



PUBLIC DISCLOSURE

August 3, 2020

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Hawaii National Bank
Charter Number 14911

45 North King Street
Honolulu, HI 96817

Office of the Comptroller of the Currency
Santa Ana Field Office
1551 North Tustin Avenue, Suite 1050
Santa Ana, CA 92705

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Satisfactory**.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The overall performance of Hawaii National Bank (HNB or bank) is Satisfactory. The major factors that support this rating include:

- The Lending Test rating is based on the bank's record of performance in meeting credit needs of its assessment areas (AAs).
 - The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and business strategy.
 - The bank originated a substantial majority of its loans within its AAs.
 - The geographic distribution of loans reflects reasonable distribution throughout the AAs.
 - The bank's distribution of loans to borrowers of different income levels and businesses of different sizes are reasonable.
- The Community Development (CD) Test rating is based on the aggregate assessment of the bank's community development activities for loans, investments, and services.
 - The bank's CD activities demonstrate an adequate level of responsiveness to identified needs within the AAs during the evaluation period.

Loan-to-Deposit Ratio

Considering HNB's size, financial condition, and credit needs of the AAs, the bank's loan-to-deposit (LTD) ratio is reasonable.

We analyzed the bank's quarterly average LTD ratio over the 13 quarters since the prior examination through March 31, 2020. During this period, HNB's quarterly average LTD ratio was 76.10 percent and ranged from a low of 69.62 percent to a high of 82.70 percent. The combined quarterly average LTD ratio of peer banks was 80.09 percent and ranged from a low of 76.91 percent to a high of 83.76 percent. While the bank's average LTD ratio was lower than the peer average, it is reasonable and meets the standard for satisfactory performance.

Lending in Assessment Area

A substantial majority of HNB's loans are inside its AAs.

The bank originated and purchased a combined 81 percent of the number of loans and 82 percent of the dollar volume of its total loans inside the three AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria. The bank's performance under this factor had a positive impact on the Lending Test conclusions, which are based on loans originated inside the bank's AAs.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total	Dollar Amount of Loans \$(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	128	76.2	40	23.8	168	73,107	78.1	20,537	21.9	93,644
Small Business	153	85.0	27	15.0	180	50,006	87.8	6,962	12.2	56,968
Total	281	80.8	67	19.2	348	123,113	81.7	27,499	18.3	150,612

Source: All HMDA reported loans and a random sample of 180 commercial loans originated from 1/1/2017-12/31/2019. Due to rounding, totals may not equal 100.0%

Description of Institution

Hawaii National Bank (HNB or bank) opened on September 19, 1960, and is headquartered in downtown Honolulu, Hawaii. HNB is a wholly owned subsidiary of Hawaii National Bancshares, Inc., which is a single-bank holding company. HNB is affiliated through common ownership, as defined in 12 U.S.C. § 371c, with various business entities of the Luke family who own more than 99 percent of the holding company.

HNB operates thirteen full-service branch offices including its Main Office on the Island of Oahu. There are seven branch offices in Honolulu, one branch office in Pearl City, and one in Kailua. The bank operates two branch offices on the Island of Hawaii and two branch offices on the Island of Maui. There were no branch relocations, openings or closings during this examination period.

The bank's primary focus is on small business customers, and, to a lesser extent, home loan and consumer credit customers within the AAs. The bank offers a variety of traditional loan products to meet the credit needs of its community including commercial real estate and single-family residential lending. Most of the bank's customers are small family enterprises and closely held businesses. Additionally, the bank offers various deposit products and account services through its branch locations, online, and mobile banking.

As of December 31, 2019, HNB reported total assets of \$665 million, total loans of \$463 million, total deposits of \$597 million, and total equity capital of \$65 million. The loan portfolio primarily consists of 1-4 family residential real estate loans totaling \$150 million or 33 percent of total loans, commercial real estate (CRE) loans totaling \$139 million or 30 percent of total loans, and commercial loans totaling \$136 million or 29 percent of total loans.

There are no financial or legal factors that impede the bank's ability to help meet the credit needs of its communities. HNB received a "Satisfactory" rating under the Intermediate Small Bank (ISB) rating criteria at the prior CRA examination on May 22, 2017.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This performance evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of HNB using Intermediate Small Bank CRA examination procedures. The bank has three designated AAs.

We performed a full-scope examination of the Honolulu AA and Hawaii Non-MSA AA, and a limited-scope examination of the Maui AA.

Consistent with HNB's business focus on small business and residential mortgage loans, the lending test included an analysis of reported HMDA data, and a sample of commercial loans. The evaluation period for the lending test included loans originated from January 1, 2017 through December 31, 2019. For the community development test, we considered all qualifying community development (CD) activities since the prior examination. The evaluation period for CD loans, services, and qualified investments included May 23, 2017 through December 31, 2019. With an evaluation period end date of December 31, 2019, qualifying activities performed in response to the significant impact of the coronavirus pandemic has had on economies across the United States are not addressed in this evaluation. Bank qualifying activities will be appropriately considered in the subsequent evaluation.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated AAs located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single AA. These combined AAs may be evaluated as full- or limited-scope. Refer to the "Scope" section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank's overall rating is a blend of the state ratings, and where applicable, multistate ratings.

HNB has three AAs. The performance in the Honolulu AA received primary weight, with most of the customer deposits and loan volume located in this AA. The home mortgage and commercial loans analyzed in the lending test received equal weighting.

The state ratings are based on performance in all bank AAs. Refer to the "Scope" section under the state section for details regarding how the areas were weighted in arriving at the respective ratings.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution (or any affiliate whose loans have been considered as part of the institution's lending performance) has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Hawaii

CRA rating for the State of Hawaii¹: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The major factors that support this rating include:

- The geographic distribution of loans reflects reasonable distribution throughout the bank's AAs.
- Lending activities represent reasonable distribution to individuals of different income levels and businesses of different sizes.
- HNB's aggregate CD activities shows adequate responsiveness to identified community needs.

Description of Institution's Operations in Hawaii

HNB has branches on three islands in the state of Hawaii. Most of the bank's deposit and loan activity is located on the Island of Oahu in the Honolulu AA, which received a full-scope review and primary weight in the evaluation of CRA performance. The Island of Hawaii Non-MSA AA was also selected for a full-scope review due to a slightly larger deposit and loan activity than the Maui AA, which received a limited-scope review.

Honolulu Assessment Area

HNB has designated part of the Honolulu MSA on the Island of Oahu as an AA. The AA includes 149 census tracts (CT) surrounding the bank's nine full-service branches located in central Oahu, Pearl City, and Kailua. The AA includes eight low-income, 34 moderate-income, 57 middle-income, 43 upper-income CTs. In addition, there are seven CTs that do not report data and are listed as unknown. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

The Honolulu AA is the bank's primary market with 89 percent of the bank's deposits, 85 percent of HMDA loans, and 72 percent of commercial loans sampled. HNB's nine branches in the AA are full-service and offer deposit-taking ATMs. One branch is located inside a low-income CT. There are no branches in moderate-income CTs. HNB offers a variety of loan and deposit products including online banking and mobile deposits. Branches are open normal banking hours on Monday through Friday, with one branch offering Saturday hours. In late 2019, the bank developed a First-Time Homebuyers Program offering reduced fees to assist borrowers with the purchase of their home.

¹ This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within the MMSA.

Competition from larger financial institutions in the AA is strong. As of June 30, 2019, the Federal Deposit Insurance Corporation (FDIC) Market Share report included 13 financial institutions with a combined 181 branches competing for over \$36 billion in deposits. HNB ranked 6th with \$492 million in deposits but represented only 1.36 percent of the market. The largest competitors included First Hawaiian Bank, Bank of Hawaii, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank, which held a combined 95 percent of the deposit market share. In addition, there is competition for home mortgages and small business loans from large banks located on the mainland, mortgage finance companies, and credit unions.

We reviewed information obtained from three recent community contacts, demographic information from Table A below, and other economic data. The community contacts included a local Community Reinvestment Corporation and an Economic Development Corporation. In addition, examiners obtained information from a regulatory-sponsored CRA Listening Group with attendance from multiple groups including a local Housing Authority, a Rural Development agency, HUD, a Small Business Development Corp, and a small business administration.

The city of Honolulu is the state's capital and the primary population center in Hawaii. Aside from a large military presence, the economy is heavily dependent on travel and tourism. With a median housing value of \$561 thousand and a median family income of \$83 thousand, affordable housing is a primary community need. Many families in the AA work multiple jobs to make ends meet, and minimum wage workers cannot afford the median gross monthly rent of \$1,550. The community contacts also identified the need for small business, start-up, and micro business loans.

Table A – Demographic Information of the Assessment Area						
Assessment Area: Part of Honolulu MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	149	5.4	22.8	38.3	28.9	4.7
Population by Geography	537,837	3.9	24.2	41.4	30.2	0.3
Housing Units by Geography	209,258	3.4	27.1	40.5	29.0	0.1
Owner-Occupied Units by Geography	95,123	1.1	14.4	41.1	43.3	0.1
Occupied Rental Units by Geography	92,051	6.2	39.7	38.7	15.2	0.2
Vacant Units by Geography	22,084	1.3	29.2	44.9	24.4	0.2
Businesses by Geography	50,575	5.3	19.6	30.5	39.9	4.7
Farms by Geography	537	5.0	14.7	34.6	43.0	2.6
Family Distribution by Income Level	120,706	19.8	18.2	21.3	40.7	0.0
Household Distribution by Income Level	187,174	24.7	17.2	18.6	39.5	0.0
Median Family Income MSA - 46520 Urban Honolulu, HI MSA		\$86,366	Median Housing Value			\$561,040
			Median Gross Rent			\$1,550
			Families Below Poverty Level			6.4%
<i>Source: 2015 ACS and 2019 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Hawaii Non-MSA Assessment Area

HNB has designated an AA on the Island of Hawaii that is not part of an MSA. The AA includes nine census tracts which include the Puainako and Hilo communities. The AA is comprised of two low-income, no moderate-income, five middle-income, and two upper-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

The Hawaii Non-MSA AA comprises seven percent of the bank's deposits, eight percent of HMDA loans, and eight percent of the random sample of commercial loans. HNB has two branches with deposit-taking ATMs located in middle-income CTs. There is a significant amount of competition from other financial institutions. As of June 30, 2019, the FDIC Market Share report included eight financial institutions with a combined 32 branches competing for over \$3 billion in deposits. HNB ranked 7th with \$39 million in deposits and only 1.15 percent of the market. The largest competitors included Bank of Hawaii, First Hawaiian Bank, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank, which held a combined 95 percent of the deposit market share. There is also significant competition for home mortgages and small business loans from the larger banks and from other financial companies.

Demographic information on the AA is provided in Table A below. Considering information from community contacts and the demographic data, identified community needs include affordable housing, small business, and micro business loans. With 12 percent of families below poverty in the AA, there is also a significant need for community services for LMI individuals. One community contact mentioned a need for mental health services with the increase in youth suicide and drop-out rates.

Table A – Demographic Information of the Assessment Area						
Assessment Area: Hawaii Non-MSA (Big Island)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	22.2	0.0	55.6	22.2	0.0
Population by Geography	45,301	20.0	0.0	57.7	22.2	0.0
Housing Units by Geography	17,904	22.3	0.0	58.2	19.5	0.0
Owner-Occupied Units by Geography	9,902	10.4	0.0	64.0	25.6	0.0
Occupied Rental Units by Geography	5,650	41.2	0.0	46.0	12.9	0.0
Vacant Units by Geography	2,352	27.1	0.0	62.8	10.0	0.0
Businesses by Geography	3,908	36.6	0.0	53.5	9.9	0.0
Farms by Geography	95	17.9	0.0	52.6	29.5	0.0
Family Distribution by Income Level	9,962	22.1	15.2	18.9	43.9	0.0
Household Distribution by Income Level	15,552	27.6	14.9	15.6	41.9	0.0
Median Family Income Non-MSAs - HI		\$64,846	Median Housing Value			\$290,216
			Median Gross Rent			\$972
			Families Below Poverty Level			12.0%

Source: 2015 ACS and 2019 D&B Data
 Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

Maui Assessment Area

HNB has designated part of the Maui MSA as an AA. The AA includes 15 census tracts which include the Kahului and Kihei neighboring communities. The AA is comprised of two moderate-income, 11 middle-income, and two upper-income CTs. There are no low-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

The Maui AA comprises four percent of the bank's deposits, seven percent of HMDA loans, and five percent of the random sample of commercial loans. HNB has two branches with deposit-taking ATMs located in middle-income CTs. There is a significant amount of competition from other financial institutions. As of June 30, 2019, the FDIC Market Share report included seven financial institutions with a combined 37 branches competing for \$3.6 billion in deposits. HNB ranked 7th with \$19.5 million in deposits and only 0.53 percent of the market. The largest competitors included Bank of Hawaii, First Hawaiian Bank, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank, which held a combined 98.6 percent of the deposit market share. There is also significant competition for home mortgages and small business loans from the larger banks and from other financial companies.

Demographic information on the AA is provided in Table A below. Considering information from community contacts and the demographic data, identified community needs include affordable housing, small business, and micro business loans. The median price of housing is \$475 thousand compared to a median family income of \$76 thousand. There are 7.2 percent of families below poverty in the AA, indicating a need for community services for LMI individuals.

Table A – Demographic Information of the Assessment Area						
Assessment Area: Maui AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	15	0.0	13.3	73.3	13.3	0.0
Population by Geography	82,630	0.0	6.4	79.7	13.9	0.0
Housing Units by Geography	32,911	0.0	7.1	82.2	10.6	0.0
Owner-Occupied Units by Geography	14,717	0.0	4.9	79.3	15.8	0.0
Occupied Rental Units by Geography	11,144	0.0	11.9	81.3	6.7	0.0
Vacant Units by Geography	7,050	0.0	4.3	89.8	6.0	0.0
Businesses by Geography	7,586	0.0	10.1	79.5	10.3	0.0
Farms by Geography	159	0.0	8.2	76.7	15.1	0.0
Family Distribution by Income Level	18,012	18.2	17.3	23.2	41.3	0.0
Household Distribution by Income Level	25,861	21.5	16.2	20.7	41.6	0.0
Median Family Income MSA - 27980 Kahului-Wailuku-Lahaina, HI MSA		\$76,195	Median Housing Value			\$475,039
			Median Gross Rent			\$1,304
			Families Below Poverty Level			7.2%

Source: 2015 ACS and 2019 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.

Scope of Evaluation in Hawaii

The CRA evaluation determines the bank's record of meeting community credit needs. The OCC used a combination of bank and examiner generated loan and demographic reports to assess CRA performance. We used information obtained from multiple community groups which attended a CRA listening session as well as contacts with a community reinvestment corporation and economic development corporation to determine the primary needs of the AAs. The Honolulu AA is the bank's primary market with a large percentage of deposit and loan activity. The Honolulu AA was selected for a full-scope review and received primary weight in the overall evaluation of CRA performance. The Hawaii Non-MSA AA was also selected for a full-scope review with a slightly larger deposit and loan activity than the Maui AA, which received a limited-scope review.

The evaluation period for the lending test is January 1, 2017 through December 31, 2019. We evaluated the distribution of the bank's home mortgage loans and commercial loans which are primary lending products for HNB. The examiners considered the bank's origination of a substantial majority of loans inside the AAs and the significant amount of competition from larger institutions when evaluating overall lending performance. Performance compared to the aggregate for mortgage loans received more weight than performance compared to the demographics. This is due to the high cost of housing in the AAs, which limited the availability of affordable homes for LMI borrowers and reduced opportunities for all lenders. In addition, examiners placed greater weight on the bank's performance compared to the aggregate in lending to small businesses as the demographics of the AAs indicate that some businesses with revenues less than or equal to \$1 million may not seek out lending opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN HAWAII

LENDING TEST

The bank's performance under the Lending Test in Hawaii is rated Satisfactory.

Conclusions for Areas Receiving Full-Scope Reviews

Based on full- and limited-scope reviews, the bank's overall lending performance in the state of Hawaii is reasonable.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of loans in the state.

Home Mortgage Loans

Refer to Table O in the state of Hawaii section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Honolulu Assessment Area

HNB's distribution of home mortgage loans in the Honolulu AA shows reasonable distribution in low- and moderate-income geographies. During 2017-2019, the bank originated 109 loans totaling

\$67 million. Of those loans, 0.9 percent were located in low-income census tracts. This percentage exceeded the 0.7 aggregate lending percentage and is near to the 1.1 demographic percentage, reflecting reasonable distribution. The bank originated 11 percent of mortgage loans in moderate-income tracts. This was near to the 14.9 aggregate lending percentage and the 14.4 percent demographic percentage, reflecting reasonable distribution. Given the demographic and competitive context in the AA and the reasonable distribution to low-income areas, the overall distribution of home mortgage loans is reasonable and meets standards for satisfactory performance.

Hawaii Non-MSA Assessment Area

HNB did not originate enough home mortgage loans in the Hawaii Non-MSA AA for a meaningful analysis. During 2019-2019, the bank originated 10 loans totaling \$3.4 million in the AA, including one loan in a low-income CT. There are only two low-income and no moderate-income CTs within the AA. HNB ranks 7th out of 8 institutions in the market with only 1.15 percent of the AA deposits. With the bank's smaller presence in the AA and the significant competition from larger institutions, the bank's mortgage lending volume is reasonable.

Small Loans to Businesses

Refer to Table Q in the state of Hawaii section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

Honolulu Assessment Area

HNB's distribution of small business loans in the Honolulu AA reflects good distribution in LMI geographies. From a sample of 159 commercial loans located inside the bank's AAs, the bank originated 120 small business loans totaling \$20.7 million in the Honolulu AA. HNB originated 13.3 percent in low-income census tracts which far exceeded both the 6.7 aggregate percentage and 5.3 demographic percentage, reflecting excellent distribution. The bank's 18.3 percent in moderate-income census tracts was near to the 19.7 aggregate percentage and 19.6 demographic percentage, reflecting reasonable distribution. Giving primary weight to the bank's performance in low-income geographies, the bank's geographic distribution of small business loans is reasonable.

Hawaii Non-MSA Assessment Area

HNB's distribution of small business loans in the Hawaii Non-MSA AA reflects reasonable distribution in low-income areas. There are no moderate-income CTs within the AA. Based on a sample of 20 commercial loans totaling \$2.5 million originated inside the AA, HNB originated 30 percent of the loans in low-income tracts. This was near to the 35.8 aggregate percentage and 36.6 demographic percentage. The overall distribution is considered reasonable given the bank's size and presence in this AA, and significant market competition with larger institutions holding over 95 percent of the area deposits compared to HNB's 1.15 percent.

Distribution of Loans by Income Level of the Borrower

The bank exhibits a reasonable distribution of loans to individuals of different income levels and businesses of different sizes, given the product lines offered by the bank.

Home Mortgage Loans

Refer to Table P in the state of Hawaii section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Honolulu Assessment Area

HNB's overall distribution of mortgage loans in the Honolulu AA to LMI borrowers is reasonable. During the evaluation period, the bank originated 3.7 percent of its loans to low-income borrowers. This was equal to the 3.7 aggregate lending percentage and is reasonable but below the 19.8 demographic percentage. HNB's origination of mortgage loans to moderate-income borrowers was 6.4 percent. This was below both the 12.3 aggregate percentage and the 18.2 demographic percentage, reflecting poor distribution. The lower aggregate lending percentages compared to demographic percentages reflects the challenging mortgage lending opportunities to LMI borrowers for all lenders in the AA. This is due to the high cost of housing with a median housing price of \$561,040 compared to low area wages, and the shortage of affordable housing in the market. Given this performance context and the bank's reasonable lending to low-income borrowers, the overall distribution of mortgage loans to LMI borrowers is reasonable.

Hawaii Non-MSA Assessment Area

HNB's mortgage loan volume in the Hawaii Non-MSA AA was too small to perform a meaningful analysis. During 2017-2019, the bank originated 10 loans totaling \$3.4 million with no originations to LMI borrowers, reflecting a very poor distribution based on the small number of loan originations. Aggregate lending percentages in the AA were also significantly below demographic percentages for low-income borrowers and below demographic percentages for moderate-income borrowers. Demographic information reflects 12 percent of families in the AA are below poverty, which represents over 32 percent of LMI families. This made originating loans to LMI families difficult with a median housing price of \$290,216. In addition, there is significant competition for mortgage loans from larger institutions in the AA that hold over 95 percent of area deposits.

Small Loans to Businesses

Refer to Table R in the state of Hawaii section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

Honolulu Assessment Area

HNB's distribution of small loans to businesses in the Honolulu AA is reasonable. The commercial loan sample included 120 small business loans in the Honolulu AA. Of these loans, the bank originated 39.2 percent to businesses with revenues less than \$1 million, which is near to the 46.4 aggregate percentage and below the 85.9 demographic percentage. Examiners placed greater emphasis on performance to the aggregate as the demographic indicates that a number of businesses with revenues less than or equal to \$1 million may not seek out lending opportunities. In evaluating bank performance compared to the aggregate, we considered the significant competition in the market from much larger institutions. In addition, two community contacts provided specific comments regarding HNB's efforts to provide the community with needed smaller dollar business loans. With this performance context, the bank's overall distribution of loans to businesses of different sizes is reasonable.

Hawaii Non-MSA Assessment Area

HNB's origination of small business loans in the Hawaii Non-MSA AA is good. The bank originated 50 percent to businesses with revenues less than \$1 million, which exceeded the 49.8 aggregate percentage. We placed greater emphasis on performance to the aggregate, as the 81.7 demographic percentage indicates that a portion of small businesses may not seek out lending opportunities. Based on the commercial loan sample, the bank's overall distribution to small businesses meets standards for satisfactory performance.

Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

Conclusions for Area Receiving a Limited-Scope Review

Based on a limited-scope review, the bank's performance under the Lending Test in the Maui AA is consistent with the bank's overall performance under the Lending Test in the full scope areas.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test in the state of Hawaii is rated Satisfactory.

Conclusions for Areas Receiving Full-Scope Reviews

Based on full-scope and limited-scope reviews of the bank's three AAs, the bank exhibits adequate responsiveness to community development needs in the state through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AAs.

The bank's aggregate new CD loans, investments, and donations during the evaluation period totaled \$5 million. The bank's aggregate CD service hours totaled 800 during the evaluation period. These activities adequately responded to identified community needs for LMI services, affordable housing, and small business loans. Most CD activities were provided in the Honolulu and Hawaii Non-MSA AAs through CD loans, donations, and qualified service hours.

Number and Amount of Community Development Loans

The Community Development Loans Table, shown below, sets forth the information and data used to evaluate the bank's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

Community Development Loans				
Assessment Area	Total			
	#	% of Total #	\$(000's)	% of Total \$
Honolulu AA	11	73	4,375	88.0
Hawaii Non-MSA AA	4	27	575	12.0

The level of CD loans represents an adequate responsiveness to identified needs within the AAs. During the evaluation period the bank made 15 CD loans which totaled \$4.9 million and were primarily in the Honolulu and Hawaii Non-MSA AAs. Examples of CD loans include:

- A CD loan to finance the purchase and renovation of affordable housing units
- Loans for economic development of small businesses in the AAs

Number and Amount of Qualified Investments

Qualified Investments and Donations										
Assessment Area	Prior Period*		Current Period		Total				Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	% of Total #	\$(000's)	% of Total \$	#	\$(000's)
Honolulu AA	0	0	31	70	31	70.4	70	60.0	0	0
Hawaii Non-MSA AA	0	0	7	23	7	16.0	23	20.0	0	0
Maui AA (Limited-scope)	0	0	6	23	6	13.6	23	20.0	0	0

* *Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date. Investments which benefit multiple AAs are counted and separated for each AA.*

** *Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.*

HNB demonstrated adequate responsiveness to CD investment opportunities in the bank's AAs. During the evaluation period the bank made 44 donations totaling \$115 thousand to 44 qualified CD organizations in the AAs. This included a \$15 thousand donation to a charitable organization that supports LMI families and communities throughout the Honolulu and Hawaii Non-MSA AAs. Other donations primarily supported organizations who provide services for LMI individuals or organizations which support small businesses.

Extent to Which the Bank Provides Community Development Services

HNB employees provided 800 hours to 10 qualified CD organizations during the evaluation period. The bank's level of CD services reflects an adequate responsiveness to identified needs within the AAs. The bank provided qualified service hours to organizations in all their AAs, including 526 hours in Oahu, 165 hours in Hawaii and 109 hours in Maui. Examples of CD services provided by bank staff include:

- Serving as Board members for several CD organizations, including LMI community service organizations and an affordable housing organization.

- Serving as a member on an SBA Advisory Council which promotes services for small businesses, minority-owned businesses, and start-up businesses.

Conclusions for Area Receiving a Limited-Scope Review

Based on a limited-scope review, the bank's performance under the CD Test in the Maui AA is weaker than the bank's overall performance under the CD Test in the full-scope areas. This is due to a lack of qualified CD loans in AA. With the Maui AA representing the smallest percentage of bank deposits and lending activity, the weaker performance did not impact the overall assessment of HNB's performance under the CD Test.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSA(s) and non-MSA(s) that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	1/1/2017 to 12/31/2019	
Bank Products Reviewed:	Home mortgage and small business loans Community development loans, qualified investments, and services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		N/A
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Hawaii		
Honolulu AA	Full-scope	
Hawaii Non-MSA AA	Full-scope	
Maui AA	Limited-scope	

Appendix B: Summary of MMSA and State Ratings

RATINGS		Hawaii National Bank	
Overall Bank:	Lending Test Rating*	CD Test Rating	Overall Bank/State/Multistate Rating
Hawaii National Bank	Satisfactory	Satisfactory	Satisfactory
MMSA or State:			
Hawaii	Satisfactory	Satisfactory	Satisfactory

(*) The Lending Test and Community Development Test carry equal weight in the overall rating.

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

- Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.
- Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.
- Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.
- Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography																			2017-19	
Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts			
	#	\$	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	
Honolulu AA	109	67,056	85.2	13,426	1.1	0.9	0.7	14.4	11.0	14.9	41.1	28.4	36.3	43.3	59.6	48.1	0.1	0.0	0.1	
Hawaii Non-MSA AA	10	3,459	7.8	824	10.4	10.0	11.4	0.0	0.0	0.0	64.0	40.0	59.2	25.6	50.0	29.4	0.0	0.0	0.0	
Maui (Limited-Scope)	9	2,592	7.0	2,755	0.0	0.0	0.0	4.9	11.1	7.8	79.3	77.8	76.2	15.8	11.1	16.0	0.0	0.0	0.0	
Total	128	73,107	100.0	17,005	1.7	1.6	1.1	12.1	10.2	13.0	47.7	32.8	43.8	38.5	55.5	42.0	0.0	0.0	0.1	

Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2017-19	
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	
Honolulu AA	109	67,056	85.2	13,426	19.8	3.7	3.7	18.2	6.4	12.3	21.3	17.4	21.5	40.7	61.5	48.2	0.0	11.0	14.4	
Hawaii Non-MSA AA	10	3,459	7.8	824	22.1	0.0	3.0	15.2	0.0	13.1	18.9	30.0	21.8	43.9	70.0	49.2	0.0	0.0	12.9	
Maui (Limited-Scope)	9	2,592	7.0	2,755	18.2	0.0	2.3	17.3	11.1	10.2	23.2	0.0	22.6	41.3	88.9	53.2	0.0	0.0	11.6	
Total	128	73,107	100.0	17,005	19.8	3.1	3.4	17.9	6.3	12.0	21.4	17.2	21.7	41.0	64.1	49.0	0.0	9.4	13.9	

Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography																			2017-19		
Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate		
Honolulu AA	120	20,703	81.6	15,131	5.3	13.3	6.7	19.6	18.3	19.7	30.5	13.3	30.2	39.9	45.8	39.5	4.7	9.2	3.9		
Hawaii Non-MSA AA	20	2,509	13.6	1,092	36.6	30.0	35.8	0.0	0.0	0.0	53.5	55.0	52.6	9.9	15.0	11.6	0.0	0.0	0.0		
Maui (Limited-Scope)	7	960	4.8	2,685	0.0	0.0	0.0	10.1	14.3	9.5	79.5	71.4	77.9	10.3	14.3	12.6	0.0	0.0	0.0		
Total	147	24,173	100.0	18,908	6.6	15.0	7.5	17.2	15.6	17.1	38.0	26.7	38.3	34.4	40.1	34.1	3.8	7.5	3.1		

Source: 2019 D&B Data; 2018 CRA Aggregate Data; Bank Data from a sample of 159 commercial loans originated in AAs from 1/01/2017 - 12/31/2019.
Due to rounding, totals may not equal 100.0%

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues												2017-19	
Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans		
Honolulu AA	120	20,703	81.6	15,131	85.9	39.2	46.4	5.5	54.2	8.6	6.7		
Hawaii Non-MSA AA	20	2,509	13.6	1,092	81.7	50.0	49.8	4.6	50.0	13.6	0.0		
Maui (Limited-Scope)	7	960	4.8	2,685	86.1	57.1	41.6	4.1	42.9	9.8	0.0		
Total	147	24,173	100.0	18,908	85.7	41.5	45.9	5.3	53.1	9.0	5.4		

Source: 2019 D&B Data; 2018 CRA Aggregate Data; Bank Data from a sample of 159 commercial loans originated in AAs from 1/01/2017 - 12/31/2019.
Due to rounding, totals may not equal 100.0%