QUALITY DISTRIBUTION INC
Form 8-K
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported)

May 13, 2015

QUALITY DISTRIBUTION, INC.

(Exact name of registrant as specified in its charter)

Florida	**000-24180**	**59-3239073**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

4041 Park Oaks Boulevard, Suite 200

Tampa, Florida 33610

(Address of principal executive offices including Zip Code)

(813) 630-5826

(Registrant s telephone number, including area code)

N.A.

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On May 13, 2015, Quality Distribution, Inc. (the Company) announced that its Board of Directors has determined to postpone the 2015 Annual Meeting of Shareholders, originally scheduled for May 28, 2015. The postponement is due to the Company s recent announcement that it has entered into a definitive merger agreement, dated May 6, 2015, with Gruden Acquisition, Inc. and Gruden Merger Sub, Inc., which are affiliates of Apax Partners, L.P.

At a later date, the Company will provide information related to a rescheduled shareholder meeting.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description of Exhibits
99.1	Press Release of Quality Distribution, Inc. dated May 13, 2015

Forward-Looking Statements

This Form 8-K contains, and other written or oral statements made by or on behalf of The Company may include, forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we or our executive officers on our behalf, may from time to time make forward-looking statements in reports and other documents that are filed with the Securities and Exchange Commission (SEC) or in connection with oral statements made to the press, potential investors or others. Specifically, forward-looking statements may include, but are not limited to, statements relating to our future economic performance, business prospects, revenue, income, and financial condition; and statements preceded by, followed by, or that include the words expects, believes, intends, will, anticipates, and similar terms that relate to future events, performance, or our results. Examples of forward-looking statements in this press release include, but are not limited to, statements about the price, terms and closing date of the proposed transaction and statements regarding shareholder and regulatory approvals. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results, expectations, or outcomes to differ materially from our historical experience as well as management s present expectations or projections. These risks and uncertainties include, but are not limited to: (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; (ii) the inability to complete the proposed merger due to the failure to obtain Company Requisite Vote or the failure to satisfy other conditions of the proposed merger within the proposed timeframe or at all; (iii) the failure to obtain the necessary financing arrangements as set forth in the debt and equity commitment letters delivered pursuant to the merger agreement, or the failure of the proposed merger to close for any other reason; (iv) risks related to disruption of management s attention from the Company s ongoing business operations due to the transaction; (v) the outcome of any legal proceedings, regulatory proceedings or enforcement matters that may be instituted against the Company and others relating to the merger agreement; (vi) the risk that the pendency of the proposed merger disrupts current plans and operations and the potential difficulties in employee retention as a result of the pendency of the proposed merger; (vii) the effect of the announcement of the proposed merger on the Company s relationships with its customers, operating results and business generally; and (viii) the amount of the costs, fees, expenses and charges related to the proposed merger. Consider these factors carefully in evaluating the forward-looking statements. Additional factors that may cause results to differ materially from those described in the forward-looking statements are set forth in the Company s Annual Report on Form 10 K for the fiscal year ended December 31, 2014, which was filed with the SEC on March 13, 2015. The forward-looking statements represent the Company s views as of the date on which such statements were made and the Company undertakes no obligation to publicly update such forward-looking statements.

Participants in the Solicitation

The Company and its directors, executive officers and certain other members of management and employees of the Company may be deemed to be participants in the solicitation of proxies from the shareholders of the Company in connection with the proposed merger. Information regarding the interests of the persons who may, under the rules of the SEC, be considered participants in the solicitation of the shareholders of the Company in connection with the proposed merger, which may be different than those of the Company s shareholders generally, will be set forth in the proxy statement and the other relevant documents to be filed with the SEC. Shareholders can find information about the Company and its directors and executive officers and their ownership of the Company s common stock in the Company s annual report on Form 10-K for the fiscal year ended December 31, 2014 and in its definitive proxy statement relating to its 2015 annual meeting of stockholders filed with the SEC on April 24, 2015. Additional information regarding the interests of such individuals in the proposed merger will be included in the proxy statement relating to the merger when it is filed with the SEC. These documents may be obtained free of charge from the SEC s website at www.sec.gov and the Company s website at https://www.qualitydistribution.com/.

Important Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of the proposed acquisition of the Company by Apax Partners and its affiliates. In connection with the proposed transaction, the Company will file with the SEC and furnish to its stockholders a proxy statement and other relevant documents. QUALITY STOCKHOLDERS ARE ADVISED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. Investors may obtain a free copy of the proxy statement (when it becomes available) and other relevant documents filed by the Company with the SEC at the SEC s Web site at http://www.sec.gov. The proxy statement and such other documents filed by the Company with the SEC may also be obtained for free from the Investor Relations section of the Company s web site (https://www.qualitydistribution.com/) or by directing a request to: Quality Distribution, Inc., 4041 Park Oaks Blvd., Suite 200, Tampa, FL 33610, Attention: Investor Relations.

SIGNATURES

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

	QUALITY DISTRIBUTION, INC. (Registrant)	
Dated: May 13, 2015	By:	/s/ Joseph J. Troy
	Name:	Joseph J. Troy
	Title:	Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	**Description of Exhibits**
99.1	Press Release of Quality Distribution, Inc. dated May 13, 2015

ign:right;font-size:9pt;">18.8

(0.1
)

18.7

Other
(0.2
)

—

(0.2
)
Total Change in Interest Income
14.7

(1.0
)

13.7

Change in Interest Expense:

Interest-Bearing Deposits

Demand
—

0.1

0.1

Savings
0.1

—

0.1

Time
(0.2
)

1.2

1.0

Total Interest-Bearing Deposits
(0.1
)

1.3

1.2

Securities Sold Under Agreements to Repurchase
(1.5
)

1.0

(0.5
)
Other Debt

0.4

0.4

0.8

Total Change in Interest Expense
(1.2
)

2.7

1.5

Change in Net Interest Income
$
15.9

$
(3.7
)

$
12.2

[1] The change in interest income and expense not solely due to changes in volume or rate has been allocated on a pro-rata basis to the volume and rate columns.

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

Net Interest Income

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

Net interest income was $103.6 million for the second quarter of 2016, an increase of $5.8 million or 6% compared to the same period in 2015. On a taxable-equivalent basis, net interest income was $106.5 million for the second quarter of 2016, an increase of $5.7 million or 6% compared to the same period in 2015. Net interest income was $206.6 million for the first six months of 2016, an increase of $12.0 million or 6% compared to the same period in 2015. On a taxable-equivalent basis, net interest income was $212.6 million for the first six months of 2016, an increase of $12.2 million or 6% compared to the same period in 2015. This increase was primarily due to a higher level of earning assets including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily due to higher deposit balances. We recorded $1.0 million of interest income recoveries in the second quarter of 2016. In addition, we

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recorded an additional $1.3 million of interest income in the first quarter of 2016 due to the full recovery of non-performing commercial and industrial loans related to one client in Guam. Net interest margin was 2.85% for the second quarter of 2016, an increase of four basis points compared to the same period in 2015. Net interest margin was 2.86% for the first six months of 2016, an increase of five basis points compared to the same period in 2015. The higher margins in 2016 were primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2015. The higher margins were also due to the aforementioned interest income recoveries.

Yields on our earning assets increased by five basis points in the second quarter of 2016 and by six basis points for the first six months of 2016 compared to the same periods in 2015 primarily due to the aforementioned shift in the mix of our earning assets from investment securities to loans which generally have higher yields. Yields on our commercial and industrial portfolio increased by 20 basis points in the second quarter of 2016 and by 42 basis points for the first six months of 2016 compared to the same periods in 2015 primarily due to higher year-over-year rates on floating rate loans, a $0.2 million interest income recovery in the second quarter of 2016, and the aforementioned interest income recovered on non-performing loans in the first quarter of 2016. Yields on our commercial mortgage portfolio increased by six basis points in the second quarter of 2016 and decreased by two basis points for the first six months of 2016 compared to the same periods in 2015. A $0.8 million interest income recovery in the current quarter helped to offset lower yields. Partially offsetting the overall yield increase in our earning assets was lower yields in our residential mortgage portfolio and our investment securities portfolio, coupled with slightly higher funding costs. Yields on our residential mortgage portfolio decreased by 13 basis points in both the second quarter and the first six months of 2016 compared to the same periods in 2015 primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio. Our investment securities portfolio yield decreased by four basis points in the second quarter of 2016 and by six basis points in the first six months of 2016 compared to the same periods in 2015 primarily due to reinvestment into lower yielding securities, a reflection of the continued low interest rate environment, partially offset by lower premium amortization. Funding costs rose slightly in 2016 compared to 2015. Interest rates paid on our time deposits increased by 22 basis points in the second quarter of 2016 and by 19 basis points for the first six months of 2016 compared to the same periods in 2015 due to new public time deposits at higher rates. Interest rates paid on our securities sold under agreements to repurchase increased by 35 basis points in the second quarter of 2016 and by 32 basis points for the first six months of 2016 compared to the same periods in 2015 due to a decrease in repurchase agreements with local government entities which have relatively shorter terms at lower interest rates. The remaining balance in our repurchase agreements consists mainly of those with private entities which have relatively longer terms at higher interest rates.

Average balances of our earning assets increased by $610.3 million or 4% in the second quarter of 2016 and by $598.7 million or 4% in the first six months of 2016 compared to the same periods in 2015 primarily due to an increase in the average balances of our loans and leases. Average balances of our loans and leases portfolio increased by $904.6 million in the second quarter of 2016 and by $895.1 million in the first six months of 2016 compared to the same periods in 2015 primarily due to higher average balances in our commercial mortgage, residential mortgage, and home equity portfolios. The average balance of our commercial mortgage portfolio increased by $187.0 million in the second quarter of 2016 and by $213.1 million in the first six months of 2016 compared to the same periods in 2015 primarily due to increased demand from new and existing customers as the real estate market in Hawaii continued to improve. The average balance of our residential mortgage portfolio increased by $269.2 million in the second quarter of 2016 and by $278.0 million in the first six months of 2016 compared to the same periods in 2015 primarily due to an increase in loan origination and refinance activity. The average balance of our home equity portfolio increased by $264.1 million in the second quarter of 2016 and by $244.5 million in the first six months of 2016 compared to the same periods in 2015 as a result of continued success in acquisition campaigns in 2016 to drive new production and upfront line draws. Partially offsetting the increase in the average balances of our loans and leases portfolio was a $343.4 million decrease in the average balance of our total investment securities portfolio in the second quarter of 2016 and a $394.1 million decrease in the first six months of 2016 compared to the same periods in 2015 primarily due to the shift in the mix of our earning assets from investment securities to loans.

Average balances of our interest-bearing liabilities increased by $212.0 million or 2% in the second quarter of 2016 and by $202.9 million or 2% in the first six months of 2016 compared to the same periods in 2015 primarily due to continued growth in our relationship checking and savings deposit products, partially offset by a decrease in our time deposits.

Provision for Credit Losses

The provision for credit losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels we believe adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of the loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of credit quality. Additional factors that are considered in determining the amount of the Allowance

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are the level of net charge-offs, non-performing assets, risk rating migration, as well as changes in our portfolio size and composition. We recorded a provision of $1.0 million in the second quarter of 2016 compared to no provision in the same period in 2015. Our decision to record a provision is reflective of our evaluation as to the adequacy of the Allowance. For the first six months of 2016, we recorded a negative provision of $1.0 million compared to no provision for the same period in 2016. The negative provision was primarily due to the recovery during the first quarter of 2016 of loans previously charged-off relating to one commercial client in Guam. For further discussion on the Allowance, see the “Corporate Risk Profile - Reserve for Credit Losses” section in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Noninterest Income

Noninterest income increased by $0.6 million or 1% in the second quarter of 2016 and by $4.5 million or 5% for the first six months of 2016 compared to the same periods in 2015.

Table 5 presents the components of noninterest income.

Noninterest Income — Table 5

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2016	2015	Change	2016	2015	Change
Trust and Asset Management	$12,707	$12,355	$352	$23,963	$24,535	$(572)
Mortgage Banking	4,088	3,469	619	7,277	5,162	2,115
Service Charges on Deposit Accounts	8,150	8,203	(53)	16,593	16,740	(147)
Fees, Exchange, and Other Service Charges	13,978	13,352	626	27,422	26,249	1,173
Investment Securities Gains (Losses), Net	(312)	86	(398)	10,868	10,317	551
Annuity and Insurance	2,006	1,885	121	3,907	3,929	(22)
Bank-Owned Life Insurance	1,551	2,088	(537)	3,099	3,822	(723)
Other Income	4,351	4,487	(136)	9,597	7,478	2,119
Total Noninterest Income	$46,519	$45,925	$594	$102,726	$98,232	$4,494

Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets we manage and the fee rate charged to customers. Total trust assets under administration were $8.8 billion and $10.2 billion as of June 30, 2016 and 2015, respectively. Trust and asset management income increased by $0.4 million or 3% in the second quarter of 2016 compared to the same period in 2015. This increase was primarily due to a $1.2 million service fee resulting from the sale of real estate. This increase was partially offset by a decrease in employee benefit trust fees ($0.3 million), agency fees ($0.2 million), and testamentary trust fees ($0.1 million) primarily due to a decline in the number of customer accounts under administration. Trust and asset management income decreased by $0.6 million or 2% for the first six months of 2016 compared to the same period in 2015. This decrease was primarily due to a decrease in employee benefit trust fees ($0.6 million), agency fees ($0.5 million), and testamentary trust fees ($0.3 million) primarily due to a decline in the number of customer accounts under administration. This decrease was partially offset by the aforementioned $1.2 million service fee resulting from the sale of real estate in the second quarter of 2016.

Mortgage banking income is highly influenced by mortgage interest rates, the housing market, and the amount of saleable loans we sell from current production and our portfolio. Mortgage banking income increased by $0.6 million or 18% in the second quarter of 2016 and by $2.1 million or 41% for the first six months of 2016 compared to the same periods in 2015. This increase was primarily due to higher loan production and our decision to increase our sales of conforming saleable loans from our mortgage portfolio and from current production which generated increased gains on sales of residential mortgage loans. The increase in mortgage banking income was partially offset by a $2.6

million valuation impairment to our mortgage servicing rights, recorded in the second quarter of 2016, primarily due to the recent decline in interest rates.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges increased by $0.6 million or 5% in the second quarter of 2016 compared to the same period in 2015. This increase was primarily due to a $0.4 million increase in debit card income due largely to increased transaction volume. In addition, other loan fees increased by $0.2 million. Fees, exchange, and other service charges increased by $1.2 million or 4% for the first six months of 2016 compared to the same period in 2015. This increase was primarily due to a $0.6 million increase in debit card income and a $0.5 million increase in other loan fees.

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Net losses on sales of investment securities totaled $0.3 million in the second quarter of 2016 compared to a net gain of $0.1 million during the same period in 2015. The net loss in the current quarter was due to quarterly fees paid to the counterparties of our prior Visa Class B share sale transactions. Net gains on sales of investment securities totaled $10.9 million for the first six months of 2016 compared to $10.3 million during the same period in 2015. The net gain in 2016 was due to an $11.2 million gain on the sale of 100,000 Visa Class B shares during the first quarter of 2016. The net gain in 2015 was primarily due to a $10.1 million gain on the sale of 95,000 Visa Class B shares during the first quarter of 2015. We received these Class B shares in 2008 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 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 be insufficient 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. Concurrent with the sale of these Visa Class B shares, we 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 188,714 Visa Class B shares (311,057 Class A equivalent shares) that we own are carried at a zero cost basis.

Bank-owned life insurance decreased by $0.5 million or 26% in the second quarter of 2016 and by $0.7 million or 19% for the first six months of 2016 compared to the same periods in 2015 primarily due to a $0.6 million death benefit received in the second quarter of 2015.

Other noninterest income decreased by $0.1 million or 3% in the second quarter of 2016 compared to the same period in 2015. This decrease was primarily due to a $0.5 million referral fee received in the second quarter of 2015 related to the transition of various services provided to some institutional 401k plans, partially offset by a $0.4 million increase in fees related to our customer interest rate swap derivative program. Other noninterest income increased by $2.1 million or 28% for the first six months of 2016 compared to the same period in 2015. This increase was primarily due to a $1.8 million increase in net gain on sale of previously leased equipment, and a $0.5 million increase in fees related to our customer interest rate swap derivative program. We also recorded an additional $0.3 million of fee revenue from our investment advisory services product. These increases were partially offset by the aforementioned $0.5 million referral fee received in the second quarter of 2015 related to the transition of various services provided to some institutional 401k plans.

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Noninterest Expense

Noninterest expense increased by $2.5 million or 3% in the second quarter of 2016 and by $3.0 million or 2% for the first six months of 2016 compared to the same periods in 2015.

Table 6 presents the components of noninterest expense.

Noninterest Expense Table 6

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2016	2015	Change	2016	2015	Change
Salaries	$28,797	$28,214	$583	$57,938	$56,128	$1,810
Incentive Compensation	5,917	4,959	958	11,882	9,473	2,409
Share-Based Compensation	2,746	2,751	(5)	5,056	5,096	(40)
Commission Expense	2,151	1,927	224	3,508	3,519	(11)
Retirement and Other Benefits	4,092	4,117	(25)	9,046	8,848	198
Payroll Taxes	2,288	2,278	10	5,865	5,863	2
Medical, Dental, and Life Insurance	3,872	2,449	1,423	6,764	5,633	1,131
Separation Expense	426	915	(489)	744	2,830	(2,086)
Total Salaries and Benefits	50,289	47,610	2,679	100,803	97,390	3,413
Net Occupancy	7,158	8,605	(1,447)	14,161	17,938	(3,777)
Net Equipment	5,065	4,826	239	10,474	10,114	360
Data Processing	3,972	3,673	299	7,923	7,446	477
Professional Fees	2,047	2,265	(218)	4,686	4,599	87
FDIC Insurance	2,144	2,068	76	4,496	4,208	288
Other Expense:						
Delivery and Postage Services	2,431	2,260	171	4,884	4,544	340
Mileage Program Travel	1,239	1,158	81	2,330	2,481	(151)
Merchant Transaction and Card Processing Fees	1,113	1,226	(113)	2,257	2,370	(113)
Advertising	1,563	1,191	372	2,877	2,275	602
Amortization of Solar Energy Partnership Investments	632	385	247	1,264	769	495
Other	8,418	8,307	111	17,302	16,355	947
Total Other Expense	15,396	14,527	869	30,914	28,794	2,120
Total Noninterest Expense	$86,071	$83,574	$2,497	$173,457	$170,489	$2,968

Salaries and benefits expense increased by $2.7 million or 6% in the second quarter of 2016 compared to the same period in 2015. This increase was primarily due to a $1.4 million increase in medical, dental, and life insurance primarily due to higher medical claims in our self-insured plan. In addition, incentive compensation increased by $1.0 million, and salaries expense increased by $0.6 million primarily due to merit increases. This increase was partially offset by a $0.5 million decrease in separation expense. Salaries and benefits expense increased by $3.4 million or 4% for the first six months of 2016 compared to the same period in 2015 primarily due to a $2.4 million increase in incentive compensation. Salaries expense increased by $1.8 million primarily due to merit increases and one additional paid working day in the first quarter of 2016. In addition, medical, dental, and life insurance increased by $1.1 million due to higher medical claims in our self-insured plan. These increases were partially offset by a $2.1 million decrease in separation expense.

Net occupancy expense decreased by $1.4 million or 17% in the second quarter of 2016 compared to the same period in 2015 primarily due to a $1.3 million gain on the sale of real estate property in Maui. In addition, utilities expense decreased by $0.3 million primarily due to lower electricity rates. Net occupancy expense decreased by $3.8 million or 21% for the first six months of 2016 compared to the same period in 2015. This decrease was primarily due to the aforementioned $1.3 million gain on the sale of real estate property in Maui during the current quarter, coupled with a $1.5 million gain on the sale of real estate property in Guam in the first quarter of 2016. In addition, utilities expense decreased by $0.6 million primarily due to lower electricity rates.

Data processing expense increased by $0.3 million or 8% in the second quarter of 2016 and by $0.5 million or 6% for the first six months of 2016 compared to the same periods in 2015. These increases were primarily due to higher customer transaction volume.

Other noninterest expense increased by $0.9 million or 6% in the second quarter of 2016 compared to the same period in 2015. This increase was primarily due to an increase in advertising ($0.4 million) and temporary employment services ($0.3 million). We also increased our investment in solar energy tax credit partnerships, which caused the related amortization expense to

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increase by $0.2 million. However, the federal and state tax benefits related to these partnership investments resulted in a net benefit to overall net income. The tax benefits are recorded as a reduction to income tax expense. Other noninterest expense increased by $2.1 million or 7% for the first six months of 2016 compared to the same period in 2015. This increase was due in part to increases in advertising ($0.6 million) and temporary employment services ($0.6 million). In addition, during the first quarter of 2016, we increased our reserve for unfunded commitments by $0.5 million, a reflection of the growth in our commercial lending commitments. We also increased our investment in solar energy tax credit partnerships, which caused the related amortization expense to increase by $0.5 million.

Provision for Income Taxes

Table 7 presents our provision for income taxes and effective tax rates.

Provision for Income Taxes and Effective Tax Rates Table 7

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2016	2015	2016	2015
Provision for Income Taxes	$18,753	$18,979	$42,388	$38,699
Effective Tax Rates	29.77 %	31.56 %	30.98 %	31.64 %

The effective tax rate for the second quarter of 2016 was 29.77%, down from 31.56% for the same period in 2015. The lower effective tax rate in the second quarter of 2016 was primarily due to a $1.3 million credit to the provision for income taxes resulting from the release of state tax reserves due to the lapse in the statute of limitations related to prior tax years.

The effective tax rate for the first six months of 2016 was 30.98%, down from 31.64% for the same period in 2015. The lower effective tax rate for the first six months of 2016 compared to 2015 was due to the aforementioned release of state tax reserves, partially offset by higher pretax income compared to a fixed amount of tax credits.

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Analysis of Statements of Condition

Investment Securities

The carrying value of our investment securities portfolio was $6.1 billion as of June 30, 2016, a decrease of $141.7 million or 2% compared to December 31, 2015. As of June 30, 2016, our investment securities portfolio was comprised of securities with an average base duration of approximately 2.6 years.

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

During the first six months of 2016, we continued to reduce our positions in mortgage-backed securities issued by Ginnie Mae. We re-invested these proceeds primarily into higher-yielding loan products. In addition, we increased our holdings in Small Business Administration securities and mortgage-backed securities issued by Fannie Mae and Freddie Mac. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio. As of June 30, 2016, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of June 30, 2016, these mortgage-backed securities were all AAA-rated, with a low probability of a change in their credit ratings in the near future. As of June 30, 2016, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.1 years.

Gross unrealized gains in our investment securities portfolio were $146.0 million as of June 30, 2016 and $84.9 million as of December 31, 2015. Gross unrealized losses on our temporarily impaired investment securities were $11.0 million as of June 30, 2016 and $40.5 million as of December 31, 2015. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae and corporate debt securities. See Note 2 to the Consolidated Financial Statements for more information.

As of June 30, 2016, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $554.2 million, representing 57% 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. Approximately 76% of our Hawaii municipal bond holdings were general obligation issuances. As of June 30, 2016, 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 our municipal debt securities.

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Loans and Leases

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

Loan and Lease Portfolio Balances		Table 8
(dollars in thousands)	June 30, 2016	December 31, 2015
Commercial		
Commercial and Industrial	$1,174,879	$ 1,115,168
Commercial Mortgage	1,712,271	1,677,147
Construction	226,062	156,660
Lease Financing	192,630	204,877
Total Commercial	3,305,842	3,153,852
Consumer		
Residential Mortgage	3,032,981	2,925,605
Home Equity	1,213,154	1,069,400
Automobile	417,017	381,735
Other [1]	362,475	348,393
Total Consumer	5,025,627	4,725,133
Total Loans and Leases	$8,331,469	$ 7,878,985

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

Total loans and leases as of June 30, 2016 increased by $452.5 million or 6% from December 31, 2015 due to growth in both our commercial and consumer lending portfolios.

Commercial loans and leases as of June 30, 2016 increased by $152.0 million or 5% from December 31, 2015. Commercial and industrial loans increased by $59.7 million or 5% from December 31, 2015 due to an increase in corporate demand for funding. Commercial mortgage loans increased by $35.1 million or 2% from December 31, 2015 primarily due to increased demand from new and existing customers as the real estate economy in Hawaii continued to improve. Construction loans increased by $69.4 million or 44% from December 31, 2015 primarily due to increased activity in construction projects such as condominiums and low-income housing. Lease financing decreased by $12.2 million or 6% from December 31, 2015 primarily due to a lessee's decision to exercise its early buy-out option on a barge.

Consumer loans and leases as of June 30, 2016 increased by $300.5 million or 6% from December 31, 2015. Residential mortgage loans increased by $107.4 million or 4% from December 31, 2015 primarily due to an increase in loan origination and refinance activity. Home equity lines and loans increased by $143.8 million or 13% from December 31, 2015 as a result of continued success in acquisition campaigns in 2016 to drive new production and upfront line draws. In addition, we experienced steady line utilization during the first six months of 2016. Automobile loans increased by $35.3 million or 9% from December 31, 2015 primarily driven by market share gains as well as continued strong consumer demand. Other consumer loans increased by $14.1 million or 4% from December 31, 2015 primarily due to growth in our automobile leasing balances and installment loans.

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Table 9 presents the composition of our loan and lease portfolio by geographic area and by major categories.

Geographic Distribution of Loan and Lease Portfolio Table 9

(dollars in thousands)	Hawaii	U.S. Mainland [1]	Guam	Other Pacific Islands	Foreign [2]	Total
June 30, 2016						
Commercial						
Commercial and Industrial	$1,072,565	$ 47,534	$53,930	$ 635	$ 215	$1,174,879
Commercial Mortgage	1,579,754	37,563	94,954	—	—	1,712,271
Construction	225,700	—	362	—	—	226,062
Lease Financing	42,214	144,925	1,565	—	3,926	192,630
Total Commercial	2,920,233	230,022	150,811	635	4,141	3,305,842
Consumer						
Residential Mortgage	2,930,668	—	99,945	2,368	—	3,032,981
Home Equity	1,177,147	2,199	31,970	1,446	392	1,213,154
Automobile	327,690	35	85,031	4,261	—	417,017
Other [3]	280,482	—	42,701	39,292	—	362,475
Total Consumer	4,715,987	2,234	259,647	47,367	392	5,025,627
Total Loans and Leases	$7,636,220	$ 232,256	$410,458	$ 48,002	$ 4,533	$8,331,469
December 31, 2015						
Commercial						
Commercial and Industrial	$1,007,987	$ 43,794	$62,555	$ 612	$ 220	$1,115,168
Commercial Mortgage	1,539,462	36,038	101,647	—	—	1,677,147
Construction	156,660	—	—	—	—	156,660
Lease Financing	44,758	154,236	1,816	—	4,067	204,877
Total Commercial	2,748,867	234,068	166,018	612	4,287	3,153,852
Consumer						
Residential Mortgage	2,821,299	—	101,672	2,634	—	2,925,605
Home Equity	1,033,920	2,562	31,383	1,535	—	1,069,400
Automobile	299,627	63	77,187	4,858	—	381,735
Other [3]	265,694	—	40,936	41,761	2	348,393
Total Consumer	4,420,540	2,625	251,178	50,788	2	4,725,133
Total Loans and Leases	$7,169,407	$ 236,693	$417,196	$ 51,400	$ 4,289	$7,878,985

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

2 Loans and leases classified as Foreign represent those which are recorded in the Company's international business units.

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

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

Our Hawaii loan and lease portfolio increased by $466.8 million or 7% from December 31, 2015, reflective of a healthy Hawaii economy.

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Other Assets

Table 10 presents the major components of other assets.

Other Assets		Table 10
(dollars in thousands)	June 30, 2016	December 31, 2015
Federal Home Loan Bank and Federal Reserve Bank Stock	$39,958	$ 38,836
Derivative Financial Instruments	20,956	13,967
Low-Income Housing and Other Equity Investments	72,991	79,033
Deferred Compensation Plan Assets	20,760	20,262
Prepaid Expenses	9,375	8,262
Accounts Receivable	11,364	12,539
Other	21,557	26,493
Total Other Assets	$196,961	$ 199,392

Other assets decreased by $2.4 million or 1% from December 31, 2015. This decrease was primarily due to $6.0 million of amortization of low-income housing and solar energy partnership investments. Also contributing to the decrease was the sale of six aircraft ($4.7 million carrying value as of December 31, 2015) that were previously on lease agreements. This decrease was offset by a $7.0 million increase in derivative financial instruments, primarily the fair value of our interest rate swap agreements, which due to our risk mitigating strategies in structuring these agreements are offset with similar decreases recorded in other liabilities. The fair values of these derivative financial instruments are impacted by interest rate movements.

Deposits

Table 11 presents the composition of our deposits by major customer categories.

Deposits		Table 11
(dollars in thousands)	June 30, 2016	December 31, 2015
Consumer	$6,618,164	$6,445,510
Commercial	5,697,490	5,502,739
Public and Other	1,328,153	1,302,854
Total Deposits	$13,643,807	$13,251,103

Total deposits were $13.6 billion as of June 30, 2016, an increase of $392.7 million or 3% from December 31, 2015. This increase was primarily due to a $194.8 million increase in commercial deposits, mainly reflecting core deposit growth. In addition, consumer deposits increased by $172.7 million primarily due to continued growth in our relationship savings deposit products, and public and other deposits increased by $25.3 million primarily due to an increase in interest-bearing deposits.

Table 12 presents the composition of our savings deposits.

Savings Deposits		Table 12
(dollars in thousands)	June 30, 2016	December 31, 2015
Money Market	$1,829,663	$ 1,794,742
Regular Savings	3,336,145	3,230,449
Total Savings Deposits	$5,165,808	$ 5,025,191

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Securities Sold Under Agreements to Repurchase

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

Securities Sold Under Agreements to Repurchase		Table 13
(dollars in thousands)	June 30, 2016	December 31, 2015
Private Institutions	$575,000	$ 575,000
Government Entities	11,785	53,857
Total Securities Sold Under Agreements to Repurchase	$586,785	$ 628,857

Securities sold under agreements to repurchase as of June 30, 2016 decreased by $42.1 million or 7% from December 31, 2015. This decrease was due to two government entity repurchase agreements maturing during the first quarter of 2016. As of June 30, 2016, the weighted-average maturity was 84 days for our repurchase agreements with government entities and 3.1 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted average maturity for our repurchase agreements with private institutions would decrease to 1.8 years. As of June 30, 2016, the weighted-average interest rate for outstanding agreements with government entities and private institutions was 0.16% and 4.22%, respectively, with all rates being fixed. Each of our repurchase agreements is accounted for as a collateralized financing arrangement (i.e., a secured borrowing) and not as a sale and subsequent repurchase of securities.

Other Debt

Table 14 presents the composition of our other debt.

Other Debt		Table 14
(dollars in thousands)	June 30, 2016	December 31, 2015
Federal Home Loan Bank Advances	$250,000	$ 225,000
Non-Recourse Debt	7,153	9,938
Capital Lease Obligations	10,817	10,848
Total	$267,970	$ 245,786

Other debt was $268.0 million as of June 30, 2016, an increase of $22.2 million or 9% from December 31, 2015. This increase was primarily due to three additional FHLB advances totaling $75.0 million taken during the first six months of 2016, partially offset by a $50.0 million FHLB advance which matured during the first quarter of 2016. As of June 30, 2016, our ten FHLB advances totaled $250.0 million with a weighted-average interest rate of 1.28% and maturity dates ranging from 2018 to 2020. These advances were primarily for asset/liability management purposes. As of June 30, 2016, our remaining unused line of credit with the FHLB was $1.3 billion.

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Analysis of Business Segments

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

Table 15 summarizes net income from our business segments. Additional information about segment performance is presented in Note 9 to the Consolidated Financial Statements.

Business Segment Net Income Table 15

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2016	2015	2016	2015
Retail Banking	$18,646	$13,255	$33,660	$23,123
Commercial Banking	17,477	16,366	40,127	31,004
Investment Services	4,541	3,434	7,726	6,237
Total	40,664	33,055	81,513	60,364
Treasury and Other	3,581	8,099	12,942	23,232
Consolidated Total	$44,245	$41,154	$94,455	$83,596

Retail Banking

Net income increased by $5.4 million or 41% in the second quarter of 2016 and by $10.5 million or 46% in the first six months of 2016 compared to the same periods in 2015 primarily due to increases in net interest income and noninterest income. This was partially offset by increases in the Provision and noninterest expense. The increase in net interest income was primarily due to higher average balances in both the lending and deposit portfolios as well as higher earnings credits on the segment's deposit portfolio. The increase in noninterest income was primarily due to higher mortgage banking income as well as growth in our debit and credit card businesses. The increase in mortgage banking income was primarily due to higher loan production and our decision to sell more conforming saleable loans from our mortgage portfolio and from current production which generated increased gains on sales of residential mortgage loans. This increase was partially offset by a $2.6 million valuation impairment to our mortgage servicing rights, recorded in the second quarter of 2016, primarily due to the recent decline in interest rates. The increase in the Provision was primarily due to higher net charge-offs in our installment loan and credit card portfolios, partly offset by higher net recoveries of residential mortgage loans previously charged-off. The increase in noninterest expense was primarily due to higher salaries and benefits expense and higher allocated expenses for general administration, marketing, data processing and information technology. This increase was partially offset by a $1.3 million gain on the sale of real estate property in Maui in the second quarter of 2016.

Commercial Banking

Net income increased by $1.1 million or 7% in the second quarter of 2016 compared to the same period in 2015 primarily due to increases in net interest income and noninterest income, partially offset by an increase in noninterest expense. The increase in net interest income was primarily due to $1.0 million of interest income recoveries, higher volume in both the lending and deposit portfolios, and higher earnings credits on the segment’s deposit portfolio. The increase in noninterest income was primarily due to higher fees related to our customer interest rate swap derivative program. The increase in noninterest expense was primarily due to higher salaries, operating, and allocated expenses.

Net income increased by $9.1 million or 29% for the first six months of 2016 compared to the same period in 2015 primarily due to increases in net interest income and noninterest income, and to a decrease in the Provision. This was partially offset by an increase in noninterest expense. The increase in net interest income was primarily due to the aforementioned $1.0 million of interest income recovered in the second quarter of 2016 and $1.3 million of interest income recovered in the first quarter of 2016 due to the full recovery of non-performing commercial and industrial loans related to one commercial client in Guam, higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment's deposit portfolio. The increase in noninterest income was primarily due to higher net gain on sale of previously leased equipment and to higher fees related to our customer interest rate swap derivative program. The decrease in the Provision was due to the aforementioned full recovery of previously charged-off loans. The increase in noninterest expense was primarily due to higher salaries and operating expenses.

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Investment Services

Net income increased by $1.1 million or 32% in the second quarter of 2016 compared to the same period in 2015 primarily due to increases in net interest income and noninterest income, partially offset by an increase in noninterest expense. The increase in net interest income was due to higher volume resulting from the transfer of loans and deposits from the Retail Banking segment and higher earnings credit on the segment’s deposit portfolio. The increase in noninterest income was primarily due to a $1.2 million service fee resulting from the sale of trust real estate and higher insurance income. The increase in noninterest expense was primarily due to higher allocated expenses.

Net income increased by $1.5 million or 24% for the first six months of 2016 compared to the same period in 2015 primarily due to increases in net interest income, partially offset by a decrease in noninterest income and an increase in noninterest expense. The increase in net interest income was due to higher volume resulting from the transfer of loans and deposits from the Retail Banking segment and higher earnings credit on the segment’s deposit portfolio. The decrease in noninterest income was primarily due to lower trust and asset management market values and lower fees related to the transition of various services provided to some institutional 401k plans, partially offset by the aforementioned service fee income. The increase in noninterest expense was primarily due to higher allocated expenses.

Treasury and Other

Net income decreased by $4.5 million or 56% in the second quarter of 2016 compared to the same period in 2015 primarily due to decreases in net interest income and noninterest income, partially offset by a lower provision for income taxes. The decrease in net interest income was primarily due to higher deposit funding costs and lower interest income from the investment securities portfolio resulting from a reduction in volume and lower associated yields, partially offset by an increase in funding income related to lending activities. Noninterest income decreased due to higher losses on sales of investment securities and lower bank-owned life insurance income. The higher losses on sales of investment securities resulted from higher quarterly fees paid to the counterparties of our prior Visa Class B share sale transactions. The decrease in bank-owned life insurance income was primarily due to death benefits received in 2015. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate decreased to 29.77% in the second quarter of 2016 compared to 31.56% in the same period in 2015.

Net income decreased by $10.3 million or 44% for the first six months of 2016 compared to the same period in 2015 primarily due to a decrease in net interest income and an increase in the Provision, partially offset by decreases in noninterest expenses and provision for income taxes. The decrease in net interest income was primarily due to higher deposit funding costs and lower interest income from the investment securities portfolio resulting from a reduction in volume and lower associated yields partially offset by an increase in funding income related to lending activities. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The negative provision recorded in 2016 was primarily due to the aforementioned full recovery of previously charged-off loans relating to one commercial client. The decrease in noninterest expense was primarily due to a decrease in separation expense. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate decreased to 30.98% in the first six months of 2016 compared to 31.64% in the same period in 2015.

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

Corporate Risk Profile

Credit Risk

As of June 30, 2016, our overall credit risk profile reflects a healthy Hawaii economy as our levels of non-performing assets and credit losses remain well controlled. The underlying risk profile of our lending portfolio continued to remain strong during the first six months of 2016.

We actively manage exposures with deteriorating asset quality to reduce levels of potential loss exposure and closely monitor our reserves and capital to address both anticipated and unforeseen issues. Risk management activities include detailed analysis of portfolio segments and stress tests of certain segments to ensure that reserve and capital levels are appropriate. We perform frequent loan and lease-level risk monitoring and risk rating reviews, which provide opportunities for early interventions to allow for credit exits or restructuring, loan and lease sales, and voluntary workouts and liquidations.

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

Table 16 presents information on non-performing assets ("NPAs") and accruing loans and leases past due 90 days or more.

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

(dollars in thousands)	June 30, 2016	December 31, 2015
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial		
Commercial and Industrial	$269	$5,829
Commercial Mortgage	1,194	3,469
Total Commercial	1,463	9,298
Consumer		
Residential Mortgage	9,979	14,598
Home Equity	3,110	4,081
Total Consumer	13,089	18,679
Total Non-Accrual Loans and Leases	14,552	27,977
Foreclosed Real Estate	1,728	824
Total Non-Performing Assets	$16,280	$28,801
Accruing Loans and Leases Past Due 90 Days or More		
Consumer		
Residential Mortgage	$5,640	$4,453
Home Equity	1,128	1,710
Automobile	464	315
Other [1]	1,518	1,096
Total Consumer	8,750	7,574
Total Accruing Loans and Leases Past Due 90 Days or More	$8,750	$7,574
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$52,173	$49,430
Total Loans and Leases	$8,331,469	$7,878,985
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.17 %	0.36 %
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.20 %	0.37 %
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.04 %	0.29 %
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.29 %	0.41 %
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Foreclosed Real Estate	0.30 %	0.46 %
Changes in Non-Performing Assets		
Balance as of December 31, 2015	$28,801	
Additions	5,302	
Reductions		
Payments	(9,413)	
Return to Accrual Status	(7,832)	
Sales of Foreclosed Real Estate	(248)	
Charge-offs/Write-downs	(330)	
Total Reductions	(17,823)	

Balance as of June 30, 2016	$16,280

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

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

Total NPAs were $16.3 million as of June 30, 2016, a decrease of $12.5 million or 43% from December 31, 2015. The decrease was experienced in both the commercial and consumer lending portfolios. The ratio of our NPAs to total loans and leases and foreclosed real estate was 0.20% as of June 30, 2016 and 0.37% as of December 31, 2015.

Commercial and industrial non-accrual loans decreased by $5.6 million or 95% from December 31, 2015 due to payoffs. In particular, one loan with a carrying value of $4.3 million as of December 31, 2015 was paid off during the first quarter of 2016. As of June 30, 2016, five commercial borrowers comprised the entire non-accrual balance in this category.

Commercial mortgage non-accrual loans decreased by $2.3 million or 66% from December 31, 2015. The decrease was primarily due to the return of one loan to accrual status and paydowns on two loans. We have individually evaluated the remaining commercial mortgage non-accrual loans for impairment and have recorded no partial charge-offs.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $4.6 million or 32% from December 31, 2015 primarily due to paydowns and payoffs. In addition, two loans modified in a troubled debt restructuring ("TDR") were returned to accrual status. Residential mortgage non-accrual loans remain at elevated levels due mainly to the lengthy judiciary foreclosure process as well as residential mortgage loan modifications the Bank entered into to assist borrowers wishing to remain in their residences despite having financial challenges. As of June 30, 2016, our residential mortgage non-accrual loans were comprised of 31 loans with a weighted average current LTV ratio of 59%.

Foreclosed real estate represents property acquired as the result of borrower defaults on loans. Foreclosed real estate is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market conditions and applicable regulations. Foreclosed real estate increased by $0.9 million or 110% from December 31, 2015 due to the addition of one property.

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

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were $8.8 million as of June 30, 2016, a $1.2 million or 16% increase from December 31, 2015.

Impaired Loans

Impaired loans are defined as loans for which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. Included in impaired loans are all classes of commercial non-accruing loans (except lease financing and small business loans), all loans modified in a TDR (including accruing TDRs), and other loans where we believe that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment. Impaired loans were $61.0 million as of June 30, 2016 and $66.7 million as of December 31, 2015, and had a related Allowance of $3.2 million and $3.6 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, we have recorded cumulative charge-offs of $16.0 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

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Table 17 presents information on loans with terms that have been modified in a TDR.

Loans Modified in a Troubled Debt Restructuring		Table 17
(dollars in thousands)	June 30, 2016	December 31, 2015
Commercial		
Commercial and Industrial	$10,439	$ 14,860
Commercial Mortgage	9,310	9,827
Construction	1,559	1,604
Total Commercial	21,308	26,291
Consumer		
Residential Mortgage	27,758	28,981
Home Equity	1,506	1,089
Automobile	7,460	7,012
Other [1]	1,967	1,665
Total Consumer	38,691	38,747
Total	$59,999	$ 65,038

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

Loans modified in a TDR decreased by $5.0 million or 8% from December 31, 2015. This decrease was primarily due to the aforementioned loan payoff of one commercial and industrial loan with a carrying value of $4.3 million as of December 31, 2015. Residential mortgage loans remain our largest TDR loan class.

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Reserve for Credit Losses

Table 18 presents the activity in our reserve for credit losses.

Reserve for Credit Losses Table 18

(dollars in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Balance at Beginning of Period	$111,249	$113,348	$108,952	$114,575
Loans and Leases Charged-Off				
Commercial				
Commercial and Industrial	(204)	(255)	(461)	(490)
Consumer				
Residential Mortgage	(79)	(54)	(284)	(613)
Home Equity	17	(211)	(626)	(427)
Automobile	(1,372)	(1,237)	(2,932)	(2,665)
Other [1]	(2,117)	(1,739)	(4,339)	(3,389)
Total Loans and Leases Charged-Off	(3,755)	(3,496)	(8,642)	(7,584)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial				
Commercial and Industrial	403	456	7,270	1,102
Commercial Mortgage	14	14	28	28
Construction	—	8	23	16
Lease Financing	1	8	2	76
Consumer				
Residential Mortgage	279	96	480	438
Home Equity	322	566	835	1,447
Automobile	541	396	1,133	890
Other [1]	450	497	923	905
Total Recoveries on Loans and Leases Previously Charged-Off	2,010	2,041	10,694	4,902
Net Loans and Leases Recovered (Charged-Off)	(1,745)	(1,455)	2,052	(2,682)
Provision for Credit Losses	1,000	—	(1,000)	—
Provision for Unfunded Commitments	—	—	500	—
Balance at End of Period [2]	$110,504	$111,893	$110,504	$111,893
Components				
Allowance for Loan and Lease Losses	$103,932	$106,006	$103,932	$106,006
Reserve for Unfunded Commitments	6,572	5,887	6,572	5,887
Total Reserve for Credit Losses	$110,504	$111,893	$110,504	$111,893
Average Loans and Leases Outstanding	$8,205,104	$7,300,506	$8,072,600	$7,177,467
Ratio of Net Loans and Leases Charged-Off (Recovered) to Average Loans and Leases Outstanding (annualized)	0.09%	0.08%	(0.05)%	0.08%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.25%	1.43%	1.25%	1.43%

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

[2] Included in this analysis is activity related to the Company's reserve for unfunded commitments, which is separately recorded in other liabilities in the consolidated statements of condition.

We maintain a reserve for credit losses that consists of two components, the Allowance and a reserve for unfunded commitments (the "Unfunded Reserve"). The reserve for credit losses provides for the risk of credit losses inherent in the loan and lease portfolio and is based on loss estimates derived from a comprehensive quarterly evaluation. The evaluation reflects analyses of individual borrowers and historical loss experience, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors. The level of the Allowance is adjusted by recording an expense or recovery through the Provision. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

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Allowance for Loan and Lease Losses

As of June 30, 2016, the Allowance was $103.9 million or 1.25% of total loans and leases outstanding, compared with an Allowance of $102.9 million or 1.31% of total loans and leases outstanding as of December 31, 2015. The marginal decrease in the ratio of Allowance to loans and leases outstanding was commensurate with the Company's credit risk profile, loan growth, and a healthy Hawaii economy.

Net charge-offs on loans and leases were $1.7 million or 0.09% of total average loans and leases, on an annualized basis, in the second quarter of 2016 compared to net charge-offs of $1.5 million or 0.08% of total average loans and leases, on an annualized basis, in the second quarter of 2015. Net recoveries on loans and leases were $2.1 million or 0.05% of total average loans and leases, on an annualized basis, in the first six months of 2016 compared to net charge-offs of $2.7 million or 0.08% of total average loans and leases, on an annualized basis, in the first six months of 2015. All of our commercial portfolios were in net recovery positions in the first six months of 2016. Net recoveries in our commercial portfolios were $6.9 million for the first six months of 2016 compared to $0.7 million for the same period in 2015. Net recoveries in the first six months of 2016 were primarily due to the recovery of one commercial and industrial loan. Net charge-offs in our consumer portfolios were $4.8 million for the first six months of 2016 compared to $3.4 million for the same period in 2015. The higher net charge-offs during the first six months of 2016 were primarily in our other consumer loans portfolios.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of June 30, 2016, based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The Reserve for Unfunded Commitments

The Unfunded Reserve was $6.6 million as of June 30, 2016, an increase of $0.5 million from December 31, 2015. This increase primarily reflects the growth in our commercial lending commitments. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

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Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates and prices. We are exposed to market risk as a consequence of the normal course of conducting our business activities. Our market risk management process involves measuring, monitoring, controlling, and mitigating risks that can significantly impact our statements of income and condition. In this management process, market risks are balanced with expected returns in an effort to enhance earnings performance, while limiting volatility.

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity. The potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our core business activities of extending loans and accepting deposits. Our investment securities portfolio is also subject to significant interest rate risk.

Many factors affect our exposure to changes in interest rates such as general economic and financial conditions, customer preferences, historical pricing relationships, and repricing characteristics of financial instruments. Our earnings are affected not only by general economic conditions but also by the monetary and fiscal policies of the U.S. and its agencies, particularly the Federal Reserve Bank (the "FRB"). The monetary policies of the FRB can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities.

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

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

Our use of derivative financial instruments, as detailed in Note 11 to the Consolidated Financial Statements, has generally been limited. This is due to natural on-balance sheet hedges arising out of offsetting interest rate exposures from loans and investment securities with deposits and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by the ALCO. We utilize natural and offsetting economic hedges in an effort to reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

A key element in our ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model that attempts to capture the dynamic nature of the balance sheet. The model is used to estimate and measure the balance sheet sensitivity to changes in interest rates. These estimates are based on assumptions about the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. The model's analytics include the effects of standard prepayment options on mortgages and customer withdrawal options for deposits. While such assumptions are inherently uncertain, we believe that our assumptions are reasonable.

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We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 19 presents, for the twelve months subsequent to June 30, 2016 and December 31, 2015, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the balance sheet and interest rates are generally unchanged. Based on our net interest income simulation as of June 30, 2016, net interest income is expected to increase as interest rates rise. This is due in part to our strategy to maintain a relatively short investment portfolio duration. In addition, rising interest rates would drive higher rates on loans and investment securities, as well as induce a slower pace of premium amortization on certain securities within our investment portfolio. However, lower interest rates would likely cause a decline in net interest income as lower rates would lead to lower yields on loans and investment securities, as well as drive higher premium amortization on existing investment securities. Since deposit costs are already at low levels, we believe that lower interest rates are unlikely to significantly impact our funding costs. Based on our net interest income simulation as of June 30, 2016, net interest income sensitivity to changes in interest rates for the twelve months subsequent to June 30, 2016 was more sensitive compared to the sensitivity profile for the twelve months subsequent to December 31, 2015. The increase in sensitivity was due to the impact of a lower interest rate environment on our residential mortgage assets as well as changes in our balance sheet mix, including increases in floating rate securities, and overall loan and core deposit growth. Also contributing to the sensitivity increase was lengthening the tenor of our liabilities, including public funds and term debt.

Net Interest Income Sensitivity Profile — Table 19

	Impact on Future Annual Net Interest Income			
(dollars in thousands)	June 30, 2016		December 31, 2015	
Gradual Change in Interest Rates (basis points)				
+200	$ 15,875	3.9 %	$ 11,217	2.7 %
+100	7,987	2.0	5,095	1.2
-100	(10,358)	(2.6)	(7,132)	(1.7)
Immediate Change in Interest Rates (basis points)				
+200	$ 43,641	10.8 %	$ 28,194	6.9 %
+100	21,741	5.4	12,840	3.1
-100	(29,437)	(7.3)	(20,437)	(5.0)

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

Other Market Risks

In addition to interest rate risk, we are exposed to other forms of market risk in our normal business transactions. Foreign currency and foreign exchange contracts expose us to a small degree of foreign currency risk. These transactions are primarily executed on behalf of customers. Our trust and asset management income are at risk to fluctuations in the market values of underlying assets, particularly debt and equity securities. Also, our share-based compensation expense is dependent on the fair value of our stock options, restricted stock units, and restricted stock at the date of grant. The fair value of stock options, restricted stock units, and restricted stock is impacted by the market price of the Parent’s common stock on the date of grant and is at risk to changes in equity markets, general economic conditions, and other factors.

Liquidity Risk Management

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

In an effort to satisfy our liquidity needs, we actively manage our assets and liabilities. We have access to immediate liquid resources in the form of cash which is primarily on deposit with the FRB. Potential sources of liquidity also include investment

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securities in our available-for-sale securities portfolio, our ability to sell loans in the secondary market, and to secure borrowings from the FRB and FHLB. Our held-to-maturity securities, while not intended for sale, may also be utilized in repurchase agreements to obtain funding. Our core deposits have historically provided us with a long-term source of stable and relatively lower cost source of funding. Additional funding is available through the issuance of long-term debt or equity.

Maturities and payments on outstanding loans also provide a steady flow of funds. Additionally, as of June 30, 2016, investment securities with a carrying value of $98.7 million were due to contractually mature in one year or less. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and FRB. As of June 30, 2016, we could have borrowed an additional $1.3 billion from the FHLB and an additional $634.9 million from the FRB based on the amount of collateral pledged.

We continued our focus on maintaining a strong liquidity position throughout the first six months of 2016. As of June 30, 2016, cash and cash equivalents were $753.1 million, the carrying value of our available-for-sale investment securities was $2.3 billion, and total deposits were $13.6 billion. As of June 30, 2016, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.1 years.

Capital Management

We actively manage capital, commensurate with our risk profile, to enhance shareholder value. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory "well-capitalized" thresholds. Periodically, we may respond to market conditions by implementing changes to our overall balance sheet positioning to manage our capital position.

The Parent and the Bank are each subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could cause certain mandatory and discretionary actions by regulators that, if undertaken, would likely have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation intended to ensure capital adequacy. As of June 30, 2016, the Company and the Bank were considered “well capitalized” under this regulatory framework. The Company’s regulatory capital ratios are presented in Table 20 below. There have been no conditions or events since June 30, 2016 that management believes have changed either the Company’s or the Bank’s capital classifications.

As of June 30, 2016, shareholders' equity was $1.2 billion, an increase of $41.0 million or 4% from December 31, 2015. For the first six months of 2016, net income of $94.5 million, common stock issuances of $6.2 million, shared-based compensation of $3.3 million, and other comprehensive income of $14.1 million were partially offset by cash dividends paid of $40.1 million, and common stock repurchased of $37.0 million. In the first six months of 2016, included in the amount of common stock repurchased were 510,000 shares repurchased under our share repurchase program. These shares were repurchased at an average cost per share of $65.34 and a total cost of $33.3 million. From the beginning of our share repurchase program in July 2001 through June 30, 2016, we repurchased a total of 53.3 million shares of common stock and returned a total of $2.01 billion to our shareholders at an average cost of $37.62 per share. As of June 30, 2016, remaining buyback authority under our share repurchase program was $89.7 million. From July 1, 2016 through July 19, 2016, the Parent repurchased an additional 48,000 shares of common stock at an average cost of $68.55 per share for a total of $3.3 million. Remaining buyback authority under our share repurchase program was $86.4 million as of July 19, 2016. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

In July 2016, the Parent’s Board of Directors declared a quarterly cash dividend of $0.48 per share on the Parent’s outstanding shares. The dividend will be payable on September 15, 2016 to shareholders of record at the close of business on August 31, 2016.

The final rules implementing the Basel Committee on Banking Supervision's (“BCBS”) capital guidelines for U.S. banks became effective for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of June 30, 2016, the Company's capital levels remained characterized as "well-capitalized" under the new rules. See the “Regulatory Initiatives Affecting the Banking Industry" section below for further discussion on Basel III.

We continue to evaluate the potential impact that regulatory rules may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act. See the “Regulatory Initiatives Affecting the Banking

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Industry" section below for further discussion on the potential impact that these regulatory rules may have on our liquidity and capital requirements.

Table 20 presents our regulatory capital and ratios as of June 30, 2016 and December 31, 2015.

Regulatory Capital and Ratios		Table 20
(dollars in thousands)	June 30, 2016	December 31, 2015
Regulatory Capital		
Shareholders' Equity	$1,157,219	$1,116,260
Less: Goodwill [1]	27,416	27,416
Postretirement Benefit Liability Adjustments	(28,579)	(28,860)
Net Unrealized Gains (Losses) on Investment Securities [2]	19,155	5,304
Other	(198)	(198)
Common Equity Tier 1 Capital	1,139,425	1,112,598
Tier 1 Capital	1,139,425	1,112,598
Allowable Reserve for Credit Losses	104,352	99,647
Total Regulatory Capital	$1,243,777	$1,212,245
Risk-Weighted Assets	$8,341,990	$7,962,484
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	13.66 %	13.97 %
Tier 1 Capital Ratio	13.66	13.97
Total Capital Ratio	14.91	15.22
Tier 1 Leverage Ratio	7.29	7.26

[1] Calculated net of deferred tax liabilities.

[2] Includes unrealized gains and losses related to the Company's reclassification of available-for-sale investment securities to the held-to-maturity category.

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Regulatory Initiatives Affecting the Banking Industry

Basel III

The FRB and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's (“BCBS”) capital guidelines for U.S. banks. Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. The final rules also revised the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules’ requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of June 30, 2016, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

Management continues to monitor regulatory developments and their potential impact to the Company's liquidity requirements.

Stress Testing

The Dodd-Frank Act requires federal banking agencies to issue regulations that require banks with total consolidated assets of more than $10.0 billion to conduct and publish company-run annual stress tests to assess the potential impact of different scenarios on the consolidated earnings and capital of each bank and certain related items over a nine-quarter forward-looking planning horizon, taking into account all relevant exposures and activities. On October 9, 2012, the FRB published final rules implementing the stress testing requirements for banks, such as the Company, with total consolidated assets of more than $10.0 billion but less than $50.0 billion. These rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

In March 2014, the FRB, OCC, and FDIC issued final supervisory guidance for these stress tests. This joint final supervisory guidance discusses supervisory expectations for stress test practices, provides examples of practices that would be consistent with those expectations, and offers additional details about stress test methodologies. It also emphasizes the importance of stress testing as an ongoing risk management practice.

We submitted our latest stress testing results to the FRB on March 31, 2015. On June 26, 2015, we made our first stress test-related public disclosure (posted on our website). In 2016, the Company will submit its stress testing results to the FRB by the required due date of August 1, 2016 and will disclose the results to the public in October.

Operational Risk

Operational risk represents the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside the Company, errors relating to transaction processing and technology, failure to adhere to compliance requirements, and the risk of cyber attacks. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business. The risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. Operational risk is inherent in all business activities, and management of this risk is important to the achievement of Company goals and objectives.

Our Operating Risk Committee (the "ORC") provides oversight and assesses the most significant operational risks facing the Company. We have developed a framework that provides for a centralized operating risk management function through the ORC, supplemented by business unit responsibility for managing operational risks specific to their business units. Our internal audit department also validates the system of internal controls through ongoing risk-based audit procedures and reports on the effectiveness of internal controls to executive management and the Audit and Risk Committee of the Board of Directors.

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We continuously strive to strengthen our system of internal controls to improve the oversight of operational risk. While our internal controls have been designed to minimize operational risks, there is no assurance that business disruption or operational losses will not occur. On an ongoing basis, management reassesses operational risks, implements appropriate process changes, and invests in enhancements to our systems of internal controls.

Off-Balance Sheet Arrangements, Credit Commitments, and Contractual Obligations

Off-Balance Sheet Arrangements

We hold interests in several unconsolidated variable interest entities (“VIEs”). These unconsolidated VIEs are primarily low-income housing partnerships and solar energy partnerships. Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity’s net asset value. The primary beneficiary consolidates the VIE. We have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs.

Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations have not changed materially since previously reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the "Market Risk" section of MD&A.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2016. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2016 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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Part II - Other Information

Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

The Parent's repurchases of its common stock during the second quarter of 2016 were as follows:
Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
April 1 - 30, 2016	71,603	$ 67.97	66,000	$ 99,854,120
May 1 - 31, 2016	74,417	68.98	64,500	95,408,054
June 1 - 30, 2016	82,500	69.22	82,500	89,697,530
Total	228,520	$ 68.75	213,000	

[1] During the second quarter of 2016, 15,520 shares were purchased from employees and/or directors in connection with stock swaps and shares purchased for a deferred compensation plan. These shares were not purchased as part of the publicly announced program. The shares were purchased at the closing price of the Parent's common stock on the dates of purchase.

[2] The share repurchase program was first announced in July 2001. The program has no set expiration or termination date. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

Item 6. Exhibits

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

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 25, 2016		Bank of Hawaii Corporation
	By:	/s/ Peter S. Ho Peter S. Ho Chairman of the Board, Chief Executive Officer, and President
	By:	/s/ Kent T. Lucien Kent T. Lucien Chief Financial Officer

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Exhibit Index

Exhibit Number	
10.1	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Amendment of 2011 Nonqualified Stock Option Grant Agreement *
10.2	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Amendment of 2012 Nonqualified Stock Option Grant Agreement *
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data File

* Compensatory plan or arrangement

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