10,206)
Total Mortgage-Backed Securities	241,222	(8,716)	55,202	(3,339)	296,424	(12,055)
Total	\$883,485	\$ (27,711)	\$99,926	\$ (5,869)	\$983,411	\$ (33,580)
Held-to-Maturity:						
Debt Securities Issued by the U.S.						
Treasury	\$271,469	\$ (3,667)	\$—	\$—	\$271,469	\$ (3,667)

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and Government Agencies

Debt Securities Issued by States and Political Subdivisions	52,026	(133)	—	—	52,026	(133)
Debt Securities Issued by Corporations	163,736	(4,278)	20,736	(1,430)	184,472	(5,708)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,767,086	(54,067)	190,939	(12,505)	1,958,025	(66,572)
Commercial - Government Agencies	224,277	(4,753)	90,167	(3,170)	314,444	(7,923)
Total Mortgage-Backed Securities	1,991,363	(58,820)	281,106	(15,675)	2,272,469	(74,495)
Total	\$2,478,594	\$ (66,898)	\$301,842	\$ (17,105)	\$2,780,436	\$ (84,003)

The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2014, which were comprised of 202 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of September 30, 2014 and December 31, 2013, the gross unrealized losses reported for mortgage-backed securities were primarily related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Taxable	\$31,053	\$31,552	\$96,796	\$92,806
Non-Taxable	5,300	4,623	15,841	13,336
Total Interest Income from Investment Securities	\$36,353	\$36,175	\$112,637	\$106,142

As of September 30, 2014, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of \$583.8 million, representing 58% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 76% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of September 30, 2014, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Federal Home Loan Bank Stock	\$ 49,775	\$ 58,021
Federal Reserve Bank Stock	19,299	19,138
Total	\$ 69,074	\$ 77,159

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

In September 2014, the FHLB Seattle and the Federal Home Loan Bank of Des Moines announced that they have entered into a definitive agreement to merge the two Banks. The merger agreement has been unanimously approved by the boards of directors of both Banks. The closing of the merger is subject to certain closing conditions, including approval by the Federal Housing Finance Agency and ratification by the member-owners of both Banks.

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of September 30, 2014, the conversion ratio was 0.4121.

During the third quarter of 2014, the Company recorded a \$1.9 million net gain on the sale of 23,000 Visa Class B shares. For the first nine months of 2014, the Company recorded a \$5.8 million net gain on the sale of 68,500 Visa Class B shares.

Concurrent with these sales, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 424,214 Class B shares (174,819 Class A equivalents) that the Company owns are carried at a zero cost basis.

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

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of September 30, 2014 and December 31, 2013:

(dollars in thousands)	September 30, 2014	December 31, 2013
Commercial		
Commercial and Industrial	\$ 991,157	\$ 911,367
Commercial Mortgage	1,373,289	1,247,510
Construction	132,097	107,349
Lease Financing	232,381	262,207
Total Commercial	2,728,924	2,528,433
Consumer		
Residential Mortgage	2,444,989	2,282,894
Home Equity	838,206	773,385
Automobile	306,003	255,986
Other ¹	288,228	254,689
Total Consumer	3,877,426	3,566,954
Total Loans and Leases	\$ 6,606,350	\$ 6,095,387

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income, were \$0.3 million and \$2.0 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.6 million and \$8.0 million for the nine months ended September 30, 2014 and 2013, respectively.

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

The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2014 and 2013. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company’s impairment measurement method and the related recorded investment in loans and leases as of September 30, 2014 and 2013.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,886	\$41,952	\$113,838
Loans and Leases Charged-Off	(229)	(3,432)	(3,661)
Recoveries on Loans and Leases Previously Charged-Off	1,202	1,648	2,850
Net Loans and Leases Recovered (Charged-Off)	973	(1,784)	(811)
Provision for Credit Losses	(6,619)	3,954	(2,665)
Balance at End of Period	\$66,240	\$44,122	\$110,362
Nine Months Ended September 30, 2014			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$71,446	\$44,008	\$115,454
Loans and Leases Charged-Off	(1,863)	(9,833)	(11,696)
Recoveries on Loans and Leases Previously Charged-Off	4,299	7,169	11,468
Net Loans and Leases Recovered (Charged-Off)	2,436	(2,664)	(228)
Provision for Credit Losses	(7,642)	2,778	(4,864)
Balance at End of Period	\$66,240	\$44,122	\$110,362
As of September 30, 2014			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	\$2,449	\$3,653	\$6,102
Collectively Evaluated for Impairment	63,791	40,469	104,260
Total	\$66,240	\$44,122	\$110,362
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	\$26,061	\$39,886	\$65,947
Collectively Evaluated for Impairment	2,702,863	3,837,540	6,540,403
Total	\$2,728,924	\$3,877,426	\$6,606,350
Three Months Ended September 30, 2013			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$70,197	\$54,378	\$124,575
Loans and Leases Charged-Off	(623)	(4,051)	(4,674)
Recoveries on Loans and Leases Previously Charged-Off	1,039	2,740	3,779
Net Loans and Leases Recovered (Charged-Off)	416	(1,311)	(895)
Provision for Credit Losses	4,393	(4,393)	—
Balance at End of Period	\$75,006	\$48,674	\$123,680
Nine Months Ended September 30, 2013			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	\$72,704	\$56,153	\$128,857
Loans and Leases Charged-Off	(1,271)	(13,406)	(14,677)
Recoveries on Loans and Leases Previously Charged-Off	2,306	7,194	9,500
Net Loans and Leases Recovered (Charged-Off)	1,035	(6,212)	(5,177)
Provision for Credit Losses	1,267	(1,267)	—
Balance at End of Period	\$75,006	\$48,674	\$123,680

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As of September 30, 2013

Allowance for Loan and Lease Losses:

Individually Evaluated for Impairment	\$8,029	\$3,472	\$11,501
Collectively Evaluated for Impairment	66,977	45,202	112,179
Total	\$75,006	\$48,674	\$123,680

Recorded Investment in Loans and Leases:

Individually Evaluated for Impairment	\$35,149	\$36,557	\$71,706
Collectively Evaluated for Impairment	2,443,341	3,491,595	5,934,936
Total	\$2,478,490	\$3,528,152	\$6,006,642

Credit Quality Indicators

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

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

Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely Pass: rated. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.

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

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

The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2014 and December 31, 2013.

September 30, 2014					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$943,401	\$1,299,766	\$130,267	\$231,919	\$2,605,353
Special Mention	14,150	34,944	—	21	49,115
Classified	33,606	38,579	1,830	441	74,456
Total	\$991,157	\$1,373,289	\$132,097	\$232,381	\$2,728,924
Residential Mortgage					
(dollars in thousands)	Home Equity	Automobile	Other ¹	Total Consumer	
Pass	\$2,427,506	\$833,987	\$305,391	\$287,587	\$3,854,471
Classified	17,483	4,219	612	641	22,955
Total	\$2,444,989	\$838,206	\$306,003	\$288,228	\$3,877,426
Total Recorded Investment in Loans and Leases					\$6,606,350
December 31, 2013					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	\$867,813	\$1,176,941	\$104,377	\$261,486	\$2,410,617
Special Mention	5,854	24,587	—	31	30,472
Classified	37,700	45,982	2,972	690	87,344
Total	\$911,367	\$1,247,510	\$107,349	\$262,207	\$2,528,433
Residential Mortgage					
(dollars in thousands)	Home Equity	Automobile	Other ¹	Total Consumer	
Pass	\$2,261,891	\$769,051	\$255,664	\$253,910	\$3,540,516
Classified	21,003	4,334	322	779	26,438
Total	\$2,282,894	\$773,385	\$255,986	\$254,689	\$3,566,954
Total Recorded Investment in Loans and Leases					\$6,095,387

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

Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of September 30, 2014 and December 31, 2013.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non- Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current ²
As of September 30, 2014								
Commercial								
Commercial and Industrial	\$997	\$775	\$14	\$8,952	\$ 10,738	\$980,419	\$991,157	\$ 3,061
Commercial Mortgage	—	382	—	1,366	1,748	1,371,541	1,373,289	—
Construction	—	—	—	—	—	132,097	132,097	—
Lease Financing	—	—	—	—	—	232,381	232,381	—
Total Commercial	997	1,157	14	10,318	12,486	2,716,438	2,728,924	3,061
Consumer								
Residential Mortgage	5,338	1,391	4,819	16,756	28,304	2,416,685	2,444,989	3,433
Home Equity	3,669	2,282	2,816	2,671	11,438	826,768	838,206	333
Automobile	6,476	1,085	612	—	8,173	297,830	306,003	—
Other ¹	2,285	1,412	842	—	4,539	283,689	288,228	—
Total Consumer	17,768	6,170	9,089	19,427	52,454	3,824,972	3,877,426	3,766
Total	\$18,765	\$7,327	\$9,103	\$29,745	\$ 64,940	\$6,541,410	\$6,606,350	\$ 6,827
As of December 31, 2013								
Commercial								
Commercial and Industrial	\$1,701	\$1,962	\$1,173	\$11,929	\$ 16,765	\$894,602	\$911,367	\$ 3,603
Commercial Mortgage	932	—	—	2,512	3,444	1,244,066	1,247,510	778
Construction	—	—	—	—	—	107,349	107,349	—
Lease Financing	—	—	—	—	—	262,207	262,207	—
Total Commercial	2,633	1,962	1,173	14,441	20,209	2,508,224	2,528,433	4,381
Consumer								
Residential Mortgage	6,984	4,746	4,564	20,264	36,558	2,246,336	2,282,894	5,883
Home Equity	3,926	2,867	3,009	1,740	11,542	761,843	773,385	265
Automobile	4,688	971	322	—	5,981	250,005	255,986	—
Other ¹	2,426	5,295	790	—	8,511	246,178	254,689	—
Total Consumer	18,024	13,879	8,685	22,004	62,592	3,504,362	3,566,954	6,148
Total	\$20,657	\$15,841	\$9,858	\$36,445	\$ 82,801	\$6,012,586	\$6,095,387	\$ 10,529

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

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

Impaired Loans

The following presents by class, information related to impaired loans as of September 30, 2014 and December 31, 2013.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2014			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$10,811	\$16,061	\$—
Commercial Mortgage	6,997	6,997	—
Construction	1,710	1,710	—
Total Commercial	19,518	24,768	—
Total Impaired Loans with No Related Allowance Recorded	\$19,518	\$24,768	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$6,543	\$13,143	\$2,449
Total Commercial	6,543	13,143	2,449
Consumer			
Residential Mortgage	32,586	38,220	3,539
Home Equity	1,022	1,022	18
Automobile	5,596	5,596	73
Other ¹	682	682	23
Total Consumer	39,886	45,520	3,653
Total Impaired Loans with an Allowance Recorded	\$46,429	\$58,663	\$6,102
Impaired Loans:			
Commercial	\$26,061	\$37,911	\$2,449
Consumer	39,886	45,520	3,653
Total Impaired Loans	\$65,947	\$83,431	\$6,102
December 31, 2013			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	\$12,709	\$17,967	\$—
Commercial Mortgage	14,898	14,898	—
Construction	1,059	1,064	—
Total Commercial	28,666	33,929	—
Total Impaired Loans with No Related Allowance Recorded	\$28,666	\$33,929	\$—
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	\$9,803	\$16,403	\$9,054
Total Commercial	9,803	16,403	9,054
Consumer			
Residential Mortgage	32,338	38,420	3,619

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Home Equity	796	796	13
Automobile	5,183	5,183	77
Other ¹	329	329	13
Total Consumer	38,646	44,728	3,722
Total Impaired Loans with an Allowance Recorded	\$48,449	\$61,131	\$12,776

Impaired Loans:			
Commercial	\$38,469	\$50,332	\$9,054
Consumer	38,646	44,728	3,722
Total Impaired Loans	\$77,115	\$95,060	\$12,776

¹ Comprised of other revolving credit and installment financing.

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2014 and 2013.

(dollars in thousands)	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$10,161	\$ 96	\$9,796	\$ 53
Commercial Mortgage	7,046	56	8,075	54
Construction	2,024	28	532	11
Total Commercial	19,231	180	18,403	118
Consumer				
Other ¹	9	—	—	—
Total Consumer	9	—	—	—
Total Impaired Loans with No Related Allowance Recorded	\$19,240	\$ 180	\$18,403	\$ 118
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$7,345	\$ 25	\$9,178	\$ 28
Commercial Mortgage	—	—	24	—
Total Commercial	7,345	25	9,202	28
Consumer				
Residential Mortgage	31,989	269	31,390	234
Home Equity	1,029	13	—	—
Automobile	5,345	114	5,015	117
Other ¹	576	12	252	3
Total Consumer	38,939	408	36,657	354
Total Impaired Loans with an Allowance Recorded	\$46,284	\$ 433	\$45,859	\$ 382
Impaired Loans:				
Commercial	\$26,576	\$ 205	\$27,605	\$ 146
Consumer	38,948	408	36,657	354
Total Impaired Loans	\$65,524	\$ 613	\$64,262	\$ 500

(dollars in thousands)	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	\$11,518	\$ 254	\$8,506	\$ 53
Commercial Mortgage	9,041	167	5,743	54
Construction	1,540	66	474	11
Total Commercial	22,099	487	14,723	118
Consumer				
Other ¹	7	—	—	—

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Total Consumer	7	—	—	—
Total Impaired Loans with No Related Allowance Recorded	\$22,106	\$ 487	\$14,723	\$ 118
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	\$8,260	\$ 80	\$5,593	\$ 150
Commercial Mortgage	—	—	40	51
Total Commercial	8,260	80	5,633	201
Consumer				
Residential Mortgage	31,915	749	31,314	554
Home Equity	952	27	—	—
Automobile	5,235	327	5,241	375
Other ¹	471	30	266	9
Total Consumer	38,573	1,133	36,821	938
Total Impaired Loans with an Allowance Recorded	\$46,833	\$ 1,213	\$42,454	\$ 1,139
Impaired Loans:				
Commercial	\$30,359	\$ 567	\$20,356	\$ 319
Consumer	38,580	1,133	36,821	938
Total Impaired Loans	\$68,939	\$ 1,700	\$57,177	\$ 1,257

¹ Comprised of other revolving credit and installment financing.

For the three and nine months ended September 30, 2014 and 2013, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2014 and 2013, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring (“TDR”) when the Company for economic or legal reasons related to a borrower’s financial difficulties grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were \$56.1 million and \$63.7 million as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014 and December 31, 2013, there were \$0.1 million and \$1.9 million, respectively, of available commitments under revolving credit lines that have been modified in a TDR.

The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a co-borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Prior to November 2012, residential mortgage loans modified in a TDR were primarily comprised of loans where monthly payments were lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment was applied to principal. After the lowered monthly payment period ended, the borrower generally reverted back to paying principal and interest per the original terms with the maturity date adjusted accordingly. Effective November 2012, the Company revised its modification program to resemble the Federal Government's Home Affordable Modification Payment (“HAMP”) Tier 2 program. Under this modification program, the concessions generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Prior to September 2012, land loans modified in a TDR typically involved extending the balloon payment by one to three years, changing the monthly payments from interest-only to principal and interest, while leaving the interest rate unchanged. In September 2012, the land loan modification program was changed to offer an extension to term-out and fully amortize the loan over a period of up to 360 months. Home equity modifications are made infrequently and uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2014 and 2013.

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Three Months Ended September 30, 2014			Loans Modified as a TDR for the Three Months Ended September 30, 2013		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	4	\$ 1,203	\$ 155	18	\$ 2,207	\$ 1
Construction	—	—	—	1	1,064	—
Total Commercial	4	1,203	155	19	3,271	1
Consumer						
Residential Mortgage	6	1,581	56	5	1,533	107
Automobile	35	774	10	25	353	5
Other ²	35	255	8	6	74	5
Total Consumer	76	2,610	74	36	1,960	117
Total	80	\$ 3,813	\$ 229	55	\$ 5,231	\$ 118

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Nine Months Ended September 30, 2014			Loans Modified as a TDR for the Nine Months Ended September 30, 2013		
	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	16	\$ 5,416	\$ 156	33	\$ 4,774	\$ 621
Commercial Mortgage	1	332	—	4	5,476	—
Construction	—	—	—	1	1,064	—
Total Commercial	17	5,748	156	38	11,314	621
Consumer						
Residential Mortgage	15	4,886	183	17	5,823	880
Home Equity	2	158	3	—	—	—
Automobile	112	2,213	29	106	1,276	19
Other ²	53	414	13	7	77	5
Total Consumer	182	7,671	228	130	7,176	904
Total	199	\$ 13,419	\$ 384	168	\$ 18,490	\$ 1,525

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

² Comprised of other revolving credit and installment financing.

The following presents by class, all loans modified in a TDR that defaulted during the three and nine months ended September 30, 2014 and 2013, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Number of Contracts	Recorded Investment (as of period end) ¹	Number of Contracts	Recorded Investment (as of period end) ¹
Commercial				
Commercial and Industrial	1	\$ 22	—	\$ —
Total Commercial	1	22	—	—
Consumer				
Automobile	5	64	3	25
Other ²	1	16	—	—
Total Consumer	6	80	3	25
Total	7	\$ 102	3	\$ 25

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Number of Contracts	Recorded Investment (as of period end) ¹	Number of Contracts	Recorded Investment (as of period end) ¹
Commercial				
Commercial and Industrial	3	\$ 723	1	\$ 492
Total Commercial	3	723	1	492
Consumer				
Residential Mortgage	2	509	—	—
Automobile	7	110	9	89
Other ²	3	27	—	—
Total Consumer	12	646	9	89
Total	15	\$ 1,369	10	\$ 581

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

² Comprised of other revolving credit and installment financing.

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

Note 4. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was \$3.0 billion as of September 30, 2014 and \$3.1 billion as of December 31, 2013. Substantially all of these loans were originated by the Company and sold to third parties on a non-recourse basis with servicing rights retained. These retained servicing rights are recorded as a servicing asset and are initially recorded at fair value (see Note 12 to the Consolidated Financial Statements for more information). Changes to the balance of mortgage servicing rights are recorded in mortgage banking income in the Company's consolidated statements of income.

The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$2.0 million for the three months ended September 30, 2014 and 2013, and \$6.0 million for the nine months ended September 30, 2014 and 2013. Servicing income is recorded in mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and nine months ended September 30, 2014 and 2013, the change in the carrying value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Balance at Beginning of Period	\$2,960	\$4,158	\$3,826	\$4,761
Change in Fair Value:				
Due to Change in Valuation Assumptions ¹	(145	) (68	) (816	) (4
Due to Payoffs	(72	) (271	) (267	) (938
Total Changes in Fair Value of Mortgage Servicing Rights	(217	) (339	) (1,083	) (942
Balance at End of Period	\$2,743	\$3,819	\$2,743	\$3,819

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

For the three and nine months ended September 30, 2014 and 2013, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of valuation allowance, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Balance at Beginning of Period	\$23,437	\$23,473	\$24,297	\$20,479
Servicing Rights that Resulted From Asset Transfers	100	1,343	664	5,596
Amortization	(742	) (620	) (2,094	) (1,879
Valuation Allowance Provision	21	—	(51) —
Balance at End of Period	\$22,816	\$24,196	\$22,816	\$24,196
Valuation Allowance:				
Balance at Beginning of Period	\$(72) \$—	\$—	\$—
Valuation Allowance Provision	21	—	(51) —
Balance at End of Period	\$(51	) \$—	\$(51) \$—

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

Beginning of Period	\$25,848	\$28,442	\$30,100	\$23,143
End of Period	\$24,336	\$28,693	\$24,336	\$28,693

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	December 31, 2013	
Weighted-Average Constant Prepayment Rate ¹	11.07	% 7.98	%
Weighted-Average Life (in years)	6.56	8.04	
Weighted-Average Note Rate	4.28	% 4.31	%
Weighted-Average Discount Rate ²	10.17	% 9.70	%

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 September 30, 2014 and December 31, 2013 is presented in the following table.

(dollars in thousands)

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	September 30, 2014	December 31, 2013
Constant Prepayment Rate		
Decrease in fair value from 25 basis points (“bps”) adverse change	\$ (276)	\$ (357)
Decrease in fair value from 50 bps adverse change	(552)	(746)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(275)	(432)
Decrease in fair value from 50 bps adverse change	(545)	(876)

25

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

Note 5. Balance Sheet Offsetting

Interest Rate Swap Agreements ("Swap Agreements")

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling \$16.5 million and \$20.7 million as of September 30, 2014 and December 31, 2013, respectively. The fair value of collateral posted by the Company for these net liability positions is shown in the table below. See Note 10 to the Consolidated Financial Statements for more information.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

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

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fails to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest), and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement.

The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of September 30, 2014 and December 31, 2013. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table.

	(i)	(ii)	(iii) = (i)-(ii)	(iv)	(v) = (iii)-(iv)	
	Gross Amounts Recognized in the Statements of Condition	Gross Amounts Offset in the Statements of Condition	Net Amounts Presented in the Statements of Condition	Gross Amounts Not Offset in the Statements of Condition Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged ¹	Net Amount
(dollars in thousands)						
September 30, 2014						
Assets:						
Interest Rate Swap						
Agreements:						
Institutional						
Counterparties	\$ 117	\$—	\$ 117	\$ 117	\$—	\$—
Liabilities:						
Interest Rate Swap						
Agreements:						
Institutional						
Counterparties	16,660	—	16,660	117	1,885	14,658
Repurchase Agreements:						
Private Institutions	600,000	—	600,000	—	600,000	—
Government Entities	100,203	—	100,203	—	100,203	—
	\$ 700,203	\$—	\$ 700,203	\$—	\$ 700,203	\$—
December 31, 2013						
Assets:						
Interest Rate Swap						
Agreements:						
Institutional						
Counterparties	\$ 155	\$—	\$ 155	\$ 155	\$—	\$—
Liabilities:						
Interest Rate Swap						
Agreements:						
Institutional						
Counterparties	20,853	—	20,853	155	2,288	18,410
Repurchase Agreements:						
Private Institutions	600,000	—	600,000	—	600,000	—
Government Entities	170,049	—	170,049	—	170,049	—
	\$ 770,049	\$—	\$ 770,049	\$—	\$ 770,049	\$—

¹ The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For repurchase agreements with private institutions, the fair value of investment securities pledged was \$0.7 billion and \$0.7 billion as of September 30, 2014 and December 31, 2013, respectively. For repurchase agreements with government entities, the investment securities pledged to each government entity collectively secure both deposits as well as repurchase agreements. The Company had government entity deposits totaling \$1.3 billion and \$1.2 billion as of September 30, 2014 and December 31, 2013, respectively. The investment securities pledged as of September 30, 2014 and December 31, 2013 had a fair value of \$2.0 billion and \$1.8 billion, respectively.

Note 6. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2014			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 825	\$ 325	\$ 500
Amounts Reclassified from Accumulated Other Comprehensive Income that Increase Net Income:			
Amortization of Unrealized Holding Gains on Held-to-Maturity Securities ¹	(160)	) (63)	) (97)
Net Unrealized Gains on Investment Securities	665	262	403
Defined Benefit Plans:			
Amortization of Net Actuarial Losses	339	133	206
Amortization of Prior Service Credit	(81)	) (32)	) (49)
Defined Benefit Plans, Net	258	101	157
Other Comprehensive Income	\$ 923	\$ 363	\$ 560
Three Months Ended September 30, 2013			
Net Unrealized Losses on Investment Securities:			
Net Unrealized Losses Arising During the Period	\$(9,913)	) \$(3,909)	) \$(6,004)
Amounts Reclassified from Accumulated Other Comprehensive Income that Increase Net Income:			
Amortization of Unrealized Holding Gains on Held-to-Maturity Securities ¹	(1,621)	) (639)	) (982)
Net Unrealized Losses on Investment Securities	(11,534)	) (4,548)	) (6,986)
Defined Benefit Plans:			
Amortization of Net Actuarial Losses	414	163	251
Amortization of Prior Service Credit	(81)	) (32)	) (49)
Defined Benefit Plans, Net	333	131	202
Other Comprehensive Loss	\$(11,201)	) \$(4,417)	) \$(6,784)
Nine Months Ended September 30, 2014			
Net Unrealized Gains on Investment Securities:			
Net Unrealized Gains Arising During the Period	\$ 26,143	\$ 10,313	\$ 15,830
Amounts Reclassified from Accumulated Other Comprehensive Income that Increase Net Income:			
Gain on Sale	(64)	) (25)	) (39)
Amortization of Unrealized Holding Gains on Held-to-Maturity Securities ¹	(825)	) (325)	) (500)
Net Unrealized Gains on Investment Securities	25,254	9,963	15,291
Defined Benefit Plans:			
Amortization of Net Actuarial Losses	1,016	400	616
Amortization of Prior Service Credit	(242)	) (95)	) (147)
Defined Benefit Plans, Net	774	305	469
Other Comprehensive Income	\$ 26,028	\$ 10,268	\$ 15,760

Nine Months Ended September 30, 2013
 Net Unrealized Losses on Investment Securities:

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Net Unrealized Losses Arising During the Period	\$ (96,420)	\$ (38,002)	\$ (58,418)
Amounts Reclassified from Accumulated Other Comprehensive Income that Increase Net Income:						
Amortization of Unrealized Holding Gains on Held-to-Maturity Securities ¹	(7,894	)	(3,113	)	(4,781)
Net Unrealized Losses on Investment Securities	(104,314	)	(41,115	)	(63,199)
Defined Benefit Plans:						
Net Actuarial Losses Arising During the Period	(206	)	(81	)	(125)
Amortization of Net Actuarial Losses	1,241		489		752	
Amortization of Prior Service Credit	(242	)	(96	)	(146)
Defined Benefit Plans, Net	793		312		481	
Other Comprehensive Loss	\$ (103,521	)	\$ (40,803	)	\$ (62,718)

The amount relates to the amortization/accretion of unrealized net gains and losses related to the Company's ¹ reclassification of available-for-sale investment securities to the held-to-maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2014 and 2013:

(dollars in thousands)	Investment Securities-Available-for-Sale	Investment Securities-Held-to-Maturity	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Three Months Ended September 30, 2014				
Balance at Beginning of Period	\$ 13,991	\$ (8,532)	\$(22,082)	\$(16,623)
Other Comprehensive Income Before Reclassifications	500	—	—	500
Amounts Reclassified from Accumulated Other Comprehensive Loss	—	(97)	157	60
Total Other Comprehensive Income (Loss)	500	(97)	157	560
Balance at End of Period	\$ 14,491	\$ (8,629)	\$(21,925)	\$(16,063)
Three Months Ended September 30, 2013				
Balance at Beginning of Period	\$ (1,283)	\$ 4,847	\$(30,290)	\$(26,726)
Other Comprehensive Loss Before Reclassifications	5,692	(11,696)	—	(6,004)
Amounts Reclassified from Accumulated Other Comprehensive Loss	—	(982)	202	(780)
Total Other Comprehensive Income (Loss)	5,692	(12,678)	202	(6,784)
Balance at End of Period	\$ 4,409	\$ (7,831)	\$(30,088)	\$(33,510)
Nine Months Ended September 30, 2014				
Balance at Beginning of Period	\$ (1,300)	\$ (8,129)	\$(22,394)	\$(31,823)
Other Comprehensive Income Before Reclassifications	15,830	—	—	15,830
Amounts Reclassified from Accumulated Other Comprehensive Loss	(39)	(500)	469	(70)
Total Other Comprehensive Income (Loss)	15,791	(500)	469	15,760
Balance at End of Period	\$ 14,491	\$ (8,629)	\$(21,925)	\$(16,063)
Nine Months Ended September 30, 2013				
Balance at Beginning of Period	\$ 45,996	\$ 13,781	\$(30,569)	\$29,208
Other Comprehensive Loss Before Reclassifications	(41,587)	(16,831)	(125)	(58,543)
	—	(4,781)	606	(4,175)

Amounts Reclassified from
Accumulated Other

Comprehensive Income					
Total Other Comprehensive Income	(41,587)	(21,612)	481
(Loss)					(62,718
Balance at End of Period	\$ 4,409		\$ (7,831)	\$(30,088
					\$(33,510

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ¹		Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	Three Months Ended September 30,		
	2014	2013	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	\$ 160	\$ 1,621	Interest Income
	(63	)(639	) Provision for Income Tax
	97	982	Net of Tax
Sale of Investment Securities Available-for-Sale	—	—	Investment Securities Gains, Net
	—	—	Tax Expense
	—	—	Net of tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit ²	81	81	
Net Actuarial Losses ²	(339	)(414)
	(258	)(333	) Total Before Tax
	101	131	Provision for Income Tax
	(157	)(202	) Net of Tax
Total Reclassifications for the Period	\$(60	) \$780	Net of Tax
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ¹		Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	Nine Months Ended September 30,		
	2014	2013	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	\$ 825	\$ 7,894	Interest Income
	(325	)(3,113	) Provision for Income Tax
	500	4,781	