



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

May 22, 2017

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

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 following major factors support the institution’s rating:

- The bank’s loan-to-deposit ratio is reasonable given the size of the institution, financial condition, and business strategy.
- The bank originated a majority of its loans within its delineated assessment areas.
- The geographic distribution of loans reflects reasonable dispersion.
- Lending among borrowers of different income levels reflects overall reasonable penetration given performance context factors.
- The bank provided a satisfactory level of community development activities.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout 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. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: 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; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, 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, home equity 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 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), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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 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 income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

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 MA/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. 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 it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Rated Area: A rated area is a state or multi-state metropolitan 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 area, the institution will receive a rating for the multi-state metropolitan 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 One 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.

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.

The bank offers a variety of traditional loan products to meet the credit needs of its community with an emphasis on commercial real estate and single-family residential lending. The bank’s primary focus is on small business customers, and, to a lesser extent, home loan and consumer credit customers within the bank’s assessment area. 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 and online. HNB has 13 branch locations on the islands of Oahu, Hawaii, and Maui.

As of March 31, 2017, HNB reported total assets of \$666 million, total loans of \$425 million, total deposits of \$604 million, and total equity capital of \$57 million. The following chart summarizes the loan portfolio by major loan type.

Hawaii National Bank Outstanding Balances by Major Product Type as of March 31, 2017		
Loan Type	(\$000's)	Percent
1-4 Family Residential RE	130,711	30.8
Commercial	126,416	29.7
Commercial RE	120,466	28.3
Multifamily Residential RE	27,590	6.5
Construction	12,450	2.9
Consumer	4,438	1.0
Farmland	3,210	0.8
Total	425,281	100%

There are no financial or legal factors that impede the bank’s ability to help meet the credit needs of the communities it serves. HNB received a “Satisfactory” rating under the Intermediate Small Bank (ISB) rating criteria at the prior CRA examination in April 2014.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This examination evaluates the CRA performance of HNB. We used ISB CRA procedures. We performed a full-scope examination of the Oahu, Hawaii Non-MSA, and Maui AAs. This process included an evaluation of CRA activities under the Lending Test criteria, as well as an evaluation of lending, investments, and services under the Community Development Test. For the bank's lending test, we evaluated the bank's HMDA lending activity and a random sample of commercial loans granted from January 1, 2015 through December 31, 2016. Our analysis included commercial business, home purchase, home refinance, and home improvement loans. For the community development test, we considered all qualifying community development (CD) activities since the bank's prior CRA examination, from April 21, 2014 through May 22, 2017.

Data Integrity

For our examination, we first conducted a "data integrity" test of the bank's small business and HMDA loan data for the evaluation period. Based on the degree of accuracy in our data testing, we then evaluated the bank's lending patterns using applicable loan data for the evaluation period.

Selection of Areas for Full-Scope Review

Management and the board of directors (board) have designated three AAs in Hawaii. The Oahu AA is composed of part of the Urban Honolulu Metropolitan Statistical Area (MSA); the Hawaii Non-MSA includes part of Hawaii County; and the Maui AA includes part of the Kahului-Wailuku-Lahaina MSA. The AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies. Please refer to the table in Appendix A that provides demographic data for the AA.

Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews.

Discriminatory or Other Illegal Credit Practices Review

Fair Lending 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 Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices.

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

Conclusions with Respect to Performance Tests

The following sections of this evaluation present the data that support our conclusions under the Lending Test and the CD Test, respectively.

LENDING TEST

The bank's performance under the CRA Lending Test is Satisfactory. Overall, HNB's lending activity reasonably meets the credit needs of its delineated AAs. The bank meets the standards for satisfactory performance in all of the tests. Economic factors and the bank's performance context reasonably explain the bank's performance.

Loan-to-Deposit Ratio

HNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and local economic conditions, and meets the standard for satisfactory performance. We evaluated the bank's quarterly average LTD ratio for the 12 quarters since the prior CRA examination through December 2016. During this period, the bank's LTD ratio averaged 65 percent. This ratio ranged from a quarterly low of 60 percent to a quarterly high of 70 percent during this period. The bank's LTD ratio reasonably compares with other banks of similar asset size in the AAs. The average LTD ratio for peer banks was 76 percent over the same period, and the ratio ranged from 71 percent to 79 percent. While the bank's average ratio was lower than the peer bank average, it is reasonable and meets the standard for satisfactory performance.

Lending in Assessment Area

HNB made a majority of the number and dollar volume of loans inside its delineated AAs, and meets the standard for satisfactory performance. HNB made approximately 75 percent of the number of loans and approximately 82 percent of the dollar volume within its delineated AAs during our evaluation period. See Table 1 for details.

Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Mortgage Loans	109	73	41	27	150	57,622	81	13,748	19	71,370
Commercial Loans	19	95	1	5	20	5,306	96	200	4	5,506
Total	128	75	42	25	170	62,928	82	13,948	18	76,876

Source: All HMDA reported loans from January 1, 2015 through December 31, 2016 and a sample of 20 commercial loans originated from January 1, 2015 through December 31, 2016.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank’s overall distribution of loans to borrowers of different income levels reflects reasonable penetration compared to area demographics and meets the standard for satisfactory performance. The bank’s lending performance for commercial lending reflects reasonable dispersion in the Oahu AA. We could not perform a meaningful analysis for the Hawaii Non-MSA AA and Maui AA due to the low number of business loans originated. Residential home loan lending performance reflects reasonable dispersion in the Oahu AA. We could not perform a meaningful analysis for the Hawaii Non-MSA AA and Maui AA due to the low number of home loans originated by the bank in those AAs. In performing our overall analysis, we gave more weight to lending in the Oahu AA.

Performance in the Oahu AA

Commercial Loans

The bank’s distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics. The percentage of businesses with revenues of \$1 million or less within the Oahu AA is 83 percent. Based on our sample of 20 loans within the AA, the bank originated 60 percent of their loans by number and 73 percent by dollar volume to these businesses.

Table 2 – Lending to Businesses of Different Sizes - Borrower Distribution Commercial Loans Oahu Assessment Area January 2015 through December 2016				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	83%	7%	10%	100%
% of Bank Loans in AA by #	60%	40%	00%	100%
% of Bank Loans in AA by \$	73%	27%	00%	100%

Source: Dun and Bradstreet reported revenue data. Random sample of 20 commercial loan originations from January 2015 through December 2016.

Home Mortgage Loans

The distribution of HNB’s home mortgage loans to borrowers of different income levels reflects reasonable penetration in the Oahu AA given the demographic and competitive context in which the institution operates. In performing our analysis, we placed greater weight on the bank’s home purchase and home refinance loans because they represented the majority of the bank’s reportable lending activity. The volume of home improvement loans was not significant. Therefore, an analysis of these loans is not meaningful.

The borrower distribution of home purchase and refinance loans is poor. The percentage of loans to low- and moderate-income borrowers was significantly lower than the percentage of low- and moderate-income families in the AA. However, our analysis took into consideration that the cost of housing in the Oahu AA continues to be one of the highest in the United States and the supply remains limited. The high cost of housing, coupled with low median incomes, make home ownership and affordable home mortgages very difficult for low- and moderate-income borrowers. The median housing value in the AA was \$548,839. According to the 2010 U.S. Census, low-income individuals earn \$40 thousand or less, and moderate-income individuals earn \$65 thousand or less.

We also considered the significant market competition from local lenders, large national banks, mortgage companies, and credit unions. This level of residential mortgage lending to borrowers of different income levels is reasonable considering the demographic context in which the institution operates. (See Appendix B for more details.)

The following tables summarize the borrower distribution of HNB’s home mortgage loan data:

Table 3 - Distribution of Residential Real Estate Loans By Borrower Income Level Oahu Assessment Area January 2015 through December 2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.44	0.00	18.21	2.63	21.69	10.53	39.66	73.68
Home Improvement	20.44	0.00	18.21	0.00	21.69	12.50	39.66	87.50
Home Refinance	20.44	4.00	18.21	10.00	21.69	30.00	39.66	50.00

Demographic Data Source: 2010 U.S. Census (Note: 8.33 percent of the bank’s income levels are not available.)

Performance in the Hawaii Non-MSA AA

Commercial Loans

The bank was only able to make ten commercial loans in this AA during the review period due to competition. This small volume of loans makes it difficult to perform a meaningful analysis. However, the bank’s distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics. The percentage of businesses with revenues of \$1 million or less within the Hawaii Non-MSA AA is 79 percent. Based on our sample of ten loans within the AA, the bank originated 50 percent of its loans by number and 36 percent by dollar volume to these businesses.

Table 4 – Lending to Businesses of Different Sizes - Borrower Distribution				
Commercial Loans				
Hawaii Non-MSA Assessment Area				
January 2015 through December 2016				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	79%	6%	15%	100%
% of Bank Loans in AA by #	50%	50%	0%	100%
% of Bank Loans in AA by \$	36%	64%	0%	100%

Source: Dun and Bradstreet reported revenue data. Random sample of ten commercial loan originations from January 2015 through December 2016.

Home Mortgage Loans

The loan volume in the Hawaii Non-MSA was too small to perform a meaningful analysis. HNB made only eight loans in this AA – two purchase, two home improvement, and four refinance home loans during the review period. Competition for strong borrowers and the bank’s limited presence in the AA made it difficult for the bank to generate loans. (See Appendix B for details.)

The following table summarizes the borrower distribution of HNB’s home mortgage loan data:

Table 5 - Distribution of Residential Real Estate Loans								
By Borrower Income Level								
Hawaii Non-MSA Assessment Area								
January 2015 through December 2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22.70	0.00	14.48	50.00	21.95	0.00	40.86	50.00
Home Improvement	22.70	50.00	14.48	50.00	21.95	0.00	40.86	0.00
Home Refinance	22.70	25.00	14.48	0.00	21.95	0.00	40.86	75.00

Demographic Data Source: 2010 U.S. Census. Bank made only eight loans for 2015 and 2016.

Performance in the Maui AA

Commercial Loans

The bank was only able to make eight commercial loans in this AA during the review period due to competition. This small volume of loans makes it difficult to perform a meaningful analysis. However, the bank’s distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics. The bank originated 63 percent of loans by number and 57 percent by dollar volume to small businesses in the Maui AA.

Table 6 – Lending to Businesses of Different Sizes - Borrower Distribution				
Commercial Loans				
Maui Assessment Area				
January 2015 through December 2016				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	83%	5%	12%	100%
% of Bank Loans in AA by #	63%	37%	0%	100%
% of Bank Loans in AA by \$	57%	43%	0%	100%

Source: Dun and Bradstreet reported revenue data. Random sample of eight commercial loan originations from January 2015 through December 2016.

Home Mortgage Loans

The bank made only five home loans in the Maui AA during the review period, and this was not enough to perform a meaningful analysis. As mentioned above, competition for strong borrowers and a limited presence in the AA made it difficult to generate loans.

The following table summarizes the borrower distribution of HNB’s home mortgage loan data:

Table 7 - Distribution of Residential Real Estate Loans								
By Borrower Income Level								
Maui Assessment Area								
January 2015 through December 2016								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.35	0.00	17.27	50.00	23.87	0.00	38.51	50.00
Home Improvement	20.35	0.00	17.27	0.00	23.87	100.00	38.51	0.00
Home Refinance	20.35	0.00	17.27	0.00	23.87	100.00	38.51	0.00

Demographic Data Source: 2010 U.S. Census. Bank made only five loans in 2016 and 2016.

Geographic Distribution of Loans

The overall performance for the geographic distribution of HNB’s loans reflects reasonable dispersion compared to area demographics, and meets the standard for satisfactory performance. The bank’s lending performance for commercial lending reflects excellent dispersion in the Oahu AA. We could not perform a meaningful analysis for the Hawaii Non-MSA and Maui AAs due to the low number of business loans originated by the bank in those AAs.

Residential home mortgage loan performance reflects reasonable dispersion in the Oahu AA. We could not perform a meaningful analysis for the Hawaii Non-MSA and Maui AAs due to the low number of home mortgage loans originated by the bank. We gave more weight to lending in the Oahu AA.

Performance in the Oahu AA

Commercial Loans

The geographic distribution for commercial loans reflects excellent dispersion in the Oahu AA. HNB’s lending to businesses in both low- and moderate-income tracts meets or exceeds the demographic data for the AA.

Table 8 - Geographic Distribution of Commercial Loans Oahu Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loan Sample	5%	5%	39%	40%	30%	40%	24%	15%

Source: Dun and Bradstreet business data by geographic location. Random sample of 20 loan originations from January 2015 through December 2016. (Note: 2.0 percent of peer aggregate census tracts are not income-designated tracts.)

Home Mortgage Loans

The geographic distribution of HNB’s home mortgage loans reflects reasonable dispersion in the Oahu AA. In performing our analysis, we placed greater weight on the bank’s home purchase and home refinance loans because they represented the majority of the bank’s reportable lending activity. The volume of home improvement loans was not significant. Therefore, an analysis of these loans is not meaningful. We also considered the significant market competition from local lenders, large national banks, mortgage companies, and credit unions. (See Appendix B for details.)

The geographic distribution of home purchase loans is excellent. The percentage of loans made in low-income geographies significantly exceeds the percentage of owner-occupied units in these geographies. The percentage of loans made in moderate-income geographies exceeds the percentage of owner-occupied units in these geographies.

The geographic distribution of home refinance loans is reasonable. The percentage of loans made in moderate-income geographies is lower than the percentage of owner-occupied units in these geographies. The bank made no loans to low-income borrowers.

The following table summarizes the geographic distribution of HNB’s home mortgage loan data:

Table 9 - Geographic Distribution of Residential Real Estate Loans Oahu Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.98	2.63	17.39	18.42	38.28	44.74	42.35	34.21
Home Improvement	1.98	0.00	17.39	0.00	38.28	37.50	42.35	62.50
Home Refinance	1.98	0.00	17.39	10.00	38.28	40.00	42.35	50.00

Demographic Data Source: 2010 U.S. Census

Performance in the Hawaii Non-MSA AA

Commercial Loans

The bank was only able to make ten commercial loans in this AA during the review period due to its limited presence and competition from other lenders. This small volume of loans makes it difficult to perform a meaningful analysis. However, the geographic distribution for commercial loans reflects excellent dispersion in the Hawaii Non-MSA AA. HNB’s lending to businesses in both low- and moderate-income tracts exceeds the demographic data for the AA.

Table 10 - Geographic Distribution of Commercial Loans Hawaii Non-MSA Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loan Sample	19%	40%	20%	30%	57%	30%	4%	0%

Source: Dun and Bradstreet business data by geographic location. Random sample of ten loan originations from January 2015 through December 2016.

Home Mortgage Loans

The bank’s loan volume in the Hawaii Non-MSA was too small to perform a meaningful analysis. HNB made only eight loans in this AA – two purchase, two home improvement, and four refinance home loans during the review period. As noted above, competition for strong borrowers and a limited presence in the AA made it difficult to generate loans.

The following table summarizes the geographic distribution of HNB’s home mortgage loan data:

Table 11 - Geographic Distribution of Residential Real Estate Loans Hawaii Non-MSA Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	5.25	0.00	7.81	0.00	70.95	100.00	15.99	0.00
Home Improvement	5.25	50.00	7.81	0.00	70.95	0.00	15.99	50.00
Home Refinance	5.25	0.00	7.81	0.00	70.95	100.00	15.99	0.00

Demographic Data Source: 2010 U.S. Census. Bank made only eight mortgage loans in 2015 and 2016.

Performance in the Maui AA

Commercial Loans

The bank was only able to make eight commercial loans in this AA during the review period due to a limited presence and competition from other lenders. This small volume of loans makes it difficult to perform a meaningful analysis. However, the geographic distribution for commercial loans reflects reasonable dispersion in the Maui AA. HNB’s lending to businesses in moderate-income tracts is lower than the demographic data for the AA but meets the standard for reasonable geographic distribution. Maui has no low-income census tracts.

Table 12 - Geographic Distribution of Commercial Loans Maui Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loan Sample	N/A	N/A	20%	13%	58%	87%	22%	0%

Source: Dun and Bradstreet business data by geographic location. Random sample of eight loan originations from January 2015 through December 2016.

Home Mortgage Loans

The bank made only five home loans in the Maui AA during the review period and this was not enough to perform a meaningful analysis. As noted above, competition for strong borrowers and a limited presence in the AA made it difficult to generate loans. There are no low-income census tracts in Maui.

The following table summarizes the geographic distribution of HNB’s home mortgage loan data:

Table 13 - Geographic Distribution of Residential Real Estate Loans Maui Assessment Area January 2015 through December 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	N/A	N/A	12.23	0.00	60.80	50.00	26.96	50.00
Home Improvement	N/A	N/A	12.23	100.00	60.80	0.00	26.96	0.00
Home Refinance	N/A	N/A	12.23	0.00	60.80	100.00	26.96	0.00

Demographic Data Source: 2010 U.S. Census. Bank made only five mortgage loans in 2015 and 2016.

Responses to Complaints

The bank did not receive any complaints about its performance under the Community Reinvestment Act during the evaluation period.

COMMUNITY DEVELOPMENT TEST

Performance with respect to the CD test is satisfactory. During the evaluation period, HNB demonstrated an adequate responsiveness to the CD needs of the bank's AAs, considering performance context and the needs and opportunities within the AAs. HNB's CD activities meet the standard for satisfactory performance.

Number and Amount of CD Loans

CD loan activities meet the standards for satisfactory performance and reflect adequate responsiveness to the needs within the AAs. The bank made seven CD loans totaling \$3.8 million within the AAs during our evaluation period. These loans helped provide community services to low- or moderate-income individuals and provide economic development to low- or moderate-income areas.

Number and Amount of Qualified Investments

CD investment activities meet the standards for satisfactory performance and reflect adequate responsiveness to the needs within the AAs. During the evaluation period, the bank made donations totaling almost \$48 thousand to eight CD organizations. These donations were used for community services benefitting impoverished or low- or moderate-income women, children, and youth in the AAs.

Extent to Which the Bank Provides CD Services

The bank's CD services program demonstrates excellent responsiveness to the needs within its AAs. Bank employees contributed 2,520 community service hours to 18 organizations within the AAs. These activities included financial literacy education programs, technical assistance to small businesses, active board memberships in CD organizations, fundraising for CD organizations, and other services that provide for low- or moderate-income individuals and families.

HNB offers a full range of products and services through its 13 branch offices on three islands. The bank has nine branches on the island of Oahu, including one located in a low-income census tract. The Main Branch located in Honolulu is in a low-income census tract. The bank operates two full-service branches on the island of Hawaii, one in Hilo and one in Pauinako. The bank operates two full-service branches on the island of Maui, one in Kahului and one in Kihei. Branch hours are comparable to other local financial institutions. The bank also has full-service automated teller machines (ATMs) at all of its branch locations. The bank offers internet banking, telephone banking, and remote deposit capture services to its business customers.

Responsiveness to CD Needs

Considering the bank's capacity and opportunities, HNB's overall CD performance demonstrates adequate responsiveness to CD needs through CD loans, investments, and services activities.

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 metropolitan and nonmetropolitan areas 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	Lending Test (excludes CD loans): (01/01/15 to 12/31/16) Investment and Service Tests and CD Loans: (04/21/14 to 05/22/17)	
Financial Institution	Products Reviewed	
HNB Honolulu, HI	Commercial Loans, 1-4 single-family residential	
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Oahu AA Hawaii Non MSA Maui AA	Full Scope Full Scope Full Scope	

Appendix B: Community Profiles for Full-Scope Areas

Oahu AA

The Oahu AA consists of 149 census tracts in Honolulu County. Honolulu County consists of the island of Oahu. As of June 30, 2016, the bank had \$551 million in deposits in this AA, representing 91.4 percent of the bank's total deposits. There are 12 Federal Deposit Insurance Corporation (FDIC) insured financial institutions in the AA, with 170 offices. HNB's main competitors include the five larger Hawaii-based banks: First Hawaiian Bank, Bank of Hawaii, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank. Combined, the banks hold over 95 percent of the deposit market share. In addition, there is significant lending competition from large banks located on the mainland, mortgage and finance companies, and credit unions. HNB operates nine branches with deposit taking ATMs in this AA.

Oahu is the third largest Hawaiian Island and the most populated. Based on the 2010 U.S. Census, the population of the island was 953,207. The city of Honolulu is the state's capital and the primary population center. Much of the eastern portion of the island of Oahu is made up of forest reserves and watersheds. A small portion of the western area is also made up of forest reserves. Oahu is home to the United Military Command for the Pacific. Aside from the large military presence, Honolulu's economy is heavily dependent on tourism, with in excess of five million tourists visiting the island annually. Oahu is the primary destination of the majority of tourists to the state, and has close to 32,000 hotel and condominiums units, most of which are concentrated in the Waikiki area. Historically, agriculture was a dominant element of the local economy, and it continues to represent a significant element. The 2012 Agricultural Census indicated that 69,168 acres are used for agricultural production. The island is also home to the University of Hawaii and three private universities. The top five employers are: U.S. Military, University of Hawaii System, Hawaii Pacific Health, Starwood Hotels and Resorts, and Hilton Hotels Corporation.

According to the 2010 U.S. Census, 20.44 percent of the families in the AA were low-income, earning a MFI of \$40 thousand or less and 18.21 percent were moderate-income, earning a MFI of \$65 thousand or less. Ten percent of all households in the AA had incomes below the poverty level. Over 4.1 percent of the population and 4.5 percent of small businesses are located in low-income geographies.

According to the Hawaii State Department of Labor and Industrial Relations, the unemployment rate for the AA totaled 2.8 percent as of January 2017. The state and national unemployment rates were 2.8 and 4.8 percent, respectively. According to Moody's Investors Service, the economic activity in Honolulu is expanding due to strength in construction and tourism.

Within the AA, low- and moderate-income census tracts consist of relatively low levels of owner occupied housing. According to the 2010 U.S. Census, owner occupied

housing in low- and moderate-income census tracts consists of 1.98 percent and 17.39 percent of the AA housing, respectively. Within low- and moderate-income geographies, owner occupied housing is 20.56 percent and 27.36 percent, respectively. Low- and moderate-income families make up 7.25 percent and 38.23 percent of the families in the AA, respectively. There is also a relatively low level of owner occupied housing throughout the AA. According to the 2010 U.S. Census, owner occupied housing in the AA represents 48.23 percent of the total housing. The weighted average MFI is \$84,864. The weighted average median housing value is \$548,839.

Demographic Information for Full Scope Area: Honolulu County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	149	6.04	28.19	32.89	29.53	3.36
Population by Geography	526,408	4.14	28.15	37.04	30.51	0.16
Owner-Occupied Housing by - Geography	100,241	1.98	17.39	38.28	42.35	0.00
Business by Geography	40,236	4.50	38.68	29.87	24.14	2.82
Farms by Geography	379	2.37	26.91	32.45	36.15	2.11
Family Distribution by Income Level	120,792	20.44	18.21	21.69	39.66	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	46,687	7.25	38.23	35.34	19.18	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		81,370 87,900 10%	Median Housing Value Unemployment Rate (2010 U.S. Census)	548,839 2.05%		

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census and 2016 Federal Financial Institutions Examination Council (FFIEC) updated MFI.

Maui AA

The Maui AA consists of 15 census tracts in Maui County. HNB has excluded Lanai and Kahoolawe from their AA since the bank does not have branches on those islands. As of June 30, 2016, HNB had \$18.07 million in deposits in the Maui AA. HNB ranks last in deposit market share, with a 0.57 deposit market share. There are seven deposit taking institutions in the AA, with a total of 38 branch offices. HNB's main competitors include the five larger Hawaii-based banks: Bank of Hawaii, First Hawaiian Bank, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank. Combined, they hold almost 99 percent of the deposit market share in the AA. There is also significant competition for home mortgages and small business loans from large banks located on the mainland, mortgage brokerages, finance companies, and credit unions. HNB has two branches with deposit taking ATM's in the AA.

According to the 2010 U.S. Census, the population of the Kahului-Wailuku-Lahaina MSA is 154,924. The MSA consists of the islands of Maui, Lanai, Kahoolawe, Molokini,

and parts of Molokai. Kahoolawe and Molokini islands are uninhabited by humans. The island of Maui is the second largest Hawaiian island, and has the third largest population. The largest employment sectors in this AA are real estate, tourism, health care, and agriculture. The Island of Maui has also positioned itself as a high-tech hub. The U.S. Air force has established the U.S. Air Force Research Laboratory Center (managed by the University of Hawaii), and the state of Hawaii has established the High Technology Research Corporation with an intention of developing Hawaii's commercial high-tech capabilities, as well as the Haleakala Observatory for astronomical research.

There are no low-income census tracts in Maui. Over 16.03 percent of the families live in moderate-income census tracts. Within the moderate-income census tracts, 32.93 percent and 26.39 percent of the population are low- and moderate-income families, respectively. Approximately nine percent of all households in the AA had incomes below the poverty level. Over 19.62 percent of businesses are located in moderate-income census tracts.

According to the Hawaii State Department of Labor and Industrial Relations, the unemployment rate for the AA totaled 3.3 percent as of January 2017. The state and national unemployment rates were 2.8 and 4.8 percent, respectively. According to Moody's Analytics, the AA is in a period of economic recovery. Tourism and real estate have been the main factors driving the recovery.

According to the 2010 U.S. Census, the weighted average MFI was \$74,859. The weighted average median housing cost was \$572,343. Owner occupied housing consists of 46.76 percent of the occupied units in the AA. Over 27.01 percent of housing located in moderate-income census tracts were owner occupied.

Demographic Information for Full Scope Area: Maui County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	15	0.00	20.00	60.00	20.00	0.00
Population by Geography	77,758	0.00	15.14	61.95	22.91	0.00
Owner-Occupied Housing by Geography	14,468	0.00	12.23	60.80	26.96	0.00
Business by Geography	5,885	0.00	19.63	58.01	22.36	0.00
Farms by Geography	130	0.00	12.31	55.38	32.31	0.00
Family Distribution by Income Level	16,673	20.35	17.27	23.87	38.51	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	6,272	0.00	25.30	59.84	14.86	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		74,307 81,500 9%	Median Housing Value Unemployment Rate (2010 U.S. Census)	572,343 3.46%		

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census and 2016 FFIEC updated MFI

Hawaii Non-MSA

The Hawaii Non-MSA AA consists of nine census tracts in Hawaii County. Hawaii County is made up of the island of Hawaii, often called the “Big Island” to distinguish it from the state as a whole. The bank has elected to exclude Kauai and Niihau from this AA since the bank has no branches on those islands. As of June 30, 2016, HNB had \$34.08 million in deposits in the AA. The bank ranks seventh in deposit market share, with a 1.17 percent deposit market share. There are eight deposit taking institutions in the AA, with a total of 33 branch offices. HNB’s main competitors include the five larger Hawaii-based banks: Bank of Hawaii, First Hawaiian Bank, American Savings Bank, Central Pacific Bank, and Territorial Savings Bank. Combined, they hold almost 96 percent of the deposit market share. In addition, there is significant competition for home mortgages and small business loans from large banks located on the mainland, mortgage and finance companies, and credit unions. HNB has two branches with deposit taking ATM’s in the AA.

According to the 2010 U.S. Census, Hawaii County has a population of 185,079. The island of Hawaii is the largest of the Hawaiian Islands and consists of approximately 63 percent of the state’s land mass. The big island is home to Hawaii’s highest peak (Mauna Kea, 13,796 feet). The largest employment sectors in this AA are tourism, government, health care, and agriculture.

According to the 2010 U.S. Census, 7.55 percent and 9.95 percent of the families were living in low- and moderate-income census tracts within the AA, respectively. Of the families living in low- and moderate-income census tracts, 58.08 percent and 52.78 percent were low- and moderate-income families, respectively. The weighted average MFI was \$68,334. Almost 17 percent of all households in the AA had incomes below the poverty level. Over 18.80 percent and 20.48 percent of small businesses are located in low- and moderate-income geographies, respectively.

According to the Hawaii State Department of Labor and Industrial Relations, the unemployment rate for the AA totaled 3.4 percent as of January 2017. The state and national unemployment rates were 2.8 and 4.8 percent, respectively. According to Moody’s Investors Service, the economic activity in the Hawaii Non-MSA is expanding due to strength in construction and tourism.

According to the 2010 U.S. Census, owner occupied housing in low- and moderate-income census tracts consists of 5.25 percent and 7.81 percent of the AA housing, respectively. Low- and moderate-income families make up 22.70 percent and 14.48 percent of the families in the AA, respectively. There is also a relatively low level of owner occupied housing throughout the AA. According to the 2010 U.S. Census, owner occupied housing in the AA represents 58.16 percent of the total housing. The weighted average median housing cost is \$309,606.

Demographic Information for Full Scope Area: Hawaii County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	9	11.11	11.11	66.67	11.11	0.00
Population by Geography	43,146	9.12	13.73	65.89	11.27	0.00
Owner-Occupied Housing by Geography	10,809	5.25	7.81	70.95	15.99	0.00
Business by Geography	3,300	18.85	20.48	56.76	3.91	0.00
Farms by Geography	95	7.37	7.37	78.95	6.32	0.00
Family Distribution by Income Level	11,152	22.70	14.48	21.95	40.86	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	4,147	11.79	14.40	66.80	7.02	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		66,247 60,700 17%	Median Housing Value Unemployment Rate (2010 U.S. Census)	309,606 4.86%		

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census and 2016 FFIEC updated MFI

Community Contacts

We contacted various community groups within the AAs to determine community needs. We contacted a 501(c) non-profit organization that focuses on assisting low- or moderate-income families throughout the Hawaiian Islands. Services provided include early education, assistance in finding foster care, adult education, and Hawaiian cultural awareness and education. We also contacted an organization that constructs and rehabilitates homes locally to eliminate substandard housing while providing training and access to resources to help families improve their living conditions. According to these contacts, some of the most pressing needs and opportunities for financial institutions in the AAs include affordable housing, financial literacy, small business loans, and banking services for low- or moderate-income individuals.