BANK OF HAWAII CORP
Form 10-Q
October 24, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011

or

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

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**99-0148992**
(State of incorporation)	(I.R.S. Employer Identification No.)

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

1-888-643-3888

(Registrant s telephone number, including area code)

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

Yes x No o

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

Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of October 17, 2011, there were 46,453,519 shares of common stock outstanding.

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

(dollars in thousands, except per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest Income				
Interest and Fees on Loans and Leases	$ 65,344	$ 70,198	$ 197,479	$ 219,466
Income on Investment Securities				
Available-for-Sale	23,097	40,775	84,256	129,605
Held-to-Maturity	20,344	1,553	48,530	5,116
Deposits	6	5	6	21
Funds Sold	160	211	708	916
Other	279	278	837	832
Total Interest Income	109,230	113,020	331,816	355,956
Interest Expense				
Deposits	4,561	7,041	14,585	23,278
Securities Sold Under Agreements to Repurchase	7,400	6,670	21,779	19,571
Funds Purchased	4	10	15	23
Long-Term Debt	499	673	1,475	2,877
Total Interest Expense	12,464	14,394	37,854	45,749
Net Interest Income	96,766	98,626	293,962	310,207
Provision for Credit Losses	2,180	13,359	10,471	50,009
Net Interest Income After Provision for Credit Losses	94,586	85,267	283,491	260,198
Noninterest Income				
Trust and Asset Management	10,788	10,534	34,021	33,699
Mortgage Banking	5,480	6,811	11,263	14,027
Service Charges on Deposit Accounts	9,820	12,737	29,127	41,407
Fees, Exchange, and Other Service Charges	16,219	15,500	47,826	45,810
Investment Securities Gains, Net	-	7,877	6,084	42,849
Insurance	2,664	2,646	8,645	7,652
Other	5,892	7,020	17,282	18,337
Total Noninterest Income	50,863	63,125	154,248	203,781
Noninterest Expense				
Salaries and Benefits	44,307	46,840	137,889	138,904
Net Occupancy	11,113	10,186	31,916	30,484
Net Equipment	4,662	4,545	14,101	13,469
Professional Fees	2,245	905	6,697	4,988
FDIC Insurance	2,065	3,159	7,319	9,366
Other	19,563	24,255	65,889	60,303
Total Noninterest Expense	83,955	89,890	263,811	257,514
Income Before Provision for Income Taxes	61,494	58,502	173,928	206,465
Provision for Income Taxes	18,188	14,438	53,114	63,101
Net Income	$ 43,306	$ 44,064	$ 120,814	$ 143,364
Basic Earnings Per Share	$ 0.93	$ 0.91	$ 2.55	$ 2.98
Diluted Earnings Per Share	$ 0.92	$ 0.91	$ 2.54	$ 2.96
Dividends Declared Per Share	$ 0.45	$ 0.45	$ 1.35	$ 1.35
Basic Weighted Average Shares	46,806,439	48,189,358	47,358,049	48,062,385
Diluted Weighted Average Shares	46,934,140	48,462,154	47,531,066	48,386,647

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

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

(dollars in thousands)		September 30, 2011		December 31, 2010
Assets				
Interest-Bearing Deposits	$	3,543	$	3,472
Funds Sold		242,062		438,327
Investment Securities				
Available-for-Sale		4,448,898		6,533,874
Held-to-Maturity (Fair Value of $2,610,081 and $134,028)		2,520,422		127,249
Loans Held for Sale		12,745		17,564
Loans and Leases		5,348,472		5,335,792
Allowance for Loan and Lease Losses		(143,410)		(147,358)
Net Loans and Leases		5,205,062		5,188,434
Total Earning Assets		12,432,732		12,308,920
Cash and Noninterest-Bearing Deposits		206,875		165,748
Premises and Equipment		104,509		108,170
Customers' Acceptances		749		437
Accrued Interest Receivable		43,319		41,151
Foreclosed Real Estate		3,341		1,928
Mortgage Servicing Rights		23,990		25,379
Goodwill		31,517		31,517
Other Assets		457,726		443,537
Total Assets	$	13,304,758	$	13,126,787
Liabilities				
Deposits				
Noninterest-Bearing Demand	$	2,702,296	$	2,447,713
Interest-Bearing Demand		1,745,812		1,871,718
Savings		4,449,351		4,526,893
Time		1,111,554		1,042,671
Total Deposits		10,009,013		9,888,995
Funds Purchased		9,882		9,478
Short-Term Borrowings		6,400		6,200
Securities Sold Under Agreements to Repurchase		1,929,266		1,901,084
Long-Term Debt		30,705		32,652
Banker's Acceptances		749		437
Retirement Benefits Payable		30,704		30,885
Accrued Interest Payable		6,751		5,007
Taxes Payable and Deferred Taxes		114,842		121,517
Other Liabilities		148,671		119,399
Total Liabilities		12,286,983		12,115,654
Shareholders' Equity				
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: September 30, 2011 - 57,132,310 / 46,570,413 and December 31, 2010 - 57,115,287 / 48,097,672)		571		570
Capital Surplus		503,255		500,888
Accumulated Other Comprehensive Income		46,754		26,965
Retained Earnings		986,202		932,629
Treasury Stock, at Cost (Shares: September 30, 2011 - 10,561,897 and December 31, 2010 - 9,017,615)		(519,007)		(449,919)
Total Shareholders' Equity		1,017,775		1,011,133
Total Liabilities and Shareholders' Equity	$	13,304,758	$	13,126,787

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

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

(dollars in thousands)	Total	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income	Retained Earnings	Treasury Stock	Compre-hensive Income
Balance as of December 31, 2010	$ 1,011,133	$ 570	$ 500,888	$ 26,965	$ 932,629	$ (449,919)	
Comprehensive Income:							
Net Income	120,814	-	-	-	120,814	-	$ 120,814
Other Comprehensive Income, Net of Tax:							
Net Unrealized Gains on Investment Securities, Net of Reclassification Adjustment	18,376	-	-	18,376	-	-	18,376
Amortization of Net Losses Related to Defined Benefit Plans	1,413	-	-	1,413	-	-	1,413
Total Comprehensive Income							$ 140,603
Share-Based Compensation	2,001	-	2,001	-	-	-	
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits (309,108 shares)	10,477	1	366	-	(3,193)	13,303	
Common Stock Repurchased (1,836,367 shares)	(82,391)	-	-	-	-	(82,391)	
Cash Dividends Paid ($1.35 per share)	(64,048)	-	-	-	(64,048)	-	
Balance as of September 30, 2011	$ 1,017,775	$ 571	$ 503,255	$ 46,754	$ 986,202	$ (519,007)	
Balance as of December 31, 2009	$ 895,973	$ 569	$ 494,318	$ 6,925	$ 843,521	$ (449,360)	
Comprehensive Income:							
Net Income	143,364	-	-	-	143,364	-	$ 143,364
Other Comprehensive Income, Net of Tax:							
Net Unrealized Gains on Investment Securities, Net of Reclassification Adjustment	58,886	-	-	58,886	-	-	58,886
Amortization of Net Losses Related to Defined Benefit Plans	1,142	-	-	1,142	-	-	1,142
Total Comprehensive Income							$ 203,392
Share-Based Compensation	2,703	-	2,703	-	-	-	
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits (522,542 shares)	15,716	1	2,416	-	(6,850)	20,149	
Common Stock Repurchased (276,471 shares)	(13,089)	-	-	-	-	(13,089)	
Cash Dividends Paid ($1.35 per share)	(65,134)	-	-	-	(65,134)	-	
Balance as of September 30, 2010	$ 1,039,561	$ 570	$ 499,437	$ 66,953	$ 914,901	$ (442,300)	

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

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

(dollars in thousands)	Nine Months Ended September 30, 2011	2010
Operating Activities		
Net Income	$ 120,814	$ 143,364
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	10,471	50,009
Depreciation and Amortization	10,918	10,008
Amortization of Deferred Loan and Lease Fees	(1,986)	(2,019)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	39,455	31,474
Share-Based Compensation	2,001	2,703
Benefit Plan Contributions	(965)	(2,559)
Deferred Income Taxes	(8,277)	(15,193)
Net Gain on Sale of Proprietary Mutual Funds	(1,956)	(2,852)
Gains on Sale of Insurance Business	-	(904)
Net Gains on Sales of Leases	(795)	(292)
Net Gains on Investment Securities	(6,084)	(42,849)
Proceeds from Sales of Loans Held for Sale	334,883	418,650
Originations of Loans Held for Sale	(321,509)	(412,158)
Tax Benefits from Share-Based Compensation	(696)	(2,725)
Net Change in Other Assets and Other Liabilities	6,214	(19,707)
Net Cash Provided by Operating Activities	182,488	154,950
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	730,294	1,047,571
Proceeds from Sales	682,283	1,289,679
Purchases	(1,535,348)	(3,109,587)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	199,844	39,685
Purchases	(384,785)	-
Proceeds from Sale of Proprietary Mutual Funds	1,956	4,424
Proceeds from Sale of Insurance Business	-	904
Net Change in Loans and Leases	(37,522)	390,512
Premises and Equipment, Net	(7,257)	(7,887)
Net Cash Used in Investing Activities	(350,535)	(344,699)
Financing Activities		
Net Change in Deposits	120,018	192,786
Net Change in Short-Term Borrowings	28,786	(1,330)
Repayments of Long-Term Debt	-	(50,000)
Tax Benefits from Share-Based Compensation	696	2,725
Proceeds from Issuance of Common Stock	9,919	13,250
Repurchase of Common Stock	(82,391)	(13,089)
Cash Dividends Paid	(64,048)	(65,134)
Net Cash Provided by Financing Activities	12,980	79,208
Net Change in Cash and Cash Equivalents	(155,067)	(110,541)
Cash and Cash Equivalents at Beginning of Period	607,547	555,067
Cash and Cash Equivalents at End of Period	$ 452,480	$ 444,526
Supplemental Information		
Cash Paid for Interest	$ 35,448	$ 45,254
Cash Paid for Income Taxes	68,613	115,374

Non-Cash Investing Activities:		
Transfer from Investment Securities Available-For-Sale to Investment Securities Held-To-Maturity	2,220,814	-
Transfer from Loans to Foreclosed Real Estate	2,067	3,478
Transfers from Loans to Loans Held for Sale	8,555	8,713

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

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Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Use of Estimates in the Preparation of Financial Statements

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

Investment Securities

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Premiums or discounts on investment securities are amortized or accreted as an adjustment of yield using the interest method over the estimated life of the security. Unrealized holding gains or losses that remain in accumulated other comprehensive income are also amortized or accreted over the estimated life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount.

Realized gains and losses are recorded in noninterest income using the specific identification method.

Loans Modified in a Troubled Debt Restructuring

In January 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The provisions of ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* include the required disclosure of qualitative information about how financing receivables were modified and quantitative information about the extent and financial effects of modifications made during the period. The Company is also required to disclose qualitative information about how such modifications are factored into the determination of the allowance for loan and lease losses. Furthermore, the Company is also required to disclose information about troubled debt restructurings that meet the definition of a troubled debt restructuring within the previous 12 months for which there was a payment default in the current period. The provisions of ASU No. 2010-20 were originally to be effective for the Company s reporting period ended March 31, 2011. However, the amendments in ASU No. 2011-01 deferred the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completed their project clarifying the guidance for determining what constitutes a troubled debt restructuring.

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In April 2011, the FASB issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower s effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB s deferral of the additional disclosures related to troubled debt restructurings as required by ASU No. 2010-20. The Company adopted the provisions of ASU No. 2010-20 retrospectively to all modifications and restructuring activities that have occurred from January 1, 2011. As of September 30, 2011, the Company identified $0.5 million in loans that were newly considered troubled debt restructurings under the provisions of ASU No. 2011-02. These loans did not require an Allowance as each was either previously partially charged-off or was adequately secured by collateral. See Note 3 to the Consolidated Financial Statements for the disclosures required by ASU No. 2010-20.

Goodwill

In December 2010, the FASB issued ASU No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.* Under GAAP, the evaluation of goodwill impairment is a two-step test. In Step 1, an entity must assess whether the carrying amount of a reporting unit exceeds its fair value. If it does, an entity must perform Step 2 of the goodwill impairment test to determine whether goodwill has been impaired and to calculate the amount of that impairment. The provisions of this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The Company adopted the provisions of this ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2011. As of March 31, 2011, the Company had no reporting units with zero or negative carrying amounts or reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. As a result, the adoption of this ASU had no impact on the Company s statements of income and condition.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*, which added disclosure requirements about transfers into and out of Levels 1, 2, and 3, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of the valuation technique (e.g., market approach, income approach, or cost approach) and inputs used to measure fair value was required for recurring, nonrecurring, and Level 2 and 3 fair value measurements. The Company adopted these provisions of this ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2010. This ASU also included a requirement that Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number as previously permitted. The Company adopted this provision of the ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2011. As this provision amends only the disclosure requirements related to Level 3 activity, the adoption of this provision of the ASU had no impact on the Company s statements of income and condition. See Note 12 to the Consolidated Financial Statements for the disclosures required by this ASU.

Future Application of Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements.* ASU No. 2011-03 modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale.

Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. The provisions of ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The provisions of ASU No. 2011-03 are effective prospectively for transactions, or modifications of existing transactions, that occur on or after January 1, 2012. As the Company accounts for all of its repurchase agreements as collateralized financing arrangements, the adoption of this ASU is not expected to have a material impact on the Company s statements of income and condition.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in

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active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity s shareholders equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Company s interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Company s statements of income and condition.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company s interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 is expected to result in presentation changes to the Company s statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 will have no impact on the Company s statements of condition.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment.* The provisions of ASU No. 2011-08 permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. ASU No. 2011-08 includes examples of events and circumstances that may indicate that a reporting unit s fair value is less than its carrying amount. The provisions of ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted provided that the entity has not yet performed its annual impairment test for goodwill. The Company performs its annual impairment test for goodwill in the fourth quarter of each year. The adoption of ASU No. 2011-08 is not expected to have a material impact on the Company s statements of income and condition.

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Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company s investment securities as of September 30, 2011 and December 31, 2010 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 1,276,925	$ 10,710	$ (1,039)	$ 1,286,596
Debt Securities Issued by States and Political Subdivisions	152,762	6,807	(1)	159,568
Debt Securities Issued by Corporations	133,670	481	(1,611)	132,540
Mortgage-Backed Securities Issued by				
Government Agencies	2,721,303	79,394	(1,065)	2,799,632
U.S. Government-Sponsored Enterprises	67,147	3,415	-	70,562
Total Mortgage-Backed Securities	2,788,450	82,809	(1,065)	2,870,194
Total	$ 4,351,807	$ 100,807	$ (3,716)	$ 4,448,898
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 179,481	$ 6,601	$ -	$ 186,082
Mortgage-Backed Securities Issued by				
Government Agencies	2,285,502	79,905	(42)	2,365,365
U.S. Government-Sponsored Enterprises	55,439	3,195	-	58,634
Total Mortgage-Backed Securities	2,340,941	83,100	(42)	2,423,999
Total	$ 2,520,422	$ 89,701	$ (42)	$ 2,610,081
December 31, 2010				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 536,770	$ 19,131	$ (45)	$ 555,856
Debt Securities Issued by States and Political Subdivisions	113,715	1,477	(1,583)	113,609
Debt Securities Issued by U.S. Government-Sponsored Enterprises	500	5	-	505
Mortgage-Backed Securities Issued by				
Government Agencies	5,696,907	84,008	(30,887)	5,750,028
U.S. Government-Sponsored Enterprises	109,259	4,617	-	113,876
Total Mortgage-Backed Securities	5,806,166	88,625	(30,887)	5,863,904
Total	$ 6,457,151	$ 109,238	$ (32,515)	$ 6,533,874
Held-to-Maturity:				
Mortgage-Backed Securities Issued by				
Government Agencies	$ 47,368	$ 2,959	$ -	$ 50,327
U.S. Government-Sponsored Enterprises	79,881	3,820	-	83,701
Total	$ 127,249	$ 6,779	$ -	$ 134,028

During the three months ended March 31, 2011, the Company reclassified at fair value approximately $2.2 billion in available-for-sale investment securities to the held-to-maturity category. The related unrealized after-tax gains of approximately $8.2 million remained in accumulated other comprehensive income to be amortized over the estimated remaining life of the securities as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. No gains or losses were recognized at the time of reclassification. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

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The table below presents an analysis of the contractual maturities of the Company s investment securities as of September 30, 2011. Mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)		Amortized Cost		Fair Value
Available-for-Sale:				
Due in One Year or Less	$	312,101	$	313,003
Due After One Year Through Five Years		761,553		769,983
Due After Five Years Through Ten Years		108,303		111,747
Due After Ten Years		381,400		383,971
		1,563,357		1,578,704
Mortgage-Backed Securities Issued by				
Government Agencies		2,721,303		2,799,632
U.S. Government-Sponsored Enterprises		67,147		70,562
Total Mortgage-Backed Securities		2,788,450		2,870,194
Total	$	4,351,807	$	4,448,898
Held-to-Maturity:				
Due After One Year Through Five Years	$	179,481	$	186,082
Mortgage-Backed Securities Issued by				
Government Agencies		2,285,502		2,365,365
U.S. Government-Sponsored Enterprises		55,439		58,634
Total Mortgage-Backed Securities		2,340,941		2,423,999
Total	$	2,520,422	$	2,610,081

Investment securities with carrying values of $3.2 billion as of September 30, 2011 and December 31, 2010 were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase. As of September 30, 2011 and December 31, 2010, the Company did not have any investment securities pledged where the secured party had the right to sell or repledge the collateral.

There were no sales of investment securities for the three months ended September 30, 2011. Gross gains on the sales of investment securities were $7.9 million for the three months ended September 30, 2010 and $10.3 million and $42.9 million for the nine months ended September 30, 2011 and 2010, respectively. Gross losses on the sales of investment securities were $4.2 million for the nine months ended September 30, 2011 and were not material for the three and nine months ended September 30, 2010. The Company s sales of available-for-sale investment securities during the nine months ended September 30, 2011 were primarily due to management s ongoing evaluation of the investment securities portfolio in response to established asset/liability management objectives.

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

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

September 30, 2011						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 258,363	$ (1,033)	$ 991	$ (6)	$ 259,354	$ (1,039)
Debt Securities Issued by States and Political Subdivisions	221	(1)	-	-	221	(1)
Debt Securities Issued by Corporations	59,659	(1,611)	-	-	59,659	(1,611)
Mortgage-Backed Securities Issued by Government Agencies	149,158	(1,091)	943	(16)	150,101	(1,107)
Total	$ 467,401	$ (3,736)	$ 1,934	$ (22)	$ 469,335	$ (3,758)
December 31, 2010						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 1,366	$ (36)	$ 1,204	$ (9)	$ 2,570	$ (45)
Debt Securities Issued by States and Political Subdivisions	67,754	(1,583)	-	-	67,754	(1,583)
Mortgage-Backed Securities Issued by Government Agencies	1,662,897	(30,887)	-	-	1,662,897	(30,887)
Total	$ 1,732,017	$ (32,506)	$ 1,204	$ (9)	$ 1,733,221	$ (32,515)

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The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2011, which was comprised of 59 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of September 30, 2011, the gross unrealized losses reported for mortgage-backed securities related to investment securities issued by the Government National Mortgage Association.

As of September 30, 2011, the carrying value of the Company s Federal Home Loan Bank stock and Federal Reserve Bank stock was $61.3 million and $18.6 million, respectively. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. These securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and periodically evaluates these securities for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

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

Loans and Leases

The Company s loan and lease portfolio was comprised of the following as of September 30, 2011 and December 31, 2010:

(dollars in thousands)		September 30, 2011	December 31, 2010
Commercial			
	Commercial and Industrial	$ 790,294	$ 772,624
	Commercial Mortgage	922,075	863,385
	Construction	69,635	80,325
	Lease Financing	312,159	334,997
Total Commercial		2,094,163	2,051,331
Consumer			
	Residential Mortgage	2,130,589	2,094,189
	Home Equity	775,105	807,479
	Automobile	191,497	209,008
	Other [1]	157,118	173,785
Total Consumer		3,254,309	3,284,461
Total Loans and Leases		$ 5,348,472	$ 5,335,792

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

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Allowance for Loan and Lease Losses (the Allowance)

The following presents by portfolio segment, the activity in the Allowance for the three and nine months ended September 30, 2011. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company s impairment measurement method and the related recorded investment in loans and leases as of September 30, 2011.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended September 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 88,985	$ 55,991	$ 144,976
Loans and Leases Charged-Off	(4,215)	(6,556)	(10,771)
Recoveries on Loans and Leases Previously Charged-Off	4,929	2,096	7,025
Net Loans and Leases Charged-Off	714	(4,460)	(3,746)
Provision for Credit Losses	(7,024)	9,204	2,180
Balance at End of Period	$ 82,675	$ 60,735	$ 143,410
Nine Months Ended September 30, 2011			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 80,977	$ 66,381	$ 147,358
Loans and Leases Charged-Off	(7,379)	(19,773)	(27,152)
Recoveries on Loans and Leases Previously Charged-Off	5,994	6,739	12,733
Net Loans and Leases Charged-Off	(1,385)	(13,034)	(14,419)
Provision for Credit Losses	3,083	7,388	10,471
Balance at End of Period	$ 82,675	$ 60,735	$ 143,410
As of September 30, 2011			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ -	$ 4,179	$ 4,179
Collectively Evaluated for Impairment	82,675	56,556	139,231
Total	$ 82,675	$ 60,735	$ 143,410
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 8,602	$ 26,400	$ 35,002
Collectively Evaluated for Impairment	2,085,561	3,227,909	5,313,470
Total	$ 2,094,163	$ 3,254,309	$ 5,348,472

Credit Quality Indicators

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

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

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

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

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

The Company s credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company s loans and leases as of September 30, 2011 and December 31, 2010.

	September 30, 2011				
(dollars in thousands)	**Commercial and Industrial**	**Commercial Mortgage**	**Construction**	**Lease Financing**	**Total Commercial**
Pass	$ 742,444	$ 845,563	$ 52,570	$ 282,123	$ 1,922,700
Special Mention	26,170	28,253	579	26,183	81,185
Classified	21,680	48,259	16,486	3,853	90,278
Total	$ 790,294	$ 922,075	$ 69,635	$ 312,159	$ 2,094,163
(dollars in thousands)	**Residential Mortgage**	**Home Equity**	**Automobile**	**Other 1**	**Total Consumer**
Pass	$ 2,102,296	$ 770,603	$ 191,359	$ 156,370	$ 3,220,628
Classified	28,293	4,502	138	748	33,681
Total	$ 2,130,589	$ 775,105	$ 191,497	$ 157,118	$ 3,254,309
Total Recorded Investment in Loans and Leases					$ 5,348,472

	December 31, 2010				
(dollars in thousands)	**Commercial and Industrial**	**Commercial Mortgage**	**Construction**	**Lease Financing**	**Total Commercial**
Pass	$ 720,618	$ 775,938	$ 61,598	$ 305,967	$ 1,864,121
Special Mention	18,096	32,055	1,975	26,767	78,893
Classified	33,910	55,392	16,752	2,263	108,317
Total	$ 772,624	$ 863,385	$ 80,325	$ 334,997	$ 2,051,331
(dollars in thousands)	**Residential Mortgage**	**Home Equity**	**Automobile**	**Other 1**	**Total Consumer**
Pass	$ 2,059,012	$ 804,158	$ 208,598	$ 172,762	$ 3,244,530
Classified	35,177	3,321	410	1,023	39,931
Total	$ 2,094,189	$ 807,479	$ 209,008	$ 173,785	$ 3,284,461
Total Recorded Investment in Loans and Leases					$ 5,335,792

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

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

The following presents by class, an aging analysis of the Company s accruing and non-accruing loans and leases as of September 30, 2011 and December 31, 2010.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current 2
As of September 30, 2011								
Commercial								
Commercial and Industrial	$ 956	$ 761	$ -	$ 6,593	$ 8,310	$ 781,984	$ 790,294	$ 5,912
Commercial Mortgage	103	-	-	2,188	2,291	919,784	922,075	1,231
Construction	-	-	-	-	-	69,635	69,635	-
Lease Financing	13	-	-	6	19	312,140	312,159	6
Total Commercial	1,072	761	-	8,787	10,620	2,083,543	2,094,163	7,149
Consumer								
Residential Mortgage	11,735	9,667	7,664	23,779	52,845	2,077,744	2,130,589	3,940
Home Equity	6,422	1,545	2,639	1,863	12,469	762,636	775,105	284
Automobile	3,640	714	138	-	4,492	187,005	191,497	-
Other 1	1,336	1,049	414	-	2,799	154,319	157,118	-
Total Consumer	23,133	12,975	10,855	25,642	72,605	3,181,704	3,254,309	4,224
Total	$ 24,205	$ 13,736	$ 10,855	$ 34,429	$ 83,225	$ 5,265,247	$ 5,348,472	$ 11,373
As of December 31, 2010								
Commercial								
Commercial and Industrial	$ 1,807	$ 1,341	$ -	$ 1,642	$ 4,790	$ 767,834	$ 772,624	$ 1,564
Commercial Mortgage	2,100	-	-	3,503	5,603	857,782	863,385	2,415
Construction	-	-	-	288	288	80,037	80,325	-
Lease Financing	82	-	-	19	101	334,896	334,997	19
Total Commercial	3,989	1,341	-	5,452	10,782	2,040,549	2,051,331	3,998
Consumer								
Residential Mortgage	8,389	9,045	5,399	28,152	50,985	2,043,204	2,094,189	7,891
Home Equity	4,248	2,420	1,067	2,254	9,989	797,490	807,479	1,041
Automobile	6,046	1,004	410	-	7,460	201,548	209,008	-
Other 1	1,962	1,145	707	-	3,814	169,971	173,785	-
Total Consumer	20,645	13,614	7,583	30,406	72,248	3,212,213	3,284,461	8,932
Total	$ 24,634	$ 14,955	$ 7,583	$ 35,858	$ 83,030	$ 5,252,762	$ 5,335,792	$ 12,930

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

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

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Impaired Loans

The following presents by class, information related to the Company s impaired loans as of September 30, 2011 and December 31, 2010.

(dollars in thousands)			Recorded Investment		Unpaid Principal Balance		Related Allowance for Loan Losses
September 30, 2011							
Impaired Loans with No Related Allowance Recorded:							
Commercial							
	Commercial and Industrial	$	6,436	$	13,787	$	-
	Commercial Mortgage		2,166		2,666		-
Total Commercial			8,602		16,453		-
Total Impaired Loans with No Related Allowance Recorded		$	8,602	$	16,453	$	-
Impaired Loans with an Allowance Recorded:							
Commercial							
	Commercial and Industrial	$	4,723	$	4,723	$	905
	Commercial Mortgage		314		617		71
Total Commercial			5,037		5,340		976
Consumer							
	Residential Mortgage		26,400		30,457		4,179
	Home Equity		21		21		1
	Automobile		5,927		5,927		99
	Other 1		569		569		51
Total Consumer			32,917		36,974		4,330
Total Impaired Loans with an Allowance Recorded		$	37,954	$	42,314	$	5,306
Impaired Loans:							
Commercial		$	13,639	$	21,793	$	976
Consumer			32,917		36,974		4,330
Total Impaired Loans		$	46,556	$	58,767	$	5,306
December 31, 2010							
Impaired Loans with No Related Allowance Recorded:							
Commercial							
	Commercial and Industrial	$	1,564	$	5,414	$	-
	Commercial Mortgage		3,377		4,407		-
Total Commercial			4,941		9,821		-
Total Impaired Loans with No Related Allowance Recorded		$	4,941	$	9,821	$	-
Impaired Loans with an Allowance Recorded:							
Commercial							
	Commercial and Industrial	$	5,156	$	5,156	$	927
	Commercial Mortgage		442		745		99
	Construction		288		288		65
Total Commercial			5,886		6,189		1,091
Consumer							
	Residential Mortgage		21,058		24,709		2,919
	Home Equity		21		21		1
	Automobile		5,845		5,845		137
	Other 1		282		282		22
Total Consumer			27,206		30,857		3,079

Total Impaired Loans with an Allowance Recorded	$	33,092	$	37,046	$	4,170
Impaired Loans:						
Commercial	$	10,827	$	16,010	$	1,091
Consumer		27,206		30,857		3,079
Total Impaired Loans	$	38,033	$	46,867	$	4,170

1 Comprised of other revolving credit and installment financing.

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2011.

(dollars in thousands)	Three Months Ended September 30, 2011 Average Recorded Investment	Interest Income Recognized	Nine Months Ended September 30, 2011 Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 4,019	$ -	$ 2,665	$ -
Commercial Mortgage	2,693	-	3,022	-
Construction	144	-	192	-
Total Commercial	6,856	-	5,879	-
Total Impaired Loans with No Related Allowance Recorded	$ 6,856	$ -	$ 5,879	$ -
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 3,030	$ 27	$ 3,873	$ 116
Commercial Mortgage	311	1	351	10
Construction	-	-	96	-
Total Commercial	3,341	28	4,320	126
Consumer				
Residential Mortgage	25,374	78	23,662	252
Home Equity	21	-	21	-
Automobile	5,837	150	5,841	438
Other 1	601	8	513	22
Total Consumer	31,833	236	30,037	712
Total Impaired Loans with an Allowance Recorded	$ 35,174	$ 264	$ 34,357	$ 838
Impaired Loans:				
Commercial	$ 10,197	$ 28	$ 10,199	$ 126
Consumer	31,833	236	30,037	712
Total Impaired Loans	$ 42,030	$ 264	$ 40,236	$ 838

1 Comprised of other revolving credit and installment financing.

For the three and nine months ended September 30, 2011, the amount of interest income recognized by the Company within the period that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and nine months ended September 30, 2011, the amount of interest income recognized using a cash-basis method of accounting during the period that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan or lease, however, forgiveness of principal is rarely granted. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Lease financing modifications generally involves a short-term forbearance period, usually about three months, after which the missed payments are added to the end of the lease term, thereby extending the maturity date. Interest continues to accrue on the missed payments and as a result, the effective yield on the lease remains unchanged. As the forbearance period usually involves an insignificant payment delay, lease financing modifications typically do not meet the reporting criteria for a TDR. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally two years. During that time, the borrower s entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loans modified in a TDR typically involve extending the balloon payment by one to three years, changing the monthly

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payments from interest-only to principal and interest, while leaving the interest rate unchanged. Home equity modifications are made infrequently and are not offered if the Company also holds the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Occasionally, the terms will be modified to a standalone second lien mortgage, thereby changing their loan class from home equity to residential mortgage. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

The following presents by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2011.

	Loans Modified as a TDR for the Three Months Ended September 30, 2011			Loans Modified as a TDR for the Nine Months Ended September 30, 2011		
Troubled Debt Restructurings 1 (dollars in thousands)	**Number of Contracts**	**Recorded Investment (as of period end)**	**Increase in the Allowance (as of period end)**	**Number of Contracts**	**Recorded Investment (as of period end)**	**Increase in the Allowance (as of period end)**
Commercial						
Commercial and Industrial	3	$ 4,106	$ -	7	$ 4,419	$ -
Commercial Mortgage	2	292	-	4	1,249	-
Total Commercial	5	4,398	-	11	5,668	-
Consumer						
Residential Mortgage	3	1,413	131	13	6,308	904
Automobile	90	893	-	201	2,064	-
Other 2	-	-	-	3	326	-
Total Consumer	93	2,306	131	217	8,698	904
Total	98	$ 6,704	$ 131	228	$ 14,366	$ 904

1 The period end balances are inclusive of all partial paydowns and charge-offs since the modification date. Loans modified in a TDR that were fully paid down, charged-off, or foreclosed upon by period end are not reported.

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

The following presents by class, loans modified in a TDR from October 1, 2010 through September 30, 2011 that subsequently defaulted (i.e., 60 days or more past due following a modification) during the three and nine months ended September 30, 2011.

(dollars in thousands)	Loans Modified as a TDR Within the Previous Twelve Months That Subsequently Defaulted During the Three Months Ended September 30, 2011		Loans Modified as a TDR Within the Previous Twelve Months That Subsequently Defaulted During the Nine Months Ended September 30, 2011	
	Number of Contracts	Recorded Investment (as of period end) 1	Number of Contracts	Recorded Investment (as of period end) 1
Consumer				
Residential Mortgage	-	$ -	1	$ 848
Automobile	6	67	7	91
Total Consumer	6	67	8	939
Total	6	$ 67	8	$ 939

1 The period end balances are inclusive of all partial paydowns and charge-offs since the modification date. Loans modified in a TDR that were fully paid down, charged-off, or foreclosed upon by period end are not reported.

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The residential mortgage loan TDR that subsequently defaulted was modified by temporarily lowering monthly payments and applying all payments during this time to principal. Automobile loans modified in a TDR that subsequently defaulted were primarily modified by lowering monthly payments by extending the term. There were no other loans modified as a TDR within the previous 12 months that subsequently defaulted during the three and nine months ended September 30, 2011.

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

Note 4. Mortgage Servicing Rights

The Company s portfolio of residential mortgage loans serviced for third parties was $3.1 billion as of September 30, 2011 and $3.2 billion as of December 31, 2010. Generally, the Company s residential mortgage loans sold to third parties are sold on a non-recourse basis. The Company s mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was $2.2 million for the three months ended September 30, 2011 and 2010, and $6.4 million and $6.3 million for the nine months ended September 30, 2011 and 2010, respectively. Servicing income is recorded as a component of mortgage banking income in the Company s consolidated statements of income. The Company s residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and nine months ended September 30, 2011 and 2010, the change in the carrying value of the Company s mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Balance at Beginning of Period	$ 8,852	$ 13,840	$ 10,226	$ 15,332
Changes in Fair Value:				
Due to Change in Valuation Assumptions 1	(1,162)	(1,954)	(1,649)	(2,600)
Due to Paydowns and Other 2	(257)	(642)	(1,144)	(1,488)
Total Changes in Fair Value of Mortgage Servicing Rights	(1,419)	(2,596)	(2,793)	(4,088)
Balance at End of Period	$ 7,433	$ 11,244	$ 7,433	$ 11,244

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

For the three and nine months ended September 30, 2011 and 2010, the change in the carrying value of the Company s mortgage servicing rights accounted for under the amortization method was as follows:

(dollars in thousands)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Balance at Beginning of Period	$ 16,220	$ 11,806	$ 15,153	$ 10,638
Servicing Rights that Resulted From Asset Transfers	976	1,711	2,938	3,552
Amortization	(639)	(445)	(1,534)	(1,118)
Balance at End of Period	$ 16,557	$ 13,072	$ 16,557	$ 13,072
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method				
Beginning of Period	$ 21,483	$ 15,044	$ 20,340	$ 14,853
End of Period	$ 17,156	$ 14,159	$ 17,156	$ 14,159

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The key assumptions used in estimating the fair value of the Company s mortgage servicing rights as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Weighted-Average Constant Prepayment Rate 1	16.40%	13.71%
Weighted-Average Life (in years)	4.90	5.90
Weighted-Average Note Rate	4.92%	5.02%
Weighted-Average Discount Rate 2	6.44%	7.29%

1 Represents annualized loan repayment rate assumption.
2 Derived from multiple interest rate scenarios that incorporate a spread to the London Interbank Offered Rate swap curve and market volatilities.

A sensitivity analysis of the Company s fair value of mortgage servicing rights to changes in certain key assumptions as of September 30, 2011 and December 31, 2010 is presented in the following table.

(dollars in thousands)	September 30, 2011	December 31, 2010
Constant Prepayment Rate		
Decrease in fair value from 25 basis points (bps) adverse change	$ (297)	$ (338)
Decrease in fair value from 50 bps adverse change	(585)	(671)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(337)	(421)
Decrease in fair value from 50 bps adverse change	(662)	(830)

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

Note 5. Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company s consolidated statements of condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts and are delivered to and held as collateral by third party trustees.

As of September 30, 2011, the contractual maturities of the Company s securities sold under agreements to repurchase were as follows:

(dollars in thousands)		**Amount**
Overnight	$	-
2 to 30 Days		252,588
31 to 90 Days		801,063
Over 90 Days		875,615
Total	$	1,929,266

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Note 6. Comprehensive Income

The following table presents the components of comprehensive income for the three and nine months ended September 30, 2011 and 2010.

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2011			
Net Income	$ 61,494	$ 18,188	$ 43,306
Other Comprehensive Income:			
Net Unrealized Gains on Investment Securities	32,184	12,677	19,507
Reclassification of Investment Securities Net Gains			
Realized in Net Income	(1,508)	(612)	(896)
Net Unrealized Gains on Investment Securities,			