BANK OF HAWAII CORP
Form 10-Q
July 24, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period
ended June 30, 2017
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

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

As of July 18, 2017, there were 42,623,928 shares of common stock outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	2017	2016	2017	2016
Interest Income				
Interest and Fees on Loans and Leases	$90,909	$82,323	$178,846	$163,218
Income on Investment Securities				
Available-for-Sale	11,835	10,521	22,919	21,335
Held-to-Maturity	19,918	20,168	39,624	40,559
Deposits	2	2	7	6
Funds Sold	696	618	1,586	1,371
Other	208	153	438	365
Total Interest Income	123,568	113,785	243,420	226,854
Interest Expense				
Deposits	4,998	3,081	8,689	5,967
Securities Sold Under Agreements to Repurchase	5,079	6,134	10,264	12,287
Funds Purchased	39	3	42	6
Short-Term Borrowings	64	—	64	—
Other Debt	1,109	1,017	2,210	2,020
Total Interest Expense	11,289	10,235	21,269	20,280
Net Interest Income	112,279	103,550	222,151	206,574
Provision for Credit Losses	4,250	1,000	8,650	(1,000)
Net Interest Income After Provision for Credit Losses	108,029	102,550	213,501	207,574
Noninterest Income				
Trust and Asset Management	11,796	12,707	23,275	23,963
Mortgage Banking	3,819	4,088	7,119	7,277
Service Charges on Deposit Accounts	8,009	8,150	16,334	16,593
Fees, Exchange, and Other Service Charges	13,965	13,978	27,297	27,422
Investment Securities Gains (Losses), Net	(520)	(312)	11,613	10,868
Annuity and Insurance	2,161	2,006	4,156	3,907
Bank-Owned Life Insurance	1,550	1,551	3,047	3,099
Other	4,456	4,351	8,311	9,597
Total Noninterest Income	45,236	46,519	101,152	102,726
Noninterest Expense				
Salaries and Benefits	50,113	50,289	101,715	100,803
Net Occupancy	8,131	7,158	16,299	14,161
Net Equipment	5,706	5,065	11,207	10,474
Data Processing	3,881	3,972	7,291	7,923
Professional Fees	2,592	2,047	5,371	4,686
FDIC Insurance	2,097	2,144	4,306	4,496
Other	15,669	15,396	30,568	30,914
Total Noninterest Expense	88,189	86,071	176,757	173,457
Income Before Provision for Income Taxes	65,076	62,998	137,896	136,843
Provision for Income Taxes	20,414	18,753	42,058	42,388
Net Income	$44,662	$44,245	$95,838	$94,455
Basic Earnings Per Share	$1.05	$1.04	$2.26	$2.21
Diluted Earnings Per Share	$1.05	$1.03	$2.24	$2.19
Dividends Declared Per Share	$0.50	$0.48	$1.00	$0.93

Basic Weighted Average Shares	42,353,976	42,729,731	42,379,730	42,825,369
Diluted Weighted Average Shares	42,658,885	42,942,960	42,704,010	43,033,199

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Net Income	$ 44,662	$ 44,245	$95,838	$94,455
Other Comprehensive Income, Net of Tax:				
Net Unrealized Gains on Investment Securities	3,106	5,157	8,000	13,851
Defined Benefit Plans	147	141	293	282
Total Other Comprehensive Income	3,253	5,298	8,293	14,133
Comprehensive Income	$ 47,915	$ 49,543	$104,131	$108,588

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

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

(dollars in thousands)	June 30, 2017	December 31, 2016
Assets		
Interest-Bearing Deposits in Other Banks	$3,913	$3,187
Funds Sold	742,221	707,343
Investment Securities		
Available-for-Sale	2,316,728	2,186,041
Held-to-Maturity (Fair Value of $3,785,641 and $3,827,527)	3,782,702	3,832,997
Loans Held for Sale	20,354	62,499
Loans and Leases	9,387,613	8,949,785
Allowance for Loan and Lease Losses	(106,353)	(104,273)
Net Loans and Leases	9,281,260	8,845,512
Total Earning Assets	16,147,178	15,637,579
Cash and Due From Banks	128,093	169,077
Premises and Equipment, Net	119,569	113,505
Accrued Interest Receivable	46,595	46,444
Foreclosed Real Estate	1,991	1,686
Mortgage Servicing Rights	24,471	23,663
Goodwill	31,517	31,517
Bank-Owned Life Insurance	277,235	274,188
Other Assets	204,643	194,708
Total Assets	$16,981,292	$16,492,367
Liabilities		
Deposits		
Noninterest-Bearing Demand	$4,706,962	$4,772,727
Interest-Bearing Demand	3,029,549	2,934,107
Savings	5,364,191	5,395,699
Time	1,683,947	1,217,707
Total Deposits	14,784,649	14,320,240
Funds Purchased	—	9,616
Securities Sold Under Agreements to Repurchase	505,292	523,378
Other Debt	267,904	267,938
Retirement Benefits Payable	48,346	48,451
Accrued Interest Payable	5,105	5,334
Taxes Payable and Deferred Taxes	31,444	21,674
Other Liabilities	124,795	134,199
Total Liabilities	15,767,535	15,330,830
Shareholders' Equity		
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: June 30, 2017 - 57,972,647 / 42,655,954 and December 31, 2016 - 57,856,672 / 42,635,978)	576	576
Capital Surplus	556,409	551,628
Accumulated Other Comprehensive Loss	(25,613)	(33,906)
Retained Earnings	1,468,328	1,415,440
Treasury Stock, at Cost (Shares: June 30, 2017 - 15,316,693 and December 31, 2016 - 15,220,694)	(785,943)	(772,201)

Total Shareholders' Equity	1,213,757	1,161,537
Total Liabilities and Shareholders' Equity	$16,981,292	$16,492,367

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

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

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2016	42,635,978	$ 576	$551,628	$(33,906)	$1,415,440	$(772,201)	$1,161,537
Net Income	—	—	—	—	95,838	—	95,838
Other Comprehensive Income	—	—	—	8,293	—	—	8,293
Share-Based Compensation	—	—	3,726	—	—	—	3,726
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	275,605	—	1,055	—	(162)	7,545	8,438
Common Stock Repurchased	(255,629)	—	—	—	—	(21,287)	(21,287)
Cash Dividends Declared ($1.00 per share)	—	—	—	—	(42,788)	—	(42,788)
Balance as of June 30, 2017	42,655,954	$ 576	$556,409	$(25,613)	$1,468,328	$(785,943)	$1,213,757
Balance as of December 31, 2015	43,282,153	$ 575	$542,041	$(23,557)	$1,316,260	$(719,059)	$1,116,260
Net Income	—	—	—	—	94,455	—	94,455
Other Comprehensive Income	—	—	—	14,133	—	—	14,133
Share-Based Compensation	—	—	3,314	—	—	—	3,314
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	201,445	1	1,573	—	(277)	4,900	6,197
Common Stock Repurchased	(567,435)	—	—	—	—	(37,010)	(37,010)
Cash Dividends Declared ($0.93 per share)	—	—	—	—	(40,130)	—	(40,130)
Balance as of June 30, 2016	42,916,163	$ 576	$546,928	$(9,424)	$1,370,308	$(751,169)	$1,157,219

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

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

(dollars in thousands)	Six Months Ended June 30, 2017	2016
Operating Activities		
Net Income	$95,838	$94,455
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	8,650	(1,000)
Depreciation and Amortization	6,565	6,596
Amortization of Deferred Loan and Lease Fees	(535)	(773)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	20,027	22,277
Share-Based Compensation	3,726	3,314
Benefit Plan Contributions	(741)	(655)
Deferred Income Taxes	3,635	(5,354)
Net Gains on Sales of Loans and Leases	(3,971)	(4,095)
Net Gains on Sales of Investment Securities	(11,613)	(10,868)
Proceeds from Sales of Loans Held for Sale	146,478	67,983
Originations of Loans Held for Sale	(150,414)	(84,660)
Net Tax Benefits from Share-Based Compensation	2,077	—
Excess Tax Benefits from Share-Based Compensation	—	(884)
Net Change in Other Assets and Other Liabilities	(21,803)	(11,956)
Net Cash Provided by Operating Activities	97,919	74,380
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Prepayments and Maturities	191,564	166,334
Proceeds from Sales	11,613	11,094
Purchases	(320,170)	(197,696)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	406,904	352,035
Purchases	(365,498)	(178,347)
Net Change in Loans and Leases	(508,529)	(548,977)
Proceeds from Sales of Loans	112,357	19,055
Premises and Equipment, Net	(12,629)	(5,229)
Net Cash Used in Investing Activities	(484,388)	(381,731)
Financing Activities		
Net Change in Deposits	464,409	392,704
Net Change in Short-Term Borrowings	(27,702)	(42,072)
Proceeds from Long-Term Debt	—	75,000
Repayments of Long-Term Debt	—	(50,000)
Excess Tax Benefits from Share-Based Compensation	—	884
Proceeds from Issuance of Common Stock	8,457	5,304
Repurchase of Common Stock	(21,287)	(37,010)
Cash Dividends Paid	(42,788)	(40,130)
Net Cash Provided by Financing Activities	381,089	304,680
Net Change in Cash and Cash Equivalents	(5,380)	(2,671)

Cash and Cash Equivalents at Beginning of Period	879,607	755,721
Cash and Cash Equivalents at End of Period	$874,227	$753,050
Supplemental Information		
Cash Paid for Interest	$21,498	$19,469
Cash Paid for Income Taxes	32,058	42,229
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	2,207	1,040
Transfers from Loans to Loans Held for Sale	62,727	101,282

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

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Bank of Hawaii Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its subsidiaries (collectively, the "Company") provide a broad range of financial products and services to customers in Hawaii, Guam, and other Pacific Islands. The accompanying consolidated financial statements include the accounts of the Parent and its subsidiaries. The Parent's principal operating subsidiary is Bank of Hawaii (the "Bank").

The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature. Intercompany accounts and transactions have been eliminated in consolidation. Certain prior period information has been reclassified to conform to the current period presentation. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the full fiscal year or for any future period.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Use of Estimates in the Preparation of Financial Statements

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

Variable Interest Entities

Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value. The primary beneficiary consolidates the variable interest entity ("VIE"). The primary beneficiary is defined as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

The Company has limited partnership interests in several low-income housing partnerships. These partnerships provide funds for the construction and operation of apartment complexes that provide affordable housing to lower-income households. If these developments successfully attract a specified percentage of residents falling in that lower-income range, state and/or federal income tax credits are made available to the partners. The tax credits are generally recognized over 10 years. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained.

Prior to January 1, 2015, the Company utilized the effective yield method whereby the Company recognized tax credits generally over 10 years and amortized the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the Company. On January 1, 2015, the Company adopted ASU No. 2014-01, “Accounting for Investments in Qualified Affordable Housing Projects” prospectively for new investments. ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. As permitted by ASU No. 2014-01, the Company elected to continue to utilize the effective yield method for investments made prior to January 1, 2015.

Unfunded commitments to fund these low-income housing partnerships were $18.1 million and $16.2 million as of June 30, 2017 and December 31, 2016, respectively. These unfunded commitments are unconditional and legally binding and are

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recorded in other liabilities in the consolidated statements of condition. See Note 5 Affordable Housing Projects Tax Credit Partnerships for more information.

The Company also has limited partnership interests in solar energy tax credit partnership investments. These partnerships develop, build, own and operate solar renewable energy projects. Over the course of these investments, the Company expects to receive federal and state tax credits, tax-related benefits, and excess cash available for distribution, if any. The Company may be called to sell its interest in the limited partnerships through a call option once all investment tax credits have been recognized. Tax benefits associated with these investments are generally recognized over six years.
These entities meet the definition of a VIE; however, the Company is not the primary beneficiary of the entities as the general partner has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership agreements allow the limited partners, through a majority vote, to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause.

The investments in these entities are initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. The balance of the Company's investments in these entities was $77.5 million and $78.9 million as of June 30, 2017 and December 31, 2016, respectively, and is included in other assets in the consolidated statements of condition.

Correction of an Immaterial Error to the Financial Statements

The Company determined during the fourth quarter of 2016 the proceeds from the sale of residential mortgage loans transferred from portfolio to held for sale were incorrectly reported on the consolidated statements of cash flows. The consolidated statement of cash flows for the six months ended June 30, 2016 was adjusted to decrease the originations of loans held for sale by $97.3 million, decrease the proceeds from sales of loans held for sale by $19.1 million, and decrease the net change in other assets and other liabilities by $0.1 million. The net result was a $78.1 million increase to the net cash provided by operating activities. In addition, the net change in loans and leases was increased by $97.2 million, and a new line item, proceeds from sales of loans, was inserted for $19.1 million, resulting in a $78.1 million increase to net cash used in investing activities. Lastly, listed in the Supplemental Information section as a non-cash investing activity, transfers from loans to loans held for sale was decreased by $2.3 million. These corrections did not impact the consolidated statements of income or the consolidated statements of condition. The Company evaluated the effect of the incorrect presentation of the consolidated statements of cash flows, both qualitatively and quantitatively, and concluded it did not materially misstate the Company's previously issued financial statements.

Accounting Standards Adopted in 2017

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did

not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. The Company adopted ASU No. 2016-09 on January 1, 2017 and elected to recognize forfeitures as they occur. As allowed by the ASU, the Company's adoption was prospective, therefore, prior periods have not been adjusted. The adoption of ASU No. 2016-09 could result in increased volatility to reported income tax expense related to excess tax benefits and tax deficiencies for employee share-based transactions, however, the actual amounts recognized in income tax expense will be dependent on the amount of employee share-based transactions and the stock price at the time of vesting or exercise. For the first six months of 2017, the adoption of ASU No. 2016-09 resulted in a decrease to the provision for income taxes primarily due to the tax benefit from the exercise of stock options and the vesting of restricted stock.

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Accounting Standards Pending Adoption

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP consisted of broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosure requirements; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard was initially effective for public entities for interim and annual reporting periods beginning after December 15, 2016; early adoption was not permitted. However, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date" which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Identifying Performance Obligations and Licensing," ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," and ASU No. 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company is continuing its overall assessment of revenue streams and reviewing contracts potentially affected by the ASU including trust and asset management fees, deposit related fees, interchange fees, and merchant income, to determine the potential impact the new guidance is expected to have on the Company's Consolidated Financial Statements. In addition, the Company continues to follow certain implementation issues relevant to the banking industry which are still pending resolution. The Company plans to adopt ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by

requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. ASU No. 2016-01 is effective for interim

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and annual reporting periods beginning after December 15, 2017. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. Early adoption of the other provisions mentioned above is not permitted. The Company has performed a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the Company will continue to closely monitor developments and additional guidance.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore, not recognized on the Company's consolidated statements of condition. The Company expects the new guidance will require these lease agreements to now be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated statements of condition. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the

beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is continuing its implementation efforts through its Company-wide implementation team. This team has assigned roles and responsibilities, key tasks to complete, and a general timeline to be followed. The implementation team meets periodically to discuss the latest developments and ensure progress is being made. The team also keeps current on the latest news via webcasts, publications, conferences, and peer bank meetings. The Company's preliminary evaluation indicates the provisions of ASU No. 2016-13 are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply

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the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only affects the classification within the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019, applied prospectively. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company expects to early adopt upon the next goodwill impairment test in 2017. ASU No. 2017-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers will present the service cost component of the net periodic benefit cost in the same income statement line item (e.g., Salaries and Benefits) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. ASU No. 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, however, the Company has decided not to early adopt. Employers will apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively. The guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. The Company expects to utilize the ASU's practical expedient allowing entities to estimate amounts for comparative periods using the information previously disclosed in their pension and other postretirement benefit plan footnote. ASU No. 2017-07 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation, Scope of Modification Accounting." This ASU clarifies when changes to the terms of conditions of a share-based payment award must be accounted for as modifications. Companies will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The new guidance should reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications, as the guidance will allow companies to make certain non-substantive changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU No. 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. ASU No. 2017-09 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of June 30, 2017 and December 31, 2016 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$430,208	$ 3,732	$(963)	$432,977
Debt Securities Issued by States and Political Subdivisions	650,075	17,905	(99)	667,881
Debt Securities Issued by Corporations	268,022	138	(2,911)	265,249
Mortgage-Backed Securities:				
Residential - Government Agencies	262,834	3,858	(1,150)	265,542
Residential - U.S. Government-Sponsored Enterprises	613,512	1,090	(4,701)	609,901
Commercial - Government Agencies	77,757	—	(2,579)	75,178
Total Mortgage-Backed Securities	954,103	4,948	(8,430)	950,621
Total	$2,302,408	$ 26,723	$(12,403)	$2,316,728
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$500,111	$ 613	$(886)	$499,838
Debt Securities Issued by States and Political Subdivisions	240,413	14,472	—	254,885
Debt Securities Issued by Corporations	127,666	405	(1,326)	126,745
Mortgage-Backed Securities:				
Residential - Government Agencies	1,928,530	15,726	(19,602)	1,924,654
Residential - U.S. Government-Sponsored Enterprises	772,212	1,284	(7,144)	766,352
Commercial - Government Agencies	213,770	2,213	(2,816)	213,167
Total Mortgage-Backed Securities	2,914,512	19,223	(29,562)	2,904,173
Total	$3,782,702	$ 34,713	$(31,774)	$3,785,641
December 31, 2016				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$407,478	$ 2,531	$(1,294)	$408,715
Debt Securities Issued by States and Political Subdivisions	662,231	11,455	(1,887)	671,799
Debt Securities Issued by Corporations	273,044	5	(3,870)	269,179
Mortgage-Backed Securities:				
Residential - Government Agencies	240,412	4,577	(1,145)	243,844
Residential - U.S. Government-Sponsored Enterprises	511,234	971	(5,218)	506,987
Commercial - Government Agencies	89,544	—	(4,027)	85,517
Total Mortgage-Backed Securities	841,190	5,548	(10,390)	836,348
Total	$2,183,943	$ 19,539	$(17,441)	$2,186,041
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$530,149	$ 1,562	$(771)	$530,940
Debt Securities Issued by States and Political Subdivisions	242,295	9,991	—	252,286
Debt Securities Issued by Corporations	135,620	416	(1,528)	134,508
Mortgage-Backed Securities:				
Residential - Government Agencies	1,940,076	20,567	(23,861)	1,936,782
Residential - U.S. Government-Sponsored Enterprises	752,768	798	(10,919)	742,647
Commercial - Government Agencies	232,089	940	(2,665)	230,364

Total Mortgage-Backed Securities	2,924,933	22,305	(37,445)	2,909,793
Total	$3,832,997	$ 34,274	$(39,744)	$3,827,527

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of June 30, 2017. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	$86,725	$86,878
Due After One Year Through Five Years	585,928	589,580
Due After Five Years Through Ten Years	214,366	223,309
Due After Ten Years	31,629	33,904
	918,648	933,671
Debt Securities Issued by Government Agencies	429,657	432,436
Mortgage-Backed Securities:		
Residential - Government Agencies	262,834	265,542
Residential - U.S. Government-Sponsored Enterprises	613,512	609,901
Commercial - Government Agencies	77,757	75,178
Total Mortgage-Backed Securities	954,103	950,621
Total	$2,302,408	$2,316,728
Held-to-Maturity:		
Due in One Year or Less	$235,104	$234,882
Due After One Year Through Five Years	335,763	338,517
Due After Five Years Through Ten Years	258,942	266,850
Due After Ten Years	38,381	41,219
	868,190	881,468
Mortgage-Backed Securities:		
Residential - Government Agencies	1,928,530	1,924,654
Residential - U.S. Government-Sponsored Enterprises	772,212	766,352
Commercial - Government Agencies	213,770	213,167
Total Mortgage-Backed Securities	2,914,512	2,904,173
Total	$3,782,702	$3,785,641

Investment securities with carrying values of $2.7 billion and $2.4 billion as of June 30, 2017 and December 31, 2016, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Gross Gains on Sales of Investment Securities	$—	$—	$12,467	$11,355
Gross Losses on Sales of Investment Securities	(520)	(312)	(854)	(487)
Net Gains (Losses) on Sales of Investment Securities	$(520)	$(312)	$11,613	$10,868

The losses during the three and six months ended June 30, 2017 and 2016 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions.

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

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2017						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$42,325	$(285)	$143,773	$(678)	$186,098	$(963)
Debt Securities Issued by States and Political Subdivisions	49,521	(99)	—	—	49,521	(99)
Debt Securities Issued by Corporations	62,472	(555)	162,638	(2,356)	225,110	(2,911)
Mortgage-Backed Securities:						
Residential - Government Agencies	23,520	(56)	13,814	(1,094)	37,334	(1,150)
Residential - U.S. Government-Sponsored Enterprises	420,189	(4,398)	10,611	(303)	430,800	(4,701)
Commercial - Government Agencies	—	—	75,178	(2,579)	75,178	(2,579)
Total Mortgage-Backed Securities	443,709	(4,454)	99,603	(3,976)	543,312	(8,430)
Total	$598,027	$(5,393)	$406,014	$(7,010)	$1,004,041	$(12,403)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$284,734	$(886)	$—	$—	$284,734	$(886)
Debt Securities Issued by Corporations	65,356	(835)	15,027	(491)	80,383	(1,326)
Mortgage-Backed Securities:						
Residential - Government Agencies	856,028	(11,817)	222,166	(7,785)	1,078,194	(19,602)
Residential - U.S. Government-Sponsored Enterprises	598,035	(7,144)	—	—	598,035	(7,144)
Commercial - Government Agencies	79,883	(2,748)	10,561	(68)	90,444	(2,816)
Total Mortgage-Backed Securities	1,533,946	(21,709)	232,727	(7,853)	1,766,673	(29,562)
Total	$1,884,036	$(23,430)	$247,754	$(8,344)	$2,131,790	$(31,774)
December 31, 2016						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$143,715	$(562)	$89,211	$(732)	$232,926	$(1,294)
Debt Securities Issued by States and Political Subdivisions	211,188	(1,873)	6,725	(14)	217,913	(1,887)
Debt Securities Issued by Corporations	67,332	(714)	196,838	(3,156)	264,170	(3,870)
Mortgage-Backed Securities:						
Residential - Government Agencies	38,355	(89)	11,185	(1,056)	49,540	(1,145)
Residential - U.S. Government-Sponsored Enterprises	397,385	(5,218)	—	—	397,385	(5,218)
Commercial - Government Agencies	5,097	(164)	80,420	(3,863)	85,517	(4,027)
Total Mortgage-Backed Securities	440,837	(5,471)	91,605	(4,919)	532,442	(10,390)
Total	$863,072	$(8,620)	$384,379	$(8,821)	$1,247,451	$(17,441)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$169,926	$(771)	$—	$—	$169,926	$(771)

Debt Securities Issued by Corporations	69,601	(971)	15,933	(557)	85,534	(1,528)
Mortgage-Backed Securities:						
Residential - Government Agencies	835,227	(15,313)	231,377	(8,548)	1,066,604	(23,861)
Residential - U.S. Government-Sponsored Enterprises	693,047	(10,919)	—	—	693,047	(10,919)
Commercial - Government Agencies	87,586	(2,597)	18,653	(68)	106,239	(2,665)
Total Mortgage-Backed Securities	1,615,860	(28,829)	250,030	(8,616)	1,865,890	(37,445)
Total	$1,855,387	$(30,571)	$265,963	$(9,173)	$2,121,350	$(39,744)

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The Company does not believe that the investment securities that were in an unrealized loss position as of June 30, 2017, which were comprised of 291 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of June 30, 2017 and December 31, 2016, the gross unrealized losses reported for mortgage-backed securities were mostly related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Taxable	$26,741	$25,567	$52,508	$51,554
Non-Taxable	5,012	5,122	10,035	10,340
Total Interest Income from Investment Securities	$31,753	$30,689	$62,543	$61,894

As of June 30, 2017, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $528.3 million, representing 57% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Of the Company's total Hawaii municipal bond holdings, 78% were general obligation issuances. As of June 30, 2017, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

As of June 30, 2017 and December 31, 2016, the carrying value of the Company's Federal Home Loan Bank of Des Moines stock and Federal Reserve Bank stock was as follows:

(dollars in thousands)	June 30, 2017	December 31, 2016
Federal Home Loan Bank Stock	$20,000	$ 20,000
Federal Reserve Bank Stock	20,167	20,063
Total	$40,167	$ 40,063

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

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims.

Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of June 30, 2017, the conversion ratio was 1.6483.

During the first quarter of 2017, the Company recorded a $12.5 million gain on the sale of 90,000 Visa Class B shares. Concurrent with every sale of Visa Class B shares, the Company has entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 90,914 Class B shares (149,854 Class A equivalents) that the Company owns as of June 30, 2017 are carried at a zero cost basis.

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

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of June 30, 2017 and December 31, 2016:

(dollars in thousands)	June 30, 2017	December 31, 2016
Commercial		
Commercial and Industrial	$1,241,953	$ 1,249,791
Commercial Mortgage	2,009,886	1,889,551
Construction	248,030	270,018
Lease Financing	205,043	208,332
Total Commercial	3,704,912	3,617,692
Consumer		
Residential Mortgage	3,317,179	3,163,073
Home Equity	1,473,123	1,334,163
Automobile	484,092	454,333
Other [1]	408,307	380,524
Total Consumer	5,682,701	5,332,093
Total Loans and Leases	$9,387,613	$ 8,949,785

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income were $1.8 million and $4.4 million for the three months ended June 30, 2017 and 2016, respectively, and $3.2 million and $6.2 million for the six months ended June 30, 2017 and 2016, respectively.

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Allowance for Loan and Lease Losses (the "Allowance")

The following presents by portfolio segment, the activity in the Allowance for the three and six months ended June 30, 2017 and 2016. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans and leases as of June 30, 2017 and 2016.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended June 30, 2017			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$66,893	$38,171	$105,064
Loans and Leases Charged-Off	(124)	(5,363)	(5,487)
Recoveries on Loans and Leases Previously Charged-Off	266	2,260	2,526
Net Loans and Leases Recovered (Charged-Off)	142	(3,103)	(2,961)
Provision for Credit Losses	(853)	5,103	4,250
Balance at End of Period	$66,182	$40,171	$106,353
Six Months Ended June 30, 2017			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$65,680	$38,593	$104,273
Loans and Leases Charged-Off	(298)	(10,893)	(11,191)
Recoveries on Loans and Leases Previously Charged-Off	602	4,019	4,621
Net Loans and Leases Recovered (Charged-Off)	304	(6,874)	(6,570)
Provision for Credit Losses	198	8,452	8,650
Balance at End of Period	$66,182	$40,171	$106,353
As of June 30, 2017			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$45	$3,792	$3,837
Collectively Evaluated for Impairment	66,137	36,379	102,516
Total	$66,182	$40,171	$106,353
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$20,197	$38,528	$58,725
Collectively Evaluated for Impairment	3,684,715	5,644,173	9,328,888
Total	$3,704,912	$5,682,701	$9,387,613
Three Months Ended June 30, 2016			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$61,810	$42,867	$104,677
Loans and Leases Charged-Off	(204)	(3,551)	(3,755)
Recoveries on Loans and Leases Previously Charged-Off	418	1,592	2,010
Net Loans and Leases Recovered (Charged-Off)	214	(1,959)	(1,745)
Provision for Credit Losses	5	995	1,000
Balance at End of Period	$62,029	$41,903	$103,932
Six Months Ended June 30, 2016			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$60,714	$42,166	$102,880
Loans and Leases Charged-Off	(461)	(8,181)	(8,642)
Recoveries on Loans and Leases Previously Charged-Off	7,323	3,371	10,694
Net Loans and Leases Recovered (Charged-Off)	6,862	(4,810)	2,052
Provision for Credit Losses	(5,547)	4,547	(1,000)

Balance at End of Period	$62,029	$41,903	$103,932
As of June 30, 2016			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$7	$3,195	$3,202
Collectively Evaluated for Impairment	62,022	38,708	100,730
Total	$62,029	$41,903	$103,932
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$22,271	$38,691	$60,962
Collectively Evaluated for Impairment	3,283,571	4,986,936	8,270,507
Total	$3,305,842	$5,025,627	$8,331,469

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Credit Quality Indicators

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

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

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

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

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

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The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of June 30, 2017 and December 31, 2016.

June 30, 2017					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$1,197,264	$1,937,447	$ 246,283	$204,572	$3,585,566
Special Mention	16,752	53,046	282	—	70,080
Classified	27,937	19,393	1,465	471	49,266
Total	$1,241,953	$2,009,886	$ 248,030	$205,043	$3,704,912

(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$3,307,841	$1,466,847	$ 483,553	$407,468	$5,665,709
Special Mention	—	1,764	—	—	1,764
Classified	9,338	4,512	539	839	15,228
Total	$3,317,179	$1,473,123	$ 484,092	$408,307	$5,682,701
Total Recorded Investment in Loans and Leases					$9,387,613

December 31, 2016					
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$1,203,025	$1,792,119	$ 264,287	$207,386	$3,466,817
Special Mention	20,253	66,734	4,218	5	91,210
Classified	26,513	30,698	1,513	941	59,665
Total	$1,249,791	$1,889,551	$ 270,018	$208,332	$3,617,692

(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$3,149,294	$1,327,676	$ 453,439	$379,793	$5,310,202
Special Mention	—	2,964	—	—	2,964
Classified	13,779	3,523	894	731	18,927
Total	$3,163,073	$1,334,163	$ 454,333	$380,524	$5,332,093
Total Recorded Investment in Loans and Leases					$8,949,785

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

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Aging Analysis

The following presents by class, an aging analysis of the Company's loan and lease portfolio as of June 30, 2017 and December 31, 2016.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current [2]
As of June 30, 2017								
Commercial								
Commercial and Industrial	$310	$68	$—	$ 175	$ 553	$1,241,400	$1,241,953	$ 78
Commercial Mortgage	12	—	—	1,460	1,472	2,008,414	2,009,886	899
Construction	—	—	—	—	—	248,030	248,030	—
Lease Financing	—	—	—	—	—	205,043	205,043	—
Total Commercial	322	68	—	1,635	2,025	3,702,887	3,704,912	977
Consumer								
Residential Mortgage	3,486	869	2,269	9,337	15,961	3,301,218	3,317,179	733
Home Equity	2,331	524	2,343	3,405	8,603	1,464,520	1,473,123	1,006
Automobile	11,184	1,397	539	—	13,120	470,972	484,092	—
Other [1]	2,886	1,597	1,859	—	6,342	401,965	408,307	—
Total Consumer	19,887	4,387	7,010	12,742	44,026	5,638,675	5,682,701	1,739
Total	$20,209	$4,455	$7,010	$ 14,377	$ 46,051	$9,341,562	$9,387,613	$ 2,716
As of December 31, 2016								
Commercial								
Commercial and Industrial	$10,698	$1,016	$—	$ 151	$ 11,865	$1,237,926	$1,249,791	$ —
Commercial Mortgage	128	17	—	997	1,142	1,888,409	1,889,551	416
Construction	—	—	—	—	—	270,018	270,018	—
Lease Financing	—	—	—	—	—	208,332	208,332	—
Total Commercial	10,826	1,033	—	1,148	13,007	3,604,685	3,617,692	416
Consumer								
Residential Mortgage	6,491	106	3,127	13,780	23,504	3,139,569	3,163,073	1,628
Home Equity	3,063	2,244	1,457	3,147	9,911	1,324,252	1,334,163	1,015
Automobile	11,692	2,162	894	—	14,748	439,585	454,333	—
Other [1]	3,200	1,532	1,592	—	6,324	374,200	380,524	—
Total Consumer	24,446	6,044	7,070	16,927	54,487	5,277,606	5,332,093	2,643
Total	$35,272	$7,077	$7,070	$ 18,075	$ 67,494	$8,882,291	$8,949,785	$ 3,059

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

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

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Impaired Loans

The following presents by class, information related to impaired loans as of June 30, 2017 and December 31, 2016.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2017			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 8,216	$ 15,178	$ —
Commercial Mortgage	9,573	13,073	—
Construction	1,465	1,465	—
Total Commercial	19,254	29,716	—
Total Impaired Loans with No Related Allowance Recorded	$ 19,254	$ 29,716	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 624	$ 624	$ 13
Commercial Mortgage	319	319	32
Total Commercial	943	943	45
Consumer			
Residential Mortgage	21,947	26,686	3,167
Home Equity	1,735	1,735	267
Automobile	12,178	12,178	279
Other [1]	2,668	2,669	79
Total Consumer	38,528	43,268	3,792
Total Impaired Loans with an Allowance Recorded	$ 39,471	$ 44,211	$ 3,837
Impaired Loans:			
Commercial	$ 20,197	$ 30,659	$ 45
Consumer	38,528	43,268	3,792
Total Impaired Loans	$ 58,725	$ 73,927	$ 3,837
December 31, 2016			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 9,556	$ 16,518	$ —
Commercial Mortgage	9,373	12,873	—
Construction	1,513	1,513	—
Total Commercial	20,442	30,904	—
Total Impaired Loans with No Related Allowance Recorded	$ 20,442	$ 30,904	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 765	$ 765	$ 24
Commercial Mortgage	365	365	21
Total Commercial	1,130	1,130	45

Consumer			
Residential Mortgage	25,625	30,615	3,224
Home Equity	1,516	1,516	15
Automobile	9,660	9,660	206
Other [1]	2,325	2,325	65
Total Consumer	39,126	44,116	3,510
Total Impaired Loans with an Allowance Recorded	$ 40,256	$ 45,246	$ 3,555
Impaired Loans:			
Commercial	$ 21,572	$ 32,034	$ 45
Consumer	39,126	44,116	3,510
Total Impaired Loans	$ 60,698	$ 76,150	$ 3,555

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

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2017 and 2016.

(dollars in thousands)	Three Months Ended June 30, 2017 Average Recorded Investment	Interest Income Recognized	Three Months Ended June 30, 2016 Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 8,717	$ 61	$ 10,032	$ 112
Commercial Mortgage	9,369	77	10,059	93
Construction	1,477	24	1,570	25
Total Commercial	19,563	162	21,661	230
Total Impaired Loans with No Related Allowance Recorded	$ 19,563	$ 162	$ 21,661	$ 230
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 657	$ 9	$ 968	$ 12
Commercial Mortgage	331	4	—	—
Total Commercial	988	13	968	12
Consumer				
Residential Mortgage	23,148	214	27,995	250
Home Equity	1,621	20	1,511	18
Automobile	11,547	195	7,422	125
Other [1]	2,663	57	1,932	43
Total Consumer	38,979	486	38,860	436
Total Impaired Loans with an Allowance Recorded	$ 39,967	$ 499	$ 39,828	$ 448
Impaired Loans:				
Commercial	$ 20,551	$ 175	$ 22,629	$ 242
Consumer	38,979	486	38,860	436
Total Impaired Loans	$ 59,530	$ 661	$ 61,489	$ 678

(dollars in thousands)	Six Months Ended June 30, 2017 Average Recorded Investment	Interest Income Recognized	Six Months Ended June 30, 2016 Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 8,996	$ 142	$ 11,571	$ 218
Commercial Mortgage	9,370	162	10,175	162
Construction	1,489	48	1,581	51
Total Commercial	19,855	352	23,327	431
Total Impaired Loans with No Related Allowance Recorded	$ 19,855	$ 352	$ 23,327	$ 431
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 693	$ 20	$ 1,075	$ 32
Commercial Mortgage	342	8	—	—

Total Commercial	1,035	28	1,075	32
Consumer				
Residential Mortgage	23,974	426	28,323	501
Home Equity	1,586	37	1,370	35
Automobile	10,918	364	7,285	247
Other [1]	2,550	110	1,843	82
Total Consumer	39,028	937	38,821	865
Total Impaired Loans with an Allowance Recorded	$ 40,063	$ 965	$ 39,896	$ 897
Impaired Loans:				
Commercial	$ 20,890	$ 380	$ 24,402	$ 463
Consumer	39,028	937	38,821	865
Total Impaired Loans	$ 59,918	$ 1,317	$ 63,223	$ 1,328

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

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For the three and six months ended June 30, 2017 and 2016, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three and six months ended June 30, 2017 and 2016, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were $57.5 million and $60.0 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, there were no commitments to lend additional funds on loans modified in a TDR. As of December 31, 2016, there were $0.4 million of commitments to lend additional funds on loans modified in a TDR.

The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor are often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a co-borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loan modifications usually involve extending the interest-only monthly payments up to an additional five years with a balloon payment due at maturity, or re-amortizing the remaining balance over a period up to 360 months. Interest rates are not changed for land loan modifications. Home equity modifications are made infrequently and uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

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

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The following presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2017 and 2016.

	Loans Modified as a TDR for the Three Months Ended June 30, 2017			Loans Modified as a TDR for the Three Months Ended June 30, 2016		
Troubled Debt Restructurings (dollars in thousands)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end) [1]	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end) [1]
Commercial						
Commercial and Industrial	6	$ 4,191	$ 11	16	$ 2,955	$ —
Commercial Mortgage	1	700	—	—	—	—
Total Commercial	7	4,891	11	16	2,955	—
Consumer						
Residential Mortgage	—	—	—	1	440	—
Home Equity	1	4	4	—	—	—
Automobile	99	2,115	49	53	977	22
Other [2]	40	304	8	40	271	8
Total Consumer	140	2,423	61	94	1,688	30
Total	147	$ 7,314	$ 72	110	$ 4,643	$ 30

	Loans Modified as a TDR for the Six Months Ended June 30, 2017			Loans Modified as a TDR for the Six Months Ended June 30, 2016		
Troubled Debt Restructurings (dollars in thousands)	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end) [1]	Number of Contracts	Recorded Investment (as of period end)	Increase in Allowance (as of period end) [1]
Commercial						
Commercial and Industrial	11	$ 7,235	$ 11	18	$ 3,102	$ 2
Commercial Mortgage	2	1,096	—	—	—	—
Total Commercial	13	8,331	11	18	3,102	2
Consumer						
Residential Mortgage	—	—	—	4	1,610	15
Home Equity	1	239	4	1	478	6
Automobile	209	4,315	99	108	2,008	48
Other [2]	114	891	24	99	684	19
Total Consumer	324	5,445	127	212	4,780	88
Total	337	$ 13,776	$ 138	230	$ 7,882	$ 90

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

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

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The following presents by class, all loans modified in a TDR that defaulted during the three and six months ended June 30, 2017 and 2016, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Number of Contracts	Recorded Investment (as of period end)[1]	Number of Contracts	Recorded Investment (as of period end)[1]
Consumer				
Residential Mortgage	—	$ —	1	$ 43
Automobile	12	267	3	21
Other [2]	18	137	9	70
Total Consumer	30	404	13	134
Total	30	$ 404	13	$ 134

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Number of Contracts	Recorded Investment (as of period end)[1]	Number of Contracts	Recorded Investment (as of period end)[1]
Commercial				
Commercial and Industrial	1	$ 49	—	$ —
Total Commercial	1	49	—	—
Consumer				
Residential Mortgage	—	—	3	1,056
Home Equity	—	—	1	162
Automobile	17	390	4	57
Other [2]	36	255	22	142
Total Consumer	53	645	30	1,417
Total	54	$ 694	30	$ 1,417

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

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

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

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled $6.2 million as of June 30, 2017.

Note 4. Mortgage Servicing Rights

The Company’s portfolio of residential mortgage loans serviced for third parties was $2.8 billion as of June 30, 2017 and $2.7 billion as of December 31, 2016. Substantially all of these loans were originated by the Company and sold

to third parties on a non-recourse basis with servicing rights retained. These retained servicing rights are recorded as a servicing asset and are initially recorded at fair value (see Note 13 Fair Value of Assets and Liabilities for more information). Changes to the balance of mortgage servicing rights are recorded in mortgage banking income in the Company's consolidated statements of income.

The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was $1.8 million and $1.7 million for the three months ended June 30, 2017 and 2016, respectively, and $3.5 million for the six months ended June 30, 2017 and 2016. Servicing income is recorded in mortgage banking income in the Company's

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consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and six months ended June 30, 2017 and 2016, the change in the carrying value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Balance at Beginning of Period	$1,586	$1,910	$1,655	$1,970
Change in Fair Value:				
Due to Payoffs	(38)	(91)	(107)	(151)
Total Changes in Fair Value of Mortgage Servicing Rights	(38)	(91)	(107)	(151)
Balance at End of Period	$1,548	$1,819	$1,548	$1,819

For the three and six months ended June 30, 2017 and 2016, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of valuation allowance, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Balance at Beginning of Period	$22,705	$20,753	$22,008	$21,032
Servicing Rights that Resulted From Asset Transfers	961	329	2,276	771
Amortization	(690)	(677)	(1,308)	(1,313)
Valuation Allowance Provision	(53)	(2,593)	(53)	(2,678)
Balance at End of Period	$22,923	$17,812	$22,923	$17,812
Valuation Allowance:				
Balance at Beginning of Period	$—	$(106)	$—	$(21)
Valuation Allowance Provision	(53)	(2,593)	(53)	(2,678)
Balance at End of Period	$(53)	$(2,699)	$(53)	$(2,699)
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method				
Beginning of Period	$25,946	$20,841	$25,148	$24,804
End of Period	$25,479	$17,812	$25,479	$17,812

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Weighted-Average Constant Prepayment Rate [1]	8.60 %	8.13 %
Weighted-Average Life (in years)	7.20	7.43
Weighted-Average Note Rate	4.07 %	4.10 %
Weighted-Average Discount Rate [2]	8.87 %	9.33 %

[1] Represents annualized loan repayment rate assumption.

[2] Derived from multiple interest rate scenarios that incorporate a spread to a market yield curve and market volatilities.

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of June 30, 2017 and December 31, 2016 is presented in the following table.

(dollars in thousands)	June 30, 2017	December 31, 2016
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	$ (317)	$ (321)
Decrease in fair value from 50 bps adverse change	(628)	(636)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(285)	(288)
Decrease in fair value from 50 bps adverse change	(565)	(570)

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

Note 5. Affordable Housing Projects Tax Credit Partnerships

The Company makes equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

The Company is a limited partner in each LIHTC limited partnership. Each limited partnership is managed by an unrelated third party general partner who exercises significant control over the affairs of the limited partnership. The general partner has all the rights, powers and authority granted or permitted to be granted to a general partner of a limited partnership. Duties entrusted to the general partner of each limited partnership include, but are not limited to: investment in operating companies, company expenditures, investment of excess funds, borrowing funds, employment of agents, disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods, tax elections, bank accounts, insurance, litigation, cash reserve, and use of working capital reserve funds. Except for limited rights granted to the limited partner(s) relating to the approval of certain transactions, the limited partner(s) may not participate in the operation, management, or control of the limited partnership's business, transact any business in the limited partnership's name or have any power to sign documents for or otherwise bind the limited partnership. In addition, the general partner may only be removed by the limited partner(s) in the event the general partner fails to comply with the terms of the agreement or is negligent in performing its duties.

The general partner of each limited partnership has both the power to direct the activities which most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. Therefore, the Company has determined that it is not the primary beneficiary of any LIHTC partnership. The Company uses the effective yield method to account for its pre-2015 investments in these entities. Beginning January 1, 2015, any new investments that meet the requirements of the proportional amortization method are recognized using the proportional amortization method. The Company's net affordable housing tax credit investments and related unfunded commitments were $66.9 million and $66.6 million as of June 30, 2017 and December 31, 2016, respectively, and are included in other assets in the consolidated statements of condition.

Unfunded Commitments

As of June 30, 2017, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)	Amount
2017	$3,173
2018	8,526
2019	5,947
2020	27
2021	9
Thereafter	425
Total Unfunded Commitments	$18,107

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The following table presents tax credits and other tax benefits recognized and amortization expense related to affordable housing for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Effective Yield Method				
Tax credits and other tax benefits recognized	$3,439	$3,516	$6,869	$7,032
Amortization Expense in Provision for Income Taxes	2,137	2,174	4,298	4,348
Proportional Amortization Method				
Tax credits and other tax benefits recognized	$440	$259	$761	$518
Amortization Expense in Provision for Income Taxes	358	200	611	400

There were no impairment losses related to LIHTC investments during the six months ended June 30, 2017 and 2016.

Note 6. Balance Sheet Offsetting

Interest Rate Swap Agreements (“Swap Agreements”)

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company’s consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or marketable securities, is posted by the party (i.e., the Company or the financial institution counterparty) with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling $5.2 million and $5.5 million as of June 30, 2017 and December 31, 2016, respectively. See Note 11 Derivative Financial Instruments for more information.

Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. Effective 2017, these payments, commonly referred to as variation margin, will be recorded as settlements of the derivatives’ mark-to-market exposure rather than collateral against the exposures. During the second quarter of 2017, the Company executed its first centrally cleared swap agreements. This rule change effectively results in any centrally cleared derivative having a fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table at the end of this section. See Note 11 Derivative Financial Instruments for more information.

Securities Sold Under Agreements to Repurchase (“Repurchase Agreements”)

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

agreements.

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

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in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization in the event of counterparty default.

The following table presents the remaining contractual maturities of the Company's repurchase agreements as of June 30, 2017 and December 31, 2016, disaggregated by the class of collateral pledged.

	Remaining Contractual Maturity of Repurchase Agreements				
(dollars in thousands)	Up to 90 days	91-365 days	1-3 Years	After 3 Years	Total
June 30, 2017					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$—	$—	$—	$306,624	$306,624
Debt Securities Issued by States and Political Subdivisions	695	2,790	1,000	—	4,485
Mortgage-Backed Securities:					
Residential - Government Agencies	807	—	—	100,971	101,778
Residential - U.S. Government-Sponsored Enterprises	—	—	—	92,405	92,405
Total	$1,502	$2,790	$1,000	$500,000	$505,292
December 31, 2016					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$—	$—	$200,000	$104,681	$304,681
Debt Securities Issued by States and Political Subdivisions	22,050	590	—	—	22,640
Mortgage-Backed Securities:					
Residential - Government Agencies	738	—	—	97,281	98,019
Residential - U.S. Government-Sponsored Enterprises	—	—	—	98,038	98,038
Total	$22,788	$590	$200,000	$300,000	$523,378

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The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of June 30, 2017 and December 31, 2016. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table. As previously mentioned, centrally cleared swap agreements between the Company and institutional counterparties are also excluded from this table.

(dollars in thousands)	(i) Gross Amounts Recognized in the Statements of Condition	(ii) Gross Amounts Offset in the Statements of Condition	(iii) = (i)-(ii) Net Amounts Presented in the Statements of Condition	(iv) Gross Amounts Not Offset in the Statements of Condition		(v) = (iii)-(iv)
				Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged [1]	Net Amount
June 30, 2017						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 4,285	$ —	$ 4,285	$ 4,285	$ —	$ —
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	6,360	—	6,360	4,285	1,498	577
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	5,292	—	5,292	—	5,292	—
	$ 505,292	$ —	$ 505,292	$ —	$ 505,292	$ —
December 31, 2016						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 5,094	$ —	$ 5,094	$ 5,094	$ —	$ —
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	6,489	—	6,489	5,094	500	895
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	23,378	—	23,378	—	23,378	—
	$ 523,378	$ —	$ 523,378	$ —	$ 523,378	$ —

[1] The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this column. For repurchase agreements with private institutions, the fair value of investment securities pledged was $575.5 million and $599.3 million as of June 30, 2017 and December 31, 2016, respectively. For repurchase agreements with government entities, the fair value of investment securities pledged was $7.1 million and $28.9 million as of June 30, 2017 and December 31, 2016, respectively.

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Note 7. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2017			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ 4,642	$ 1,833	$ 2,809
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	491	194	297
Net Unrealized Gains (Losses) on Investment Securities	5,133	2,027	3,106
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	322	127	195
Amortization of Prior Service Credit	(80)	(32)	(48)
Defined Benefit Plans, Net	242	95	147
Other Comprehensive Income (Loss)	$ 5,375	$ 2,122	$ 3,253
Three Months Ended June 30, 2016			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ 8,279	$ 3,268	$ 5,011
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	242	96	146
Net Unrealized Gains (Losses) on Investment Securities	8,521	3,364	5,157
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	312	123	189
Amortization of Prior Service Credit	(80)	(32)	(48)
Defined Benefit Plans, Net	232	91	141
Other Comprehensive Income (Loss)	$ 8,753	$ 3,455	$ 5,298
Six Months Ended June 30, 2017			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ 12,222	$ 4,824	$ 7,398
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	995	393	602
Net Unrealized Gains (Losses) on Investment Securities	13,217	5,217	8,000
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	645	255	390
Amortization of Prior Service Credit	(161)	(64)	(97)
Defined Benefit Plans, Net	484	191	293
Other Comprehensive Income (Loss)	$ 13,701	$ 5,408	$ 8,293
Six Months Ended June 30, 2016			
Net Unrealized Gains (Losses) on Investment Securities:			

Net Unrealized Gains (Losses) Arising During the Period	$ 22,223	$ 8,773	$ 13,450
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	663	262	401
Net Unrealized Gains (Losses) on Investment Securities	22,886	9,035	13,851
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	626	247	379
Amortization of Prior Service Credit	(161)	(64)	(97)
Defined Benefit Plans, Net	465	183	282
Other Comprehensive Income (Loss)	$ 23,351	$ 9,218	$ 14,133

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

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The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three and six months ended June 30, 2017 and 2016:

(dollars in thousands)	Investment Securities-Available-for-Sale	Investment Securities-Held-to-Maturity	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Three Months Ended June 30, 2017				
Balance at Beginning of Period	$ 5,859	$ (5,979)	$(28,746)	$ (28,866)
Other Comprehensive Income (Loss) Before Reclassifications	2,809	—	—	2,809
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	297	147	444
Total Other Comprehensive Income (Loss)	2,809	297	147	3,253
Balance at End of Period	$ 8,668	$ (5,682)	$(28,599)	$ (25,613)
Three Months Ended June 30, 2016				
Balance at Beginning of Period	$ 20,998	$ (7,000)	$(28,720)	$ (14,722)
Other Comprehensive Income (Loss) Before Reclassifications	5,011	—	—	5,011
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	146	141	287
Total Other Comprehensive Income (Loss)	5,011	146	141	5,298
Balance at End of Period	$ 26,009	$ (6,854)	$(28,579)	$ (9,424)
Six Months Ended June 30, 2017				
Balance at Beginning of Period	$ 1,270	$ (6,284)	$(28,892)	$ (33,906)
Other Comprehensive Income (Loss) Before Reclassifications	7,398	—	—	7,398
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	602	293	895
Total Other Comprehensive Income (Loss)	7,398	602	293	8,293
Balance at End of Period	$ 8,668	$ (5,682)	$(28,599)	$ (25,613)
Six Months Ended June 30, 2016				
Balance at Beginning of Period	$ 12,559	$ (7,255)	$(28,861)	$ (23,557)
Other Comprehensive Income (Loss) Before Reclassifications	13,450	—	—	13,450
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	401	282	683
Total Other Comprehensive Income (Loss)	13,450	401	282	14,133
Balance at End of Period	$ 26,009	$ (6,854)	$(28,579)	$ (9,424)

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1] Three Months Ended June 30,		Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	2017	2016	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (491)	$ (242)	Interest Income
	194	96	Provision for Income Tax
	(297)	(146)	Net of Tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit [2]	80	80	
Net Actuarial Losses [2]	(322)	(312)	
	(242)	(232)	Total Before Tax
	95	91	Provision for Income Tax
	(147)	(141)	Net of Tax
Total Reclassifications for the Period	$ (444)	$ (287)	Net of Tax

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1] Six Months Ended June 30,		Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	2017	2016	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (995)	$ (663)	Interest Income
	393	262	Provision for Income Tax
	(602)	(401)	Net of Tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit [2]	161	161	
Net Actuarial Losses [2]	(645)	(626)	
	(484)	(465)	Total Before Tax
	191	183	Provision for Income Tax
	(293)	(282)	Net of Tax
Total Reclassifications for the Period	$ (895)	$ (683)	Net of Tax

[1] Amounts in parentheses indicate reductions to net income.

[2]

These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost and are included in Salaries and Benefits on the consolidated statements of income (see Note 10 Pension Plans and Postretirement Benefit Plan for additional details).

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Note 8. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Denominator for Basic Earnings Per Share	42,353,976	42,729,731	42,379,730	42,825,369
Dilutive Effect of Equity Based Awards	304,909	213,229	324,280	207,830
Denominator for Diluted Earnings Per Share	42,658,885	42,942,960	42,704,010	43,033,199
Antidilutive Stock Options and Restricted Stock Outstanding	7,127	—	—	1,438

Note 9. Business Segments

The Company’s business segments are defined as Retail Banking, Commercial Banking, Investment Services, and Treasury and Other. The Company’s internal management accounting process measures the performance of these business segments. This process, which is not necessarily comparable with the process used by any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the provision for credit losses, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive authoritative guidance for management accounting that is equivalent to GAAP. Previously reported results have been reclassified to conform to the current reporting structure.

The net interest income of the business segments reflects the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics and reflects the allocation of net interest income related to the Company’s overall asset and liability management activities on a proportionate basis. The basis for the allocation of net interest income is a function of the Company’s assumptions that are subject to change based on changes in current interest rates and market conditions. Funds transfer pricing also serves to transfer interest rate risk to Treasury. However, the other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines.

The provision for credit losses reflects the actual net charge-offs of the business segments. The amount of the consolidated provision for loan and lease losses is based on the methodology that we use to estimate our consolidated Allowance. The residual provision for credit losses to arrive at the consolidated provision for credit losses is included in Treasury and Other.

Noninterest income and expense includes allocations from support units to business units. These allocations are based on actual usage where practicably calculated or by management’s estimate of such usage.

The provision for income taxes is allocated to business segments using a 37% effective income tax rate. However, the provision for income taxes for our Leasing business unit (included in the Commercial Banking segment) and Auto Leasing portfolio and Pacific Century Life Insurance business unit (both included in the Retail Banking segment) are assigned their actual effective income tax rates due to the unique relationship that income taxes have with their products. The residual income tax expense or benefit to arrive at the consolidated effective income tax rate is included in Treasury and Other.

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans, small business loans and leases, and credit cards. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers some types of consumer insurance products. Products and services from Retail Banking are delivered to customers through 69 branch locations and 388 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

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Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, and deposit products. Commercial lending and deposit products as well as public deposits are offered to middle-market and large companies in Hawaii and the Pacific Islands. In addition, Commercial Banking offers deposit products to government entities in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders predominantly domiciled in Hawaii. Commercial Banking also includes international banking and provides merchant services to its small business customers.

Investment Services

Investment Services includes private banking and international client banking, trust services, investment management, and institutional investment advisory services. A significant portion of this segment's income is derived from fees, which are generally based on the market values of assets under management. The private banking and personal trust groups assist individuals and families in building and preserving their wealth by providing investment, credit, and trust services to high-net-worth individuals. The investment management group manages portfolios utilizing a variety of investment products. Institutional client services offer investment advice to corporations, government entities, and foundations. This segment also provides a full service brokerage offering equities, mutual funds, life insurance, and annuity products.

Treasury and Other

Treasury consists of corporate asset and liability management activities, including interest rate risk management and a foreign currency exchange business. This segment's assets and liabilities (and related interest income and expense) consist of interest-bearing deposits, investment securities, federal funds sold and purchased, and short and long-term borrowings. The primary sources of noninterest income are from bank-owned life insurance, net gains from the sale of investment securities, and foreign exchange income related to customer-driven currency requests from merchants and island visitors. The net residual effect of the transfer pricing of assets and liabilities is included in Treasury, along with the elimination of intercompany transactions.

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

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Selected business segment financial information as of and for the three and six months ended June 30, 2017 and 2016 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services	Treasury and Other	Consolidated Total
Three Months Ended June 30, 2017					
Net Interest Income	$66,348	$41,737	$6,714	$(2,520)	$112,279
Provision for Credit Losses	3,099	(132)	(6)	1,289	4,250
Net Interest Income After Provision for Credit Losses	63,249	41,869	6,720	(3,809)	108,029
Noninterest Income	21,920	5,876	15,247	2,193	45,236
Noninterest Expense	(52,018)	(18,407)	(15,295)	(2,469)	(88,189)
Income Before Provision for Income Taxes	33,151	29,338	6,672	(4,085)	65,076
Provision for Income Taxes	(11,741)	(10,325)	(2,469)	4,121	(20,414)
Net Income	$21,410	$19,013	$4,203	$36	$44,662
Total Assets as of June 30, 2017	$5,626,767	$3,658,867	$307,529	$7,388,129	$16,981,292
Three Months Ended June 30, 2016					
Net Interest Income	$60,041	$38,151	$6,037	$(679)	$103,550
Provision for Credit Losses	2,006	(258)	(5)	(743)	1,000
Net Interest Income After Provision for Credit Losses	58,035	38,409	6,042	64	102,550
Noninterest Income	21,771	6,438	15,946	2,364	46,519
Noninterest Expense	(50,758)	(17,762)	(14,780)	(2,771)	(86,071)
Income Before Provision for Income Taxes	29,048	27,085	7,208	(343)	62,998
Provision for Income Taxes	(10,402)	(9,608)	(2,667)	3,924	(18,753)
Net Income	$18,646	$17,477	$4,541	$3,581	$44,245
Total Assets as of June 30, 2016	$5,076,204	$3,239,572	$282,143	$7,262,982	$15,860,901
Six Months Ended June 30, 2017					
Net Interest Income	$131,505	$83,668	$13,364	$(6,386)	$222,151
Provision for Credit Losses	6,900	(320)	(11)	2,081	8,650
Net Interest Income After Provision for Credit Losses	124,605	83,988	13,375	(8,467)	213,501
Noninterest Income	42,845	11,314	29,796	17,197	101,152
Noninterest Expense	(104,278)	(36,762)	(30,766)	(4,951)	(176,757)
Income Before Provision for Income Taxes	63,172	58,540	12,405	3,779	137,896
Provision for Income Taxes	(22,415)	(20,581)	(4,590)	5,528	(42,058)
Net Income	$40,757	$37,959	$7,815	$9,307	$95,838
Total Assets as of June 30, 2017	$5,626,767	$3,658,867	$307,529	$7,388,129	$16,981,292
Six Months Ended June 30, 2016					
Net Interest Income	$118,051	$76,499	$12,489	$(465)	$206,574
Provision for Credit Losses	4,842	(6,883)	(11)	1,052	(1,000)
Net Interest Income After Provision for Credit Losses	113,209	83,382	12,500	(1,517)	207,574
Noninterest Income	42,577	14,038	29,971	16,140	102,726
Noninterest Expense	(103,498)	(35,029)	(30,207)	(4,723)	(173,457)
Income Before Provision for Income Taxes	52,288	62,391	12,264	9,900	136,843

Provision for Income Taxes	(18,629)	(22,264)	(4,537)	3,042	(42,388)
Net Income	$33,659	$40,127	$7,727	$12,942	$94,455
Total Assets as of June 30, 2016	$5,076,204	$3,239,572	$282,143	$7,262,982	$15,860,901

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Note 10. Pension Plans and Postretirement Benefit Plan

Components of net periodic benefit cost for the Company's pension plans and the postretirement benefit plan are presented in the following table for the three and six months ended June 30, 2017 and 2016.

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2017	2016	2017	2016
Three Months Ended June 30,				
Service Cost	$ —	$ —	$ 123	$ 137
Interest Cost	1,161	1,209	272	294
Expected Return on Plan Assets	(1,238)	(1,281)	—	—
Amortization of:				
Prior Service Credit	—	—	(80)	(80)
Net Actuarial Losses (Gains)	432	388	(110)	(76)
Net Periodic Benefit Cost	$ 355	$ 316	$ 205	$ 275
Six Months Ended June 30,				
Service Cost	$ —	$ —	$ 246	$ 274
Interest Cost	2,322	2,418	544	588
Expected Return on Plan Assets	(2,476)	(2,562)	—	—
Amortization of:				
Prior Service Credit	—	—	(161)	(161)
Net Actuarial Losses (Gains)	865	777	(220)	(151)
Net Periodic Benefit Cost	$ 711	$ 633	$ 409	$ 550

The net periodic benefit cost for the Company's pension plans and postretirement benefit plan are recorded as a component of salaries and benefits in the consolidated statements of income. For the three and six months ended June 30, 2017, the Company contributed $0.1 million and $0.2 million, respectively, to the pension plans and $0.3 million and $0.5 million, respectively, to the postretirement benefit plan. The Company expects to contribute a total of $10.5 million to the pension plans and $1.0 million to the postretirement benefit plan for the year ending December 31, 2017.

Note 11. Derivative Financial Instruments

The notional amount and fair value of the Company's derivative financial instruments as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017		December 31, 2016	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	$52,710	$1,039	$55,223	$1,067
Forward Commitments	59,169	39	104,962	847
Interest Rate Swap Agreements				
Receive Fixed/Pay Variable Swaps	382,524	2,405	357,441	1,381
Pay Fixed/Receive Variable Swaps	382,524	(2,075)	357,441	(1,395)
Foreign Exchange Contracts	42,172	(151)	38,172	(757)

The following table presents the Company's derivative financial instruments, their fair values, and their location in the consolidated statements of condition as of June 30, 2017 and December 31, 2016:

Derivative Financial Instruments	June 30, 2017		December 31, 2016	
Not Designated as Hedging Instruments [1]	Asset	Liability	Asset	Liability

(dollars in thousands)	Derivatives	Derivatives	Derivatives	Derivatives
Interest Rate Lock Commitments	$1,042	$ 3	$1,236	$ 169
Forward Commitments	126	87	873	26
Interest Rate Swap Agreements	10,974	10,644	11,569	11,583
Foreign Exchange Contracts	141	292	53	810
Total	$12,283	$ 11,026	$13,731	$ 12,588

[1] Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the consolidated statements of condition.

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The following table presents the Company's derivative financial instruments and the amount and location of the net gains or losses recognized in the consolidated statements of income for the three and six months ended June 30, 2017 and 2016:

Derivative Financial Instruments	Location of Net Gains (Losses)	Three Months Ended		Six Months Ended	
Not Designated as Hedging Instruments	Recognized in the	June 30,		June 30,	
(dollars in thousands)	Statements of Income	2017	2016	2017	2016
Interest Rate Lock Commitments	Mortgage Banking	$1,655	$2,973	$2,922	$3,959
Forward Commitments	Mortgage Banking	(465)	(1,017)	(889)	(1,496)
Interest Rate Swap Agreements	Other Noninterest Income	525	713	680	822
Foreign Exchange Contracts	Other Noninterest Income	796	764	1,846	1,473
Total		$2,511	$3,433	$4,559	$4,758

Management has received authorization from the Bank's Board of Directors to use derivative financial instruments as an end-user in connection with the Bank's risk management activities and to accommodate the needs of the Bank's customers. As with any financial instrument, derivative financial instruments have inherent risks. Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates, and equity prices. Market risks associated with derivative financial instruments are balanced with the expected returns to enhance earnings performance and shareholder value, while limiting the volatility of each. The Company uses various processes to monitor its overall market risk exposure, including sensitivity analysis, value-at-risk calculations, and other methodologies.

Derivative financial instruments are also subject to credit and counterparty risk, which is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle transactions in accordance with the underlying contractual terms. Credit and counterparty risks associated with derivative financial instruments are similar to those relating to traditional financial instruments. The Company manages derivative credit and counterparty risk by evaluating the creditworthiness of each borrower or counterparty, adhering to the same credit approval process used for commercial lending activities.

As of June 30, 2017 and December 31, 2016, the Company did not designate any derivative financial instruments as formal hedging relationships. The Company's free-standing derivative financial instruments are required to be carried at their fair value on the Company's consolidated statements of condition. These financial instruments have been limited to interest rate lock commitments ("IRLCs"), forward commitments, interest rate swap agreements, foreign exchange contracts, and conversion rate swap agreements.

The Company enters into IRLCs for residential mortgage loans which commit us to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. To mitigate this risk, the Company utilizes forward commitments as economic hedges against the potential decreases in the values of the loans held for sale. IRLCs and forward commitments are free-standing derivatives which are carried at fair value with changes recorded in the mortgage banking component of noninterest income in the Company's consolidated statements of income.

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the interest rate risk of entering into these agreements by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions.

The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. Fair value changes are recorded in other noninterest income in the Company's consolidated statements of income. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of cash or marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. See Note 6 Balance Sheet Offsetting for more information.

The Company's interest rate swap agreements with financial institution counterparties may contain credit-risk-related contingent features tied to a specified credit rating of the Company. Under these provisions, should the Company's specified rating fall below a particular level (e.g., investment grade rating), or if the Company no longer obtains the specified rating, the counterparty may require the Company to pledge collateral on an immediate and ongoing basis (subject to the requirement that such swaps are in a net liability position beyond the level specified in the contract), or require immediate settlement of the swap

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agreement. Other credit-risk-related contingent features may also allow the counterparty to require immediate settlement of the swap agreement if the Company fails to maintain a specified minimum level of capitalization.

With regard to derivative contracts not centrally cleared through a clearinghouse, new regulations require collateral to be posted by the party with a net liability position (i.e., the threshold for posting collateral was reduced to zero, subject to certain minimum transfer amounts). The requirements generally apply to new derivative contracts entered into after the applicable compliance date of the regulation (March 1, 2017 for the Company), although certain counterparties may elect to apply lower thresholds to existing contracts.

Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. These payments are commonly referred to as variation margin. Historically, variation margin payments have typically been treated as collateral against the derivative position. Effective 2017, the Chicago Mercantile Exchange and LCH.Clearnet Limited (collectively, the “clearinghouses”) amended their rulebooks to legally characterize variation margin payments for over-the-counter derivatives they clear as settlements of the derivatives’ mark-to-market exposure rather than collateral against the exposures. This rule change effectively results in any derivative cleared through the clearinghouses to have a fair value that approximates zero on a daily basis. During the second quarter of 2017, the Company executed its first swap agreements cleared through the clearinghouses. As of June 30, 2017, the application of the rule change reduced the swap agreement liability by $0.4 million, as reflected in the table above. Going forward, the Company expects most of the swap agreements executed with third party financial institutions will be required to be cleared through the clearinghouses. The uncleared swap agreements executed with third party financial institutions will remain subject to the collateral requirements and credit-risk-related contingent features described in the previous paragraphs, and therefore, are not subject to the variation margin rule change. Likewise, the swap agreements executed with the Company’s commercial banking customers will remain uncleared and will also not be subject to the variation margin rule change.

The Company utilizes foreign exchange contracts to offset risks related to transactions executed on behalf of customers. The foreign exchange contracts are free-standing derivatives which are carried at fair value with changes included in other noninterest income in the Company’s consolidated statements of income.

As each sale of Visa Class B restricted shares was completed, the Company entered into a conversion rate swap agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio of Class B into Class A unrestricted common shares. In the event of Visa increasing the conversion ratio, the buyer would be required to make payment to the Company. As of June 30, 2017, the conversion rate swap agreement was valued at zero (i.e., no contingent liability recorded) as further reductions to the conversion ratio were deemed neither probable nor reasonably estimable by management. See Note 2 Investment Securities for more information.

Note 12. Commitments, Contingencies, and Guarantees

The Company’s credit commitments as of June 30, 2017 and December 31, 2016 were as follows:

(dollars in thousands)	June 30, 2017	December 31, 2016
Unfunded Commitments to Extend Credit	$2,800,247	$ 2,732,734
Standby Letters of Credit	120,070	112,830
Commercial Letters of Credit	17,219	16,269
Total Credit Commitments	$2,937,536	$ 2,861,833

Unfunded Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination

clauses and may require payment of a fee. Since commitments may expire without being drawn, the total commitment amount does not necessarily represent future cash requirements.

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Standby and Commercial Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Company. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit, and generally holds cash or deposits as collateral on those standby letters of credit for which collateral is deemed necessary.

Contingencies

The Company is subject to various pending and threatened legal proceedings arising within the normal course of business or operations. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the most recent information available. On a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. Based on information currently available, management believes that the eventual outcome of these claims against the Company will not be materially in excess of such amounts reserved by the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters may result in a loss that materially exceeds the reserves established by the Company.

Risks Related to Representation and Warranty Provisions

The Company sells residential mortgage loans in the secondary market primarily to the Federal National Mortgage Association (“Fannie Mae”). The Company also pools Federal Housing Administration (“FHA”) insured and U.S. Department of Veterans Affairs (“VA”) guaranteed residential mortgage loans for sale to the Government National Mortgage Corporation (“Ginnie Mae”). These pools of FHA-insured and VA-guaranteed residential mortgage loans are securitized by Ginnie Mae. The agreements under which the Company sells residential mortgage loans to Fannie Mae or Ginnie Mae and the insurance or guaranty agreements with FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, and other matters. As of June 30, 2017, the unpaid principal balance of residential mortgage loans sold by the Company was $2.6 billion. The agreements under which the Company sells residential mortgage loans require delivery of various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, the Company may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred if a loan review reveals that underwriting and documentation standards were not met. Some agreements may require the Company to repurchase delinquent loans. Upon receipt of a repurchase request, the Company works with investors or insurers to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan-by-loan basis to validate the claims made by the investor or insurer and to determine if a contractually required repurchase event has occurred. The Company manages the risk associated with potential repurchases or other forms of settlement through its underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. During the six months ended June 30, 2017, there was one residential mortgage loan repurchased with an aggregate unpaid principal balance of $0.2 million as a result of the representation and warranty provisions contained in these contracts. As of June 30, 2017, there were no pending repurchase requests related to representation and warranty provisions.

Risks Relating to Residential Mortgage Loan Servicing Activities

In addition to servicing loans in the Company's portfolio, substantially all of the loans the Company sells to investors are sold with servicing rights retained. The Company also services loans originated by other mortgage loan originators. As servicer, the Company's primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales. Each agreement under which the Company acts as servicer generally specifies a standard of responsibility for actions taken by the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective

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servicing agreements. However, if the Company commits a material breach of obligations as servicer, the Company may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards vary by investor. These standards and remedies are determined by servicing guides issued by the investors as well as the contract provisions established between the investors and the Company. Remedies could include repurchase of an affected loan. For the six months ended June 30, 2017, there were no loans repurchased related to loan servicing activities. As of June 30, 2017, there were no pending repurchase requests related to loan servicing activities.

Although to date repurchase requests related to representation and warranty provisions and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of June 30, 2017, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of June 30, 2017, 99% of the Company's residential mortgage loans serviced for investors were current. The Company maintains ongoing communications with investors and continues to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in the loans sold to investors.

Note 13. Fair Value of Assets and Liabilities

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

Fair values of investment securities available-for-sale were primarily measured using information from a third-party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with

market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Level 1 investment securities are comprised of debt securities issued by the U.S. Treasury, as quoted prices were available, unadjusted, for identical securities in active markets. Level 2 investment securities were primarily comprised of debt securities issued by the Small Business Administration, states and municipalities, corporations, as well as mortgage-backed securities issued by government agencies and government-sponsored enterprises. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent

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information provided by the Company's third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs to determine fair value. As of June 30, 2017 and December 31, 2016, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review the significant assumptions and valuation methodologies used by the service. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company's third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going-forward basis.

Loans Held for Sale

The fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets, and therefore, is classified as a Level 2 measurement.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company stratifies its mortgage servicing portfolio on the basis of loan type. The assumptions used in the discounted cash flow model are those that we believe market participants would use in estimating future net servicing income. Significant assumptions in the valuation of mortgage servicing rights include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. Mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

Other Assets

Other assets recorded at fair value on a recurring basis are primarily comprised of investments related to deferred compensation arrangements. Quoted prices for these investments, primarily in mutual funds, are available in active markets. Thus, the Company's investments related to deferred compensation arrangements are classified as Level 1 measurements in the fair value hierarchy.

Derivative Financial Instruments

Derivative financial instruments recorded at fair value on a recurring basis are comprised of interest rate lock commitments ("IRLCs"), forward commitments, interest rate swap agreements, foreign exchange contracts, and Visa Class B to Class A shares conversion rate swap agreements. The fair values of IRLCs are calculated based on the

value of the underlying loan held for sale, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a locked position will ultimately close. This factor, the closing ratio, is derived from the Bank's internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements. Forward commitments are classified as Level 2 measurements as they are primarily based on quoted prices from the secondary market based on the settlement date of the contracts, interpolated or extrapolated, if necessary, to estimate a fair value as of the end of the reporting period. The fair values of interest rate swap agreements are calculated using a discounted cash flow approach and utilize Level 2 observable inputs such as a market yield curve, effective date, maturity date, notional amount, and stated interest rate. In addition, the Company includes in its fair value calculation a credit factor adjustment which is based primarily on management judgment. Thus, interest rate swap agreements are classified as a Level 3 measurement. The fair values of foreign exchange contracts are calculated using the Bank's multi-currency accounting system which utilizes contract specific information such as currency, maturity date, contractual amount, and strike price, along with

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market data information such as the spot rates of specific currency and yield curves. Foreign exchange contracts are classified as Level 2 measurements because while they are valued using the Bank's multi-currency accounting system, significant management judgment or estimation is not required. The fair value of the Visa Class B restricted shares to Class A unrestricted common shares conversion rate swap agreements represent the amount owed by the Company to the buyer of the Visa Class B shares as a result of a reduction of the conversion ratio subsequent to the sales date. As of June 30, 2017 and December 31, 2016, the conversion rate swap agreements were valued at zero as reductions to the conversion ratio were neither probable nor reasonably estimable by management. See Note 11 Derivative Financial Instruments for more information.

The Company is exposed to credit risk if borrowers or counterparties fail to perform. The Company seeks to minimize credit risk through credit approvals, limits, monitoring procedures, and collateral requirements. The Company generally enters into transactions with borrowers and counterparties that carry high quality credit ratings. Credit risk associated with borrowers or counterparties as well as the Company's non-performance risk is factored into the determination of the fair value of derivative financial instruments.

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2017				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 541	$432,436	$ —	$432,977
Debt Securities Issued by States and Political Subdivisions	—	667,881	—	667,881
Debt Securities Issued by Corporations	—	265,249	—	265,249
Mortgage-Backed Securities:				
Residential - Government Agencies	—	265,542	—	265,542
Residential - U.S. Government-Sponsored Enterprises	—	609,901	—	609,901
Commercial - Government Agencies	—	75,178	—	75,178
Total Mortgage-Backed Securities	—	950,621	—	950,621
Total Investment Securities Available-for-Sale	541	2,316,187	—	2,316,728
Loans Held for Sale	—	20,354	—	20,354
Mortgage Servicing Rights	—	—	1,548	1,548
Other Assets	25,899	—	—	25,899
Derivatives [1]	—	267	12,016	12,283
Total Assets Measured at Fair Value on a Recurring Basis as of June 30, 2017	$ 26,440	$2,336,808	$ 13,564	$2,376,812
Liabilities:				
Derivatives [1]	$ —	$379	$ 10,647	$11,026
Total Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2017	$ —	$379	$ 10,647	$11,026
December 31, 2016				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 539	$408,176	$ —	$408,715
Debt Securities Issued by States and Political Subdivisions	—	671,799	—	671,799
Debt Securities Issued by Corporations	—	269,179	—	269,179
Mortgage-Backed Securities:				
Residential - Government Agencies	—	243,844	—	243,844
Residential - U.S. Government-Sponsored Enterprises	—	506,987	—	506,987
Commercial - Government Agencies	—	85,517	—	85,517
Total Mortgage-Backed Securities	—	836,348	—	836,348

Total Investment Securities Available-for-Sale	539	2,185,502	—	2,186,041
Loans Held for Sale	—	62,499	—	62,499
Mortgage Servicing Rights	—	—	1,655	1,655
Other Assets	21,952	—	—	21,952
Derivatives [1]	—	926	12,805	13,731
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2016	$ 22,491	$2,248,927	$ 14,460	$2,285,878
Liabilities:				
Derivatives [1]	$ —	$836	$ 11,752	$12,588
Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2016	$ —	$836	$ 11,752	$12,588

[1] The fair value of each class of derivatives is shown in Note 11 Derivative Financial Instruments.

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For the three and six months ended June 30, 2017 and 2016, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)	Mortgage Servicing Rights [1]	Net Derivative Assets and Liabilities [2]
Three Months Ended June 30, 2017		
Balance as of April 1, 2017	$ 1,586	$ 1,248
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(38)	1,640
Transfers to Loans Held for Sale	—	(1,877)
Variation Margin Payments	—	358
Balance as of June 30, 2017	$ 1,548	$ 1,369
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2017	$ —	$ 1,369
Three Months Ended June 30, 2016		
Balance as of April 1, 2016	$ 1,910	$ 371
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(91)	2,883
Transfers to Loans Held for Sale	—	(1,346)
Balance as of June 30, 2016	$ 1,819	$ 1,908
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2016	$ —	$ 1,908
Six Months Ended June 30, 2017		
Balance as of January 1, 2017	$ 1,655	$ 1,053
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(107)	2,908
Transfers to Loans Held for Sale	—	(2,950)
Variation Margin Payments	—	358
Balance as of June 30, 2017	$ 1,548	$ 1,369
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2017	$ —	$ 1,369
Six Months Ended June 30, 2016		
Balance as of January 1, 2016	$ 1,970	$ 240
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(151)	3,854
Transfers to Loans Held for Sale	—	(2,186)
Balance as of June 30, 2016	$ 1,819	$ 1,908
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2016	$ —	$ 1,908

[1] Realized and unrealized gains and losses related to mortgage servicing rights are reported as a component of mortgage banking income in the Company's consolidated statements of income.

[2] Realized and unrealized gains and losses related to interest rate lock commitments are reported as a component of mortgage banking income in the Company's consolidated statements of income. Realized and unrealized gains and losses related to interest rate swap agreements are reported as a component of other noninterest income in the Company's consolidated statements of income.

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For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2017 and December 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

		Significant Unobservable Inputs (weighted-average)			Fair Value	
(dollars in thousands)	Valuation Technique	Description	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Mortgage Servicing Rights	Discounted Cash Flow	Constant Prepayment Rate [1]	8.60 %	8.13 %	$27,027	$26,803
		Discount Rate [2]	8.87 %	9.33 %		
Net Derivative Assets and Liabilities:						
Interest Rate Lock Commitments	Pricing Model	Closing Ratio	92.89 %	92.26 %	$1,039	$1,067
Interest Rate Swap Agreements	Discounted Cash Flow	Credit Factor	0.25 %	0.13 %	$330	$(14)

[1] Represents annualized loan repayment rate assumption.

[2] Derived from multiple interest rate scenarios that incorporate a spread to a market yield curve and market volatilities.

The significant unobservable inputs used in the fair value measurement of the Company's mortgage servicing rights are the weighted-average constant prepayment rate and weighted-average discount rate. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. Although the constant prepayment rate and the discount rate are not directly interrelated, they generally move in opposite directions of each other.

The Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company's Treasury Division enters observable and unobservable inputs into the model to arrive at an estimated fair value. To assess the reasonableness of the fair value measurement, the Treasury Division performs a back-test by applying the model to historical prepayment data. The fair value and constant prepayment rate are also compared to forward-looking estimates to assess reasonableness. The Treasury Division also compares the fair value of the Company's mortgage servicing rights to a value calculated by an independent third party. Discussions are held with members from the Treasury, Mortgage Banking, and Controllers Divisions, along with the independent third party to discuss and reconcile the fair value estimates and key assumptions used by the respective parties in arriving at those estimates. A subcommittee of the Company's Asset/Liability Management Committee is responsible for providing oversight over the valuation methodology and key assumptions.

The significant unobservable input used in the fair value measurement of the Company's IRLCs is the closing ratio, which represents the percentage of loans currently in a lock position which management estimates will ultimately close. Generally, the fair value of an IRLC is positive (negative) if the prevailing interest rate is lower (higher) than the IRLC rate. Therefore, an increase in the closing ratio (i.e., higher percentage of loans are estimated to close) will increase the gain or loss. The closing ratio is largely dependent on the loan processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The closing ratio is computed by our secondary marketing system using historical data and the ratio is periodically reviewed by the Company's Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

The unobservable input used in the fair value measurement of the Company's interest rate swap agreements is the credit factor. This factor represents the risk that a counterparty is either unable or unwilling to settle a transaction in accordance with the underlying contractual terms. A significant increase (decrease) in the credit factor could result in

a significantly lower (higher) fair value measurement. The credit factor is determined by the Treasury Division based on the risk rating assigned to each counterparty in which the Company holds a net asset position. The Company's Credit Policy Committee periodically reviews and approves the Expected Default Frequency of the Economic Capital Model for Credit Risk. The Expected Default Frequency is used as the credit factor for interest rate swap agreements.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required periodically to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or impairment write-downs of individual assets. The following table represents the assets measured at fair value on a nonrecurring basis as of June 30, 2017. There were no assets measured at fair value on a nonrecurring basis as of December 31, 2016.

(dollars in thousands)	Fair Value Hierarchy	Net Carrying Amount	Valuation Allowance
June 30, 2017			
Mortgage Servicing Rights - amortization method	Level 3	$ 22,923	$ 53

The write-down of mortgage servicing rights accounted for under the amortization method was primarily due to changes in certain key assumptions used to estimate fair value. As previously mentioned, all of the Company's mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

Fair Value Option

The Company elects the fair value option for all residential mortgage loans held for sale. This election allows for a more effective offset of the changes in fair values of the loans held for sale and the derivative financial instruments used to financially hedge them without having to apply complex hedge accounting requirements. As noted above, the fair value of the Company’s residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets.

The following table reflects the difference between the aggregate fair value and the aggregate unpaid principal balance of the Company’s residential mortgage loans held for sale as of June 30, 2017 and December 31, 2016.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
June 30, 2017			
Loans Held for Sale	$ 20,354	$ 19,987	$ 367
December 31, 2016			
Loans Held for Sale	$ 62,499	$ 61,782	$ 717

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company’s consolidated statements of income. For the three and six months ended June 30, 2017 and 2016, the net gains or losses from the change in fair value of the Company’s residential mortgage loans held for sale were not material.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Investment Securities Held-to-Maturity

The fair value of the Company's investment securities held-to-maturity was primarily measured using information from a third-party pricing service. Level 1 investment securities are comprised of debt securities issued by the U.S. Treasury as quoted prices were available, unadjusted, for identical securities in active markets. If quoted prices were not available, fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the Company's third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

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Loans

The fair value of the Company's loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans were first segregated by type such as commercial, real estate, and consumer, and were then further segmented into fixed and variable rate. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Time Deposits

The fair value of the Company's time deposits was calculated using discounted cash flow analyses, applying discount rates based on market yield curve rates for similar maturities. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Securities Sold Under Agreements to Repurchase

The fair value of the Company's securities sold under agreements to repurchase was calculated using discounted cash flow analyses, applying discount rates based on market yield curve rates for similar maturities.

Other Debt

The fair value of the Company's other debt was calculated using a discounted cash flow analyses, applying discount rates based on market yield curve rates for similar maturities.

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The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments not recorded at fair value on a recurring basis as of June 30, 2017 and December 31, 2016. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

		Fair Value Measurements			
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$3,782,702	$3,785,641	$499,838	$3,285,803	$ —
Loans [1]	9,012,433	9,177,640	—	—	9,177,640
Financial Instruments - Liabilities					
Time Deposits	1,683,947	1,679,427	—	1,679,427	—
Securities Sold Under Agreements to Repurchase	505,292	505,271	—	505,271	—
Other Debt [2]	257,153	256,654	—	256,654	—
December 31, 2016					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$3,832,997	$3,827,527	$530,940	$3,296,587	$ —
Loans [1]	8,583,726	8,743,191	—	—	8,743,191
Financial Instruments - Liabilities					
Time Deposits	1,217,707	1,213,705	—	1,213,705	—
Securities Sold Under Agreements to Repurchase	523,378	523,374	—	523,374	—
Other Debt [2]	257,153	256,718	—	256,718	—

[1] Net of unearned income and the Allowance.

[2] Excludes capitalized lease obligations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include statements concerning, among other things, the anticipated economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods, our future results of operations and financial position, our business strategy and plans and our objectives and future operations. We also may make forward-looking statements in our other documents filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). In addition, our senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate, and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) competitive pressures in the markets for financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and the new administration's review of potential changes to such initiatives; 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations or the interpretation of such laws and regulations; 10) changes in our credit quality or risk profile that may increase or decrease the required level of our reserve for credit losses; 11) changes in market interest rates that may affect credit markets and our ability to maintain our net interest margin; 12) the impact of litigation and regulatory investigations of the Company, including costs, expenses, settlements, and judgments; 13) any failure in or breach of our operational systems, information systems or infrastructure, or those of our merchants, third party vendors and other service providers; 14) any interruption or breach of security of our information systems resulting in failures or disruptions in customer account management, general ledger processing, and loan or deposit systems; 15) changes to the amount and timing of proposed common stock repurchases; and 16) natural disasters, public unrest or adverse weather, public health, and other conditions impacting us and our customers' operations. Given these risks and uncertainties, investors should not place undue reliance on any forward-looking statement as a prediction of our actual results. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included under the section entitled "Risk Factors" in Part II of this report and Part I of our Annual Report on Form 10-K for the year ended December 31, 2016, and subsequent periodic and current reports filed with the SEC. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We undertake no obligation to update forward-looking statements to reflect later events or circumstances, except as may be required by law.

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Overview

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. The Parent's principal operating subsidiary is Bank of Hawaii (the "Bank").

The Bank, directly and through its subsidiaries, provides a broad range of financial services and products to businesses, consumers, and governments in Hawaii, Guam, and other Pacific Islands. References to "we," "our," "us," or the "Company" refer to the Parent and its subsidiaries that are consolidated for financial reporting purposes.

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders.

Hawaii Economy

General economic conditions in Hawaii remained positive during the second quarter of 2017 due to a continuation of the strong tourism market, active construction industry, low unemployment, and robust real estate market. For the first five months of 2017, total visitor arrivals increased 4.2% while total visitor spending increased 9.8% compared to the same period in 2016. The statewide seasonally-adjusted unemployment rate was 2.7% in June 2017 compared to 4.4% nationally. For the first six months of 2017, the volume of single-family home sales on Oahu increased 4.4%, while the volume of condominium sales on Oahu increased 6.0% compared with the same period in 2016. The median price of single-family home sales and condominium sales on Oahu increased 3.2% and 3.6%, respectively, for the first six months of 2017 compared to the same period in 2016. As of June 30, 2017, months of inventory of single-family homes and condominiums on Oahu remained low at 2.7 months and 2.8 months, respectively.

Earnings Summary

Net income for the second quarter of 2017 was $44.7 million, an increase of $0.4 million or 1% compared to the same period in 2016. Diluted earnings per share was $1.05 for the second quarter of 2017, an increase of $0.02 or 2% compared to the same period in 2016.

Our higher earnings for the second quarter of 2017 were primarily due to the following:

- Net interest income for the second quarter of 2017 was $112.3 million, an increase of $8.7 million or 8% compared to the same period in 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, combined with a higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Our net interest margin was 2.92% in the second quarter of 2017, an increase of 7 basis points compared to the same period in 2016. The higher margin in 2017 was primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016.

This increase was partially offset by the following:

- Provision for credit losses for the second quarter of 2017 was $4.3 million, an increase of $3.3 million compared to the same period in 2016. The level of the provision recorded is reflective of our evaluation of the adequacy of the Allowance.
- Provision for income taxes for the second quarter of 2017 was $20.4 million, an increase of $1.7 million or 9% compared to the same period in 2016. The second quarter of 2016 was favorably impacted by a $1.3 million credit to the provision for income taxes resulting from the release of state tax reserves due to the lapse in the statute of limitations related to prior tax years.
- Net occupancy expense for the second quarter of 2017 was $8.1 million, an increase of $1.0 million or 14% compared to the same period in 2016 primarily due to a $1.3 million gain on sale of real estate property in Maui during the

second quarter of 2016.

- Trust and asset management income for the second quarter of 2017 was $11.8 million, a decrease of $0.9 million or 7% compared to the same period in 2016 primarily due to a $1.2 million service fee resulting from the sale of real estate property in the second quarter of 2016.
- Net equipment expense for the second quarter of 2017 was $5.7 million, an increase of $0.6 million or 13% compared to the same period in 2016 primarily due to an increase in software license fees and maintenance.

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Net income for the first six months of 2017 was $95.8 million, an increase of $1.4 million or 1% compared to the same period in 2016. Diluted earnings per share was $2.24 for the first six months of 2017, an increase of $0.05 or 2% compared to the same period in 2016.

Our higher earnings for the first six months of 2017 were primarily due to the following:

- Net interest income for the first six months of 2017 was $222.2 million, an increase of $15.6 million or 8% compared to the same period in 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, combined with a higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Our net interest margin was 2.90% for the first six months of 2017, an increase of 4 basis points compared to the same period in 2016. The higher margin in 2017 was primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016.

This increase was partially offset by the following:

- Provision for credit losses for the first six months of 2017 was $8.7 million compared to a $1.0 million negative provision in the same period in 2016. The negative provision was primarily due to the recovery of a commercial loan previously charged-off.
- Net occupancy expense for the first six months of 2017 was $16.3 million, an increase of $2.1 million or 15% compared to the same period in 2016. This increase was primarily due to a $1.5 million gain on the sale of real estate property in Guam during the first quarter of 2016, coupled with the aforementioned $1.3 million gain on sale of real estate property in Maui during the second quarter of 2016.
- Other noninterest income for the first six months of 2017 was $8.3 million, a decrease of $1.3 million or 13% compared to the same period in 2016 primarily due to a $1.6 million decrease in net gain on sale of leased assets. This decrease was partially offset by a $0.4 million increase in profit from foreign exchange contracts.

- Salaries and benefits for the first six months of 2017 was $101.7 million, an increase of $0.9 million or 1% compared to the same period in 2016. Salaries increased by $2.0 million primarily due to merit increases. In addition, payroll taxes increased by $0.5 million. These increases were partially offset by a $1.0 million decrease in incentive compensation and a $0.7 million decrease in separation expense.

We maintained a strong balance sheet during the second quarter of 2017, with what we believe are adequate reserves for credit losses and high levels of liquidity and capital.

- Total loans and leases were $9.4 billion as of June 30, 2017, an increase of $437.8 million or 5% from December 31, 2016 primarily due to growth in our consumer lending portfolio.
- The allowance for loan and lease losses (the “Allowance”) was $106.4 million as of June 30, 2017, an increase of $2.1 million or 2% from December 31, 2016. The Allowance represents 1.13% of total loans and leases outstanding as of June 30, 2017 and 1.17% of total loans and leases outstanding as of December 31, 2016. The level of our Allowance was commensurate with the Company’s credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.
- As of June 30, 2017, the total carrying value of our investment securities portfolio was $6.1 billion, an increase of $80.4 million or 1% compared to December 31, 2016. During the first six months of 2017, we primarily increased our holdings in mortgage-backed securities issued by Fannie Mae. In addition, we also increased our holdings in Small Business Administration securities, while decreasing our holdings in U.S. Treasury securities. Ginnie Mae mortgage-backed securities continue to be the largest concentration in our portfolio.
- Total deposits were $14.8 billion as of June 30, 2017, an increase of $464.4 million or 3% from December 31, 2016 primarily due to an increase in time deposits.
- Total shareholders’ equity was $1.2 billion as of June 30, 2017, an increase of $52.2 million or 4% from December 31, 2016. We continued to return capital to our shareholders in the form of share repurchases and dividends. During the first six months of 2017, we repurchased 255,629 shares of our common stock at a total cost of $21.3 million under

our share repurchase program and from shares purchased from employees and/or directors in connection with income tax withholdings related to the vesting of restricted stock, shares purchased for a deferred compensation plan, and stock swaps, less shares distributed from the deferred compensation plan. We also paid cash dividends of $42.8 million during the first six months of 2017.

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Our financial highlights are presented in Table 1.

Financial Highlights — Table 1

(dollars in thousands, except per share amounts)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
For the Period:				
Operating Results				
Net Interest Income	$112,279	$103,550	$222,151	$206,574
Provision for Credit Losses	4,250	1,000	8,650	(1,000)
Total Noninterest Income	45,236	46,519	101,152	102,726
Total Noninterest Expense	88,189	86,071	176,757	173,457
Net Income	44,662	44,245	95,838	94,455
Basic Earnings Per Share	1.05	1.04	2.26	2.21
Diluted Earnings Per Share	1.05	1.03	2.24	2.19
Dividends Declared Per Share	0.50	0.48	1.00	0.93
Performance Ratios				
Return on Average Assets	1.09 %	1.14 %	1.17 %	1.22 %
Return on Average Shareholders' Equity	14.87	15.56	16.22	16.71
Efficiency Ratio [1]	55.99	57.35	54.67	56.08
Net Interest Margin [2]	2.92	2.85	2.90	2.86
Dividend Payout Ratio [3]	47.62	46.15	44.25	42.08
Average Shareholders' Equity to Average Assets	7.30	7.31	7.23	7.29
Average Balances				
Average Loans and Leases	$9,217,779	$8,205,104	$9,119,610	$8,072,600
Average Assets	16,495,925	15,639,596	16,465,435	15,588,335
Average Deposits	14,253,149	13,453,953	14,236,112	13,394,251
Average Shareholders' Equity	1,204,837	1,143,884	1,191,157	1,136,722
Market Price Per Share of Common Stock				
Closing	$82.97	$68.80	$82.97	$68.80
High	84.99	72.77	90.80	72.77
Low	75.92	64.96	75.92	54.55

	June 30, 2017	December 31, 2016
As of Period End:		
Balance Sheet Totals		
Loans and Leases	$9,387,613	$8,949,785
Total Assets	16,981,292	16,492,367
Total Deposits	14,784,649	14,320,240
Other Debt	267,904	267,938
Total Shareholders' Equity	1,213,757	1,161,537
Asset Quality		
Non-Performing Assets	$16,368	$19,761
Allowance for Loan and Lease Losses	106,353	104,273
Allowance to Loans and Leases Outstanding	1.13 %	1.17 %

Capital Ratios				
Common Equity Tier 1 Capital Ratio	13.34	%	13.24	%
Tier 1 Capital Ratio	13.34		13.24	
Total Capital Ratio	14.58		14.49	
Tier 1 Leverage Ratio	7.37		7.21	
Total Shareholders' Equity to Total Assets	7.15		7.04	
Tangible Common Equity to Tangible Assets [4]	6.97		6.86	
Tangible Common Equity to Risk-Weighted Assets [4]	13.01		12.81	
Non-Financial Data				
Full-Time Equivalent Employees	2,142		2,122	
Branches	69		69	
ATMs	388		449	

[1] Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and total noninterest income).

[2] Net interest margin is defined as net interest income, on a taxable-equivalent basis, as a percentage of average earning assets.

[3] Dividend payout ratio is defined as dividends declared per share divided by basic earnings per share.

[4] Tangible common equity to tangible assets and tangible common equity to risk-weighted assets are Non-GAAP financial measures. See the "Use of Non-GAAP Financial Measures" section below.

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Use of Non-GAAP Financial Measures

The ratios “tangible common equity to tangible assets” and “tangible common equity to risk-weighted assets” are Non-GAAP financial measures. The Company believes these measurements are useful for investors, regulators, management and others to evaluate capital adequacy relative to other financial institutions. Although these Non-GAAP financial measures are frequently used by stakeholders in the evaluation of a financial institution, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. Table 2 provides a reconciliation of these Non-GAAP financial measures with their most closely related GAAP measures.

GAAP to Non-GAAP Reconciliation — Table 2

(dollars in thousands)	June 30, 2017	December 31, 2016
Total Shareholders’ Equity	$1,213,757	$1,161,537
Less: Goodwill	31,517	31,517
Tangible Common Equity	$1,182,240	$1,130,020
Total Assets	$16,981,292	$16,492,367
Less: Goodwill	31,517	31,517
Tangible Assets	$16,949,775	$16,460,850
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	$9,087,057	$8,823,485
Total Shareholders’ Equity to Total Assets	7.15 %	7.04 %
Tangible Common Equity to Tangible Assets (Non-GAAP)	6.97 %	6.86 %
Tier 1 Capital Ratio	13.34 %	13.24 %
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP)	13.01 %	12.81 %

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Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 3. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 4.

Average Balances and Interest Rates - Taxable-Equivalent Basis — Table 3

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016			Six Months Ended June 30, 2017			Six Months Ended June 30, 2016	
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense
Earning Assets											
Interest-Bearing Deposits in Other Banks	$3.6	$—	0.29 %	$4.0	$—	0.17 %	$3.5	$—	0.42 %	$4.2	$—
Funds Sold	353.5	0.7	0.78	526.8	0.6	0.46	448.3	1.6	0.70	587.3	1.4
Investment Securities											
Available-for-Sale											
Taxable	1,683.4	8.4	1.98	1,619.7	6.9	1.72	1,654.6	15.9	1.93	1,604.1	14.1
Non-Taxable	658.9	5.4	3.26	691.8	5.5	3.17	659.8	10.7	3.26	703.4	11.1
Held-to-Maturity											
Taxable	3,596.1	18.4	2.05	3,639.5	18.6	2.05	3,592.9	36.6	2.04	3,659.5	37.5
Non-Taxable	240.9	2.3	3.88	244.6	2.4	3.91	241.4	4.7	3.88	245.1	4.8
Total Investment Securities	6,179.3	34.5	2.23	6,195.6	33.4	2.16	6,148.7	67.9	2.21	6,212.1	67.5
Loans Held for Sale	23.8	0.2	4.04	19.9	0.2	3.64	27.1	0.6	4.01	16.0	0.3
Loans and Leases [1]											
Commercial and Industrial	1,251.2	10.9	3.51	1,176.0	9.8	3.36	1,257.4	21.5	3.44	1,151.7	20.6
Commercial Mortgage	1,946.3	18.4	3.80	1,686.7	16.4	3.91	1,914.1	35.9	3.78	1,687.9	32.1
Construction	240.0	2.8	4.70	210.8	2.3	4.44	249.5	5.7	4.62	190.4	4.3
Commercial Lease Financing	208.0	1.2	2.27	196.4	1.2	2.36	208.3	2.3	2.22	197.7	2.5
Residential Mortgage	3,272.7	31.1	3.80	3,005.4	30.1	4.01	3,237.4	62.0	3.83	2,962.0	59.6
Home Equity	1,445.8	13.1	3.62	1,170.9	10.5	3.61	1,406.8	25.0	3.59	1,137.2	20.6
Automobile	474.1	5.9	4.97	405.9	5.2	5.18	467.9	11.6	5.01	397.2	10.2
Other [2]	379.7	7.6	8.06	353.0	6.9	7.78	378.2	15.0	7.98	348.5	13.4
Total Loans and Leases	9,217.8	91.0	3.96	8,205.1	82.4	4.03	9,119.6	179.0	3.95	8,072.6	163.3
Other	41.0	0.2	2.03	38.1	0.1	1.61	40.5	0.4	2.16	38.2	0.4
Total Earning Assets [3]	15,819.0	126.6	3.21	14,989.5	116.7	3.12	15,787.7	249.5	3.17	14,930.4	232.9
Cash and Due From Banks	120.8			120.4			126.5			125.7	
Other Assets	556.1			529.7			551.2			532.2	
Total Assets	$16,495.9			$15,639.6			$16,465.4			$15,588.3	

Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$2,862.7	$0.5	0.07	%	$2,738.1	$0.3	0.04	%	$2,864.6	$0.8	0.06	%	$2,749.9	$0.5
Savings	5,376.9	1.6	0.12		5,184.8	1.1	0.09		5,391.4	2.9	0.11		5,161.2	2.3
Time	1,480.5	2.9	0.78		1,214.8	1.7	0.57		1,397.5	5.0	0.72		1,211.6	3.2
Total Interest-Bearing Deposits	9,720.1	5.0	0.21		9,137.7	3.1	0.14		9,653.5	8.7	0.18		9,122.7	6.0
Short-Term Borrowings	36.5	0.1	1.10		7.3	—	0.15		23.1	0.1	0.91		7.5	—
Securities Sold Under Agreements to Repurchase	505.3	5.1	3.98		586.8	6.1	4.14		508.8	10.2	4.01		594.9	12.3
Other Debt	267.9	1.1	1.66		226.8	1.0	0.18		267.9	2.2	1.66		229.5	2.0
Total Interest-Bearing Liabilities	10,529.8	11.3	0.43		9,958.6	10.2	0.41		10,453.3	21.2	0.41		9,954.6	20.3
Net Interest Income		$115.3				$106.5				$228.3				$212.6
Interest Rate Spread			2.78	%			2.71	%			2.76	%		
Net Interest Margin			2.92	%			2.85	%			2.90	%		
Noninterest-Bearing Demand Deposits	4,533.0				4,316.3				4,582.6				4,271.6	
Other Liabilities	228.3				220.8				238.3				225.4	
Shareholders' Equity	1,204.8				1,143.9				1,191.2				1,136.7	
Total Liabilities and Shareholders' Equity	$16,495.9				$15,639.6				$16,465.4				$15,588.3	

[1] Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

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

[3] Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $3.1 million and $3.0 million for the three months ended June 30, 2017 and 2016, respectively, and $6.1 million and $6.0 million for the six months ended June 30, 2017 and 2016, respectively.

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Analysis of Change in Net Interest Income - Taxable-Equivalent Basis — Table 4

(dollars in millions)	Six Months Ended June 30, 2017 Compared to June 30, 2016 Volume	Rate [1]	Total
Change in Interest Income:			
Funds Sold	$(0.4)	$0.6	$0.2
Investment Securities			
Available-for-Sale			
Taxable	0.4	1.4	1.8
Non-Taxable	(0.7)	0.3	(0.4)
Held-to-Maturity			
Taxable	(0.7)	(0.2)	(0.9)
Non-Taxable	(0.1)	—	(0.1)
Total Investment Securities	(1.1)	1.5	0.4
Loans Held for Sale	0.3	—	0.3
Loans and Leases			
Commercial and Industrial	1.8	(0.9)	0.9
Commercial Mortgage	4.2	(0.4)	3.8
Construction	1.3	0.1	1.4
Commercial Lease Financing	0.1	(0.3)	(0.2)
Residential Mortgage	5.5	(3.1)	2.4
Home Equity	4.7	(0.3)	4.4
Automobile	1.7	(0.3)	1.4
Other [2]	1.1	0.5	1.6
Total Loans and Leases	20.4	(4.7)	15.7
Total Change in Interest Income	19.2	(2.6)	16.6
Change in Interest Expense:			
Interest-Bearing Deposits			
Demand	—	0.3	0.3
Savings	0.1	0.5	0.6
Time	0.6	1.2	1.8
Total Interest-Bearing Deposits	0.7	2.0	2.7
Short-Term Borrowings	—	0.1	0.1
Securities Sold Under Agreements to Repurchase	(1.9)	(0.2)	(2.1)
Other Debt	0.3	(0.1)	0.2
Total Change in Interest Expense	(0.9)	1.8	0.9
Change in Net Interest Income	$20.1	$(4.4)	$15.7

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

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

Net Interest Income

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

Net interest income was $112.3 million for the second quarter of 2017, an increase of $8.7 million or 8% compared to the same period in 2016. On a taxable-equivalent basis, net interest income was $115.3 million for the second quarter of 2017, an increase of $8.8 million or 8% compared to the same period in 2016. Net interest income was $222.2 million for the first six months of 2017, an increase of $15.6 million or 8% compared to the same period in 2016. On a taxable-equivalent basis, net interest income was $228.3 million for the first six months of 2017, an increase of $15.7 million or 7% compared to the same period in 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 2.92% for the second quarter of 2017, an increase of seven basis points

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compared to the same period in 2016. Net interest margin was 2.90% for the first six months of 2017, an increase of four basis points compared to the same period in 2016. The higher margin in 2017 was primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016.

Yields on our earning assets increased by nine basis points in the second quarter of 2017 compared to the same period in 2016 primarily due to the aforementioned shift in the mix of our earning assets from investment securities to loans, which generally have higher yields. In addition, yields on our commercial and industrial loan portfolio increased by 15 basis points primarily due to higher yields on floating rate loans. Yields on our investment securities portfolio increased by seven basis points primarily due to the higher interest rate environment and lower premium amortization. These yield increases were partially offset by a 21 basis point yield decrease in our residential mortgage loan portfolio, primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio. Yields on our earning assets increased by four basis points for the first six months of 2017 compared to the same period in 2016 primarily due to the aforementioned shift in the mix of our earning assets from investment securities to loans. In addition, yields on our investment securities portfolio increased by four basis points primarily due to the higher interest rate environment and lower premium amortization. Partially offsetting the year-to-date yield increase was a 20 basis point yield decrease in our residential mortgage loan portfolio, primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio. Yields on our commercial and industrial portfolio decreased by 15 basis points primarily due to an additional $1.3 million of interest income in the first quarter of 2016 due to the recovery of a non-performing loan in Guam, partially offset by higher yields on floating rate loans.

Rates paid on our interest-bearing liabilities increased by two basis points in the second quarter of 2017 and remained relatively unchanged for the first six months of 2017 compared to the same periods in 2016. Interest rates paid on our time deposits increased by 21 basis points in the second quarter of 2017 and by 19 basis points for the first six months of 2017 compared to the same periods in 2016, a reflection of the higher interest rate environment. This increase to our funding costs was largely offset by growth in our demand and savings deposits, which generally have lower rates than other funding sources. The average balance of these deposits increased by $316.7 million or 4% in the second quarter of 2017 and by $344.9 million or 4% for the first six months of 2017 compared to the same periods in 2016. Rates paid on our repurchase agreements decreased by 16 basis points in the second quarter of 2017 and by 8 basis points for the first six months of 2017 compared to the same periods in 2016 primarily due to repurchase agreements with private institutions totaling $75.0 million, which carried relatively higher rates, maturing during the second half of 2016. In addition, during the second quarter of 2017, we restructured three of our repurchase agreements with private institutions with an aggregate total of $200.0 million. These repurchase agreements were to mature in 2018 and had a weighted-average interest rate of 3.94%. The restructuring of the agreements extended the maturity dates to June 2022 and lowered the weighted-average interest rate to 2.70% effective June 2017.

Average balances of our earning assets increased by $829.5 million or 6% in the second quarter of 2017 and by $857.3 million or 6% for the first six months of 2017 compared to the same periods in 2016 primarily due to loan growth as the average balances of our loan and lease portfolio increased by $1.0 billion for both the second quarter of 2017 and the first six months of 2017 compared to the same periods in 2016. The average balance of our commercial and industrial portfolio increased by $75.2 million in the second quarter of 2017 and by $105.7 million for the first six months of 2017 compared to the same periods in 2016 primarily due to an increase in corporate demand for funding. The average balance of our commercial mortgage portfolio increased by $259.6 million in the second quarter of 2017 and by $226.2 million for the first six months of 2017 compared to the same periods in 2016 as a result of increased demand from new and existing customers as the real estate market in Hawaii continued to improve. The average balance of our residential mortgage portfolio increased by $267.3 million in the second quarter of 2017 and by $275.4 million for the first six months of 2017 compared to the same periods in 2016 primarily due to an increase in loan origination and refinance activity. The average balance of our home equity portfolio increased by $274.9 million in the second quarter of 2017 and by $269.6 million for the first six months of 2017 compared to the same periods in

2016 due in large part to the continued strong economy and increase in new loan originations. In addition, we experienced healthy line utilization during 2017. Partially offsetting the increase in the average balances of our loan and lease portfolio was a $16.3 million decrease in the average balance of our investment securities portfolio in the second quarter of 2017 and a $63.4 million decrease for the first six months of 2017 compared to the same periods in 2016 primarily due to the shift in the mix of our earning assets from investment securities to loans.

Average balances of our interest-bearing liabilities increased by $571.2 million or 6% in the second quarter of 2017 and by $498.7 million or 5% for the first six months of 2017 compared to the same periods in 2016 primarily due to continued growth in our relationship checking and savings products, along with growth in our time deposits. Average balances of our interest-bearing demand accounts increased by $124.6 million for the second quarter of 2017 and by $114.7 million for the first six months of 2017 compared to the same periods in 2016. Average balances of our savings accounts increased by $192.1 million for the second quarter of 2017 and by $230.2 million for the first six months of 2017 compared to the same periods in 2016.

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Average balances of our time deposits increased by $265.7 million for the second quarter of 2017 and by $185.9 million for the first six months of 2017 compared to the same periods in 2016.

Provision for Credit Losses

The provision for credit losses (the "Provision") reflects our judgment of the expense or benefit necessary to achieve the appropriate amount of the Allowance. We maintain the Allowance at levels we believe adequate to cover our estimate of probable credit losses as of the end of the reporting period. The Allowance is determined through detailed quarterly analyses of the loan and lease portfolio. The Allowance is based on our loss experience and changes in the economic environment, as well as an ongoing assessment of credit quality. Additional factors that are considered in determining the amount of the Allowance are the level of net charge-offs, non-performing assets, risk rating migration, as well as changes in our portfolio size and composition. We recorded a provision of $4.3 million in the second quarter of 2017 compared to a $1.0 million provision in the same period in 2016. For the first six months of 2017, we recorded a provision of $8.7 million compared to a negative provision of $1.0 million for the same period in 2016. The negative provision was primarily due to the recovery of a commercial loan previously charged-off. Our decision to record a provision or negative provision is reflective of our evaluation of the adequacy of the Allowance. For further discussion on the Allowance, see "Corporate Risk Profile - Reserve for Credit Losses" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Noninterest Income

Noninterest income decreased by $1.3 million or 3% in the second quarter of 2017 and by $1.6 million or 2% for the first six months of 2017 compared to the same periods in 2016.

Table 5 presents the components of noninterest income.

Noninterest Income — Table 5

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	Change	2017	2016	Change
Trust and Asset Management	$11,796	$12,707	$(911)	$23,275	$23,963	$(688)
Mortgage Banking	3,819	4,088	(269)	7,119	7,277	(158)
Service Charges on Deposit Accounts	8,009	8,150	(141)	16,334	16,593	(259)
Fees, Exchange, and Other Service Charges	13,965	13,978	(13)	27,297	27,422	(125)
Investment Securities Gains (Losses), Net	(520)	(312)	(208)	11,613	10,868	745
Annuity and Insurance	2,161	2,006	155	4,156	3,907	249
Bank-Owned Life Insurance	1,550	1,551	(1)	3,047	3,099	(52)
Other Income	4,456	4,351	105	8,311	9,597	(1,286)
Total Noninterest Income	$45,236	$46,519	$(1,283)	$101,152	$102,726	$(1,574)

Trust and asset management income is comprised of fees earned from the management and administration of trusts and other customer assets. These fees are largely based upon the market value of the assets we manage and the fee rate charged to customers. Total trust assets under administration were $9.0 billion and $8.8 billion as of June 30, 2017 and 2016, respectively. Trust and asset management income decreased by $0.9 million or 7% in the second quarter of 2017 compared to the same period in 2016. This decrease was primarily due to a $1.2 million service fee resulting from the sale of real estate in the second quarter of 2016. Trust and asset management income decreased by $0.7 million or 3% for the first six months of 2017 compared to the same period in 2016. This decrease was primarily due to the aforementioned $1.2 million service fee resulting from the sale of real estate in the second quarter of 2016. This decrease was partially offset by a $0.3 million increase in agency fees.

Mortgage banking income is highly influenced by mortgage interest rates, the housing market, the amount of our loan sales, and our valuation of mortgage servicing rights. Mortgage banking income decreased by $0.3 million or 7% in

the second quarter of 2017 and by $0.2 million or 2% for the first six months of 2017 compared to the same periods in 2016. These decreases were primarily due to lower loan sales and reduced margins on those sales. This decrease was partially offset by a $2.6 million valuation impairment to our mortgage servicing rights, recorded in the second quarter of 2016.

Service charges on deposit accounts decreased by $0.1 million or 2% in the second quarter of 2017 and by $0.3 million or 2% for the first six months of 2017 compared to the same periods in 2016 primarily due to a decrease in overdraft fees.

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Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges remained relatively unchanged in the second quarter of 2017 and for the first six months of 2017 compared to the same periods in 2016.

Net losses on sales of investment securities totaled $0.5 million in the second quarter of 2017 compared to $0.3 million during the same period in 2016. The net losses in the second quarters of 2017 and 2016 were due to quarterly fees paid to the counterparties of our prior Visa Class B share sale transactions. Net gains on sales of investment securities totaled $11.6 million for the first six months of 2017 compared to $10.9 million during the same period in 2016. The net gain in 2017 was primarily due to a $12.1 million gain on the sale of 90,000 Visa Class B shares in the first quarter of 2017. The net gain in 2016 was primarily due to an $11.2 million gain on the sale of 100,000 Visa Class B shares in the first quarter of 2016. We received these Class B shares in 2008 as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with the sale of these Visa Class B shares, we entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 90,914 Visa Class B shares (149,854 Class A equivalent shares) that we own are carried at a zero cost basis.

Other noninterest income increased by $0.1 million or 2% in the second quarter of 2017 and decreased by $1.3 million or 13% compared to the same periods in 2016. The year-to-date decrease was primarily due to a $1.6 million decrease in net gain on sale of leased assets (from $2.0 million in 2016 to $0.4 million in 2017). This decrease was partially offset by a $0.4 million increase in profit from foreign exchange contracts.

Noninterest Expense

Noninterest expense increased by $2.1 million or 2% in the second quarter of 2017 and by $3.3 million or 2% for the first six months of 2017 compared to the same periods in 2016.

Table 6 presents the components of noninterest expense.

Noninterest Expense — Table 6

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in thousands)	2017	2016	Change	2017	2016	Change
Salaries	$30,553	$28,797	$1,756	$59,978	$57,938	$2,040
Incentive Compensation	5,125	5,917	(792)	10,899	11,882	(983)
Share-Based Compensation	2,879	2,746	133	5,182	5,056	126
Commission Expense	1,791	2,151	(360)	3,627	3,508	119
Retirement and Other Benefits	4,159	4,092	67	9,200	9,046	154
Payroll Taxes	2,427	2,288	139	6,371	5,865	506
Medical, Dental, and Life Insurance	3,136	3,872	(736)	6,415	6,764	(349)
Separation Expense	43	426	(383)	43	744	(701)
Total Salaries and Benefits	50,113	50,289	(176)	101,715	100,803	912
Net Occupancy	8,131	7,158	973	16,299	14,161	2,138
Net Equipment	5,706	5,065	641	11,207	10,474	733

Data Processing	3,881	3,972	(91)	7,291	7,923	(632)
Professional Fees	2,592	2,047	545	5,371	4,686	685
FDIC Insurance	2,097	2,144	(47)	4,306	4,496	(190)
Other Expense:						
Delivery and Postage Services	2,207	2,431	(224)	4,540	4,884	(344)
Mileage Program Travel	1,210	1,239	(29)	2,335	2,330	5
Merchant Transaction and Card Processing Fees	1,099	1,113	(14)	2,036	2,257	(221)
Advertising	1,269	1,563	(294)	2,551	2,877	(326)
Amortization of Solar Energy Partnership Investments	848	632	216	1,696	1,264	432
Other	9,036	8,418	618	17,410	17,302	108
Total Other Expense	15,669	15,396	273	30,568	30,914	(346)
Total Noninterest Expense	$88,189	$86,071	$2,118	$176,757	$173,457	$3,300

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Total salaries and benefits expense remained relatively unchanged in the second quarter of 2017 compared to the same period in 2016. Salaries increased by $1.8 million primarily due to merit increases. This increase was largely offset by a $0.8 million decrease in incentive compensation and a $0.7 million decrease in medical, dental, and life insurance expense primarily due to an adjustment to the medical reserve in the second quarter of 2016. Total salaries and benefits expense increased by $0.9 million or 1% for the first six months of 2017 compared to the same period in 2016. Salaries increased by $2.0 million primarily due to merit increases. In addition, payroll taxes increased by $0.5 million. These increases were partially offset by a $1.0 million decrease in incentive compensation and a $0.7 million decrease in separation expense.

Net occupancy expense increased by $1.0 million or 14% in the second quarter of 2017 compared to the same period in 2016 primarily due to a $1.3 million gain on sale of real estate property in Maui during the second quarter of 2016. Net occupancy expense increased by $2.1 million or 15% for the first six months of 2017 compared to the same period in 2016. This increase was primarily due to a $1.5 million gain on the sale of real estate property in Guam during the first quarter of 2016, coupled with the aforementioned $1.3 million gain on sale of real estate property in Maui during the second quarter of 2016.

Net equipment expense increased by $0.6 million or 13% in the second quarter of 2017 and by $0.7 million or 7% for the first six months of 2017 compared to the same periods in 2016 primarily due to an increase in software license fees and maintenance.

Data processing expense decreased by $0.1 million or 2% in the second quarter of 2017 and by $0.6 million or 8% for the first six months of 2017 compared to the same periods in 2016. The year-to-date decrease was primarily due to lower pricing on information technology related expenses.

Professional fees increased by $0.5 million or 27% in the second quarter of 2017 compared to the same period in 2016 primarily due to a $0.3 million increase in professional services in our mortgage division. Professional fees increased by $0.7 million or 15% for the first six months of 2017 compared to the same period in 2016. This increase was primarily due to a $0.5 million increase in professional services in our mortgage division and a $0.4 million increase in legal fees.

Total other expense increased by $0.3 million or 2% in the second quarter of 2017 and decreased by $0.3 million or 1% for the first six months of 2017 compared to the same periods in 2016. The year-to-date decrease was primarily due to decreases in delivery and postage services ($0.3 million) and advertising expense ($0.3 million), partially offset by an increase in our investment in solar energy tax credit partnerships, which caused the related amortization expense to increase by $0.4 million. However, the federal and state tax benefits related to these partnership investments resulted in a net benefit to overall net income.

Provision for Income Taxes

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

Provision for Income Taxes and Effective Tax Rates — Table 7

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Provision for Income Taxes	$20,414	$18,753	$42,058	$42,388
Effective Tax Rates	31.37 %	29.77 %	30.50 %	30.98 %

The effective tax rate for the second quarter of 2017 was 31.37%, up from 29.77% for the same period in 2016. The effective tax rate in the second quarter of 2016 was favorably impacted by a $1.3 million credit to the provision for

income taxes resulting from the release of state tax reserves due to the lapse in the statute of limitations related to prior tax years.

The effective tax rate for the first six months of 2017 was 30.50%, down slightly from 30.98% for the same period in 2016. The effective tax rate for the first six months of 2017 was favorably impacted by a $1.9 million tax benefit from the exercise of stock options and the vesting of restricted stock, while the effective tax rate for the first six months of 2016 was favorably impacted by the aforementioned release of state tax reserves.

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Analysis of Statements of Condition

Investment Securities

The carrying value of our investment securities portfolio was $6.1 billion as of June 30, 2017, an increase of $80.4 million or 1% compared to December 31, 2016. As of June 30, 2017, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.02 years.

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

During the first six months of 2017, we primarily increased our holdings in mortgage-backed securities issued by Fannie Mae. In addition, we also increased our holdings in Small Business Administration securities, while decreasing our holdings in U.S. Treasury securities. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio. As of June 30, 2017, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of June 30, 2017, these mortgage-backed securities were all AAA-rated, with a low probability of a change in their credit ratings in the near future. As of June 30, 2017, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.27 years.

Gross unrealized gains in our investment securities portfolio were $61.4 million as of June 30, 2017 and $53.8 million as of December 31, 2016. Gross unrealized losses on our temporarily impaired investment securities were $44.2 million as of June 30, 2017 and $57.2 million as of December 31, 2016. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac, and corporate debt securities. See Note 2 to the Consolidated Financial Statements for more information.

As of June 30, 2017, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $528.3 million, representing 57% of the total fair value of the Company’s municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody’s while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Approximately 78% of our Hawaii municipal bond holdings were general obligation issuances. As of June 30, 2017, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of our municipal debt securities.

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Loans and Leases

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

Loan and Lease Portfolio Balances Table 8

(dollars in thousands)	June 30, 2017	December 31, 2016
Commercial		
Commercial and Industrial	$1,241,953	$ 1,249,791
Commercial Mortgage	2,009,886	1,889,551
Construction	248,030	270,018
Lease Financing	205,043	208,332
Total Commercial	3,704,912	3,617,692
Consumer		
Residential Mortgage	3,317,179	3,163,073
Home Equity	1,473,123	1,334,163
Automobile	484,092	454,333
Other [1]	408,307	380,524
Total Consumer	5,682,701	5,332,093
Total Loans and Leases	$9,387,613	$ 8,949,785

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

Total loans and leases as of June 30, 2017 increased by $437.8 million or 5% from December 31, 2016 primarily due to growth in our consumer lending portfolio.

Commercial loans and leases as of June 30, 2017 increased by $87.2 million or 2% from December 31, 2016. Commercial and industrial loans decreased by $7.8 million or less than 1% from December 31, 2016. Commercial mortgage loans increased by $120.3 million or 6% from December 31, 2016 primarily due to continued demand from new and existing customers as the Hawaii economy continues to be strong coupled with the transfer of construction loans into this loan portfolio upon project completion. Construction loans decreased by $22.0 million or 8% from December 31, 2016 primarily due to the aforementioned construction loans transferred to the commercial mortgage loan portfolio, as well as successful completion of construction projects such as condominiums and low-income housing, partially offset by increased activity in our portfolio. Lease financing decreased by 3.3 million or 2% from December 31, 2016 primarily due to higher payoff activity on true leases.

Consumer loans and leases as of June 30, 2017 increased by $350.6 million or 7% from December 31, 2016. Residential mortgage loans increased by $154.1 million or 5% from December 31, 2016 primarily due to an increase in loan origination and slowdown in payoff activity. Home equity lines and loans increased by $139.0 million or 10% from December 31, 2016 due to continued growth as a result of a strong Hawaii economy. In addition, we continued to experience steady line utilization during 2017. Automobile loans increased by $29.8 million or 7% from December 31, 2016 primarily driven by revised pricing and focus on improving dealer relationships. Other consumer loans increased by $27.8 million or 7% from December 31, 2016, primarily due to growth in our automobile leasing and installment loans.

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

Geographic Distribution of Loan and Lease Portfolio — Table 9

(dollars in thousands)	Hawaii	U.S. Mainland [1]	Guam	Other Pacific Islands	Foreign [2]	Total
June 30, 2017						
Commercial						
Commercial and Industrial	$1,071,895	$ 114,696	$54,585	$ 506	$ 271	$1,241,953
Commercial Mortgage	1,764,029	54,574	191,283	—	—	2,009,886
Construction	234,891	—	1,417	11,722	—	248,030
Lease Financing	54,290	144,881	2,436	—	3,436	205,043
Total Commercial	3,125,105	314,151	249,721	12,228	3,707	3,704,912
Consumer						
Residential Mortgage	3,227,916	—	87,274	1,989	—	3,317,179
Home Equity	1,435,632	1,347	34,884	1,260	—	1,473,123
Automobile	387,807	3	92,472	3,810	—	484,092
Other [3]	332,990	—	42,433	32,884	—	408,307
Total Consumer	5,384,345	1,350	257,063	39,943	—	5,682,701
Total Loans and Leases	$8,509,450	$ 315,501	$506,784	$ 52,171	$ 3,707	$9,387,613
December 31, 2016						
Commercial						
Commercial and Industrial	$1,076,742	$ 105,474	$66,573	$ 639	$ 363	$1,249,791
Commercial Mortgage	1,700,162	31,003	158,386	—	—	1,889,551
Construction	262,558	—	1,196	6,264	—	270,018
Lease Financing	56,752	147,092	1,309	—	3,179	208,332
Total Commercial	3,096,214	283,569	227,464	6,903	3,542	3,617,692
Consumer						
Residential Mortgage	3,067,079	—	93,764	2,230	—	3,163,073
Home Equity	1,296,976	1,776	34,090	1,321	—	1,334,163
Automobile	360,759	13	89,617	3,944	—	454,333
Other [3]	303,372	—	40,293	36,859	—	380,524
Total Consumer	5,028,186	1,789	257,764	44,354	—	5,332,093
Total Loans and Leases	$8,124,400	$ 285,358	$485,228	$ 51,257	$ 3,542	$8,949,785

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

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

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

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

Our Hawaii loan and lease portfolio increased by $385.1 million or 5% from December 31, 2016, reflective of a healthy Hawaii economy.

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Other Assets

Table 10 presents the major components of other assets.

Other Assets — Table 10

(dollars in thousands)	June 30, 2017	December 31, 2016
Federal Home Loan Bank and Federal Reserve Bank Stock	$40,167	$ 40,063
Derivative Financial Instruments	12,283	13,731
Low-Income Housing and Other Equity Investments	77,504	78,900
Deferred Compensation Plan Assets	25,899	21,952
Prepaid Expenses	9,559	7,355
Accounts Receivable	9,961	12,584
Other	29,270	20,123
Total Other Assets	$204,643	$ 194,708

Other assets increased by $9.9 million or 5% from December 31, 2016. This increase was primarily due to higher balances related to settlement timing on merchant services, debit card transactions, and ATM transactions.

Deposits

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

Deposits — Table 11

(dollars in thousands)	June 30, 2017	December 31, 2016
Consumer	$7,278,536	$ 6,997,482
Commercial	5,903,639	6,110,189
Public and Other	1,602,474	1,212,569
Total Deposits	$14,784,649	$ 14,320,240

Total deposits were $14.8 billion as of June 30, 2017, an increase of $464.4 million or 3% from December 31, 2016. This increase was primarily due to a $389.9 million increase in public deposits mainly the result of a $339.2 million increase in time deposits. Time deposits also increased in our consumer and commercial segments, rising $63.7 million and $63.3 million, respectively. Core deposits remained relatively unchanged as increases in consumer core deposits were offset by decreases in commercial core deposits.

Table 12 presents the composition of our savings deposits.

Savings Deposits — Table 12

(dollars in thousands)	June 30, 2017	December 31, 2016
Money Market	$1,820,143	$ 1,947,775
Regular Savings	3,544,048	3,447,924
Total Savings Deposits	$5,364,191	$ 5,395,699

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Securities Sold Under Agreements to Repurchase

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

Securities Sold Under Agreements to Repurchase — Table 13

(dollars in thousands)	June 30, 2017	December 31, 2016
Private Institutions	$500,000	$ 500,000
Government Entities	5,292	23,378
Total Securities Sold Under Agreements to Repurchase	$505,292	$ 523,378

Securities sold under agreements to repurchase as of June 30, 2017 decreased by $18.1 million or 3% from December 31, 2016. This decrease was primarily due to repurchase agreements maturing in the first quarter of 2017. As of June 30, 2017, the weighted-average maturity was 233 days for our repurchase agreements with government entities and 4.1 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted-average maturity for our repurchase agreements with private institutions would decrease to 3.1 years. As of June 30, 2017, the weighted-average interest rate for outstanding agreements with government entities and private institutions was 0.53% and 3.64%, respectively, with all rates being fixed. Each of our repurchase agreements is accounted for as a collateralized financing arrangement (i.e., a secured borrowing) and not as a sale and subsequent repurchase of securities.

In the second quarter of 2017, we restructured three of our repurchase agreements with private institutions with an aggregate total of $200.0 million. These repurchase agreements were to mature in 2018 and had a weighted-average interest rate of 3.94%. The restructuring of the agreements extended the maturity dates to June 2022 and lowered the weighted-average interest rate to 2.70% effective June 2017.

Other Debt

Table 14 presents the composition of our other debt.

Other Debt — Table 14

(dollars in thousands)	June 30, 2017	December 31, 2016
Federal Home Loan Bank Advances	$250,000	$ 250,000
Non-Recourse Debt	7,153	7,153
Capital Lease Obligations	10,751	10,785
Total	$267,904	$ 267,938

Other debt was $267.9 million as of June 30, 2017, unchanged from December 31, 2016. As of June 30, 2017, our FHLB advances had a weighted-average interest rate of 1.28% with maturity dates ranging from 2018 to 2020. These advances were primarily for asset/liability management purposes. As of June 30, 2017, our remaining unused line of credit with the FHLB was $1.9 billion.

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Analysis of Business Segments

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

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

Business Segment Net Income — Table 15

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Retail Banking	$21,410	$18,646	$40,757	$33,659
Commercial Banking	19,013	17,477	37,959	40,127
Investment Services	4,203	4,541	7,815	7,727
Total	44,626	40,664	86,531	81,513
Treasury and Other	36	3,581	9,307	12,942
Consolidated Total	$44,662	$44,245	$95,838	$94,455

Retail Banking

Net income increased by $2.8 million or 15% in the second quarter of 2017 compared to the same period in 2016 primarily due to an increase in net interest income. This was partially offset by increases in noninterest expense and the Provision. The increase in net interest income was primarily due to higher average balances in both the lending and deposit portfolios as well as higher earnings credits on the segment's deposit portfolio. The increase in noninterest expense was primarily due to a $1.3 million gain on sale of real estate property in Maui in the second quarter of 2016. In addition, professional fees were higher in the second quarter of 2017 compared to the same period in 2016. The increase in the Provision was primarily due to higher net charge-offs in our mortgage loan, installment loan and credit card portfolios, partially offset by lower net charge-offs in our home equity loan and personal credit line portfolios.

Net income increased by $7.1 million or 21% in the first half of 2017 compared to the same period in 2016 primarily due to an increase in net interest income. This was partially offset by increases in the Provision and noninterest expense. The increase in net interest income was primarily due to higher average balances in both the lending and deposit portfolios as well as higher earnings credits on the segment's deposit portfolio. The increase in the Provision was primarily due to higher net charge-offs in our credit card, auto loan, installment loan and mortgage loan portfolios, partially offset by lower net charge-offs in our home equity loan and personal credit line portfolios. The increase in noninterest expense is primarily due to the $1.5 million gain on the sale of real estate property in Guam during the first quarter of 2016, coupled with the aforementioned $1.3 million gain on sale of real estate property in Maui in the second quarter of 2016. In addition, professional fees were higher in the first half of 2017 compared to the same period in 2016 primarily due to increases in legal fees and other professional services.

Commercial Banking

Net income increased by $1.5 million or 9% in the second quarter of 2017 compared to the same period in 2016 primarily due to increases in net interest income, partially offset by a decrease in noninterest income and to an increase in noninterest expense. The increase in net interest income was primarily due to higher average balances in both the lending and deposit portfolios, and to higher earnings credits on the segment's deposit portfolio. The decrease in noninterest income was primarily due to lower fees related to our customer interest rate swap derivative program and to lower non-recurring loan fees. The increase in noninterest expense was primarily due to higher salaries,

operating and allocated expenses.

Net income decreased by $2.2 million or 5% for the first six months of 2017 compared to the same period in 2016 primarily to increases in the Provision and noninterest expense, and to a decrease in noninterest income. This was partially offset by an increase in net interest income. The increase in the Provision was primarily due to the full recovery of non-performing commercial and industrial loans related to one commercial client in Guam in the first quarter of 2016. The increase in noninterest expense was primarily due to higher allocated expenses, largely attributed to the gain on sale of real estate property in Guam in the first quarter of 2016. The decrease in noninterest income was primarily due to lower net gains on sale of equipment leases and to lower non-recurring loan fees. Partially offsetting the decrease in net income was an increase in net interest income primarily due to higher average balances in both the lending and deposit portfolios.

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Investment Services

Net income decreased by $0.3 million or 7% in the second quarter of 2017 compared to the same period in 2016 primarily due to a decrease in noninterest income and an increase in noninterest expenses. This was partially offset by an increase in net interest income. The decrease in noninterest income was primarily due to a $1.2 million service fee resulting from the sale of trust real estate in the second quarter of 2016. The increase in noninterest expense was primarily driven by higher salaries, an operational charge-off in the second quarter of 2016, and higher allocated information technology expenses. The increase in net interest income was primarily driven by higher average balances of the segment's deposit portfolio.

Net income increased by $0.1 million or 1% for the first six months of 2017 compared to the same period in 2016 primarily due an increase in net interest income partially offset by an increase in noninterest expense. The increase in net interest income was primarily driven by higher average balances in the segment's deposit portfolio. The increase in noninterest expense was primarily driven by higher salaries and an operating loss recovery in the second quarter of 2016.

Treasury and Other

Net income decreased by $3.5 million or 99% in the second quarter of 2017 compared to the same period in 2016 primarily due to a decrease in net interest income and an increase in the Provision. The decrease in net interest income was primarily due to higher deposit funding costs, partially offset by an increase in funding income related to lending activities. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate increased to 31.37% in the second quarter of 2017 compared to 29.77% in the same period in 2016.

Net income decreased by $3.6 million or 28% for the first six months of 2017 compared to the same period in 2016 primarily due to a decrease in net interest income and an increase in the Provision. This was partially offset by an increase in noninterest income. The decrease in net interest income was primarily due to higher deposit funding costs, partially offset by an increase in funding income related to lending activities. The increase in noninterest income was due to higher net gains on the sale of Visa class B shares in the first quarter of 2017. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate decreased to 30.50% in the first half of 2017 compared to 30.98% in the same period in 2016.

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

Corporate Risk Profile

Credit Risk

As of June 30, 2017, our overall credit risk profile reflects a healthy Hawaii economy as our levels of non-performing assets and credit losses remain well controlled. The underlying risk profile of our lending portfolio continued to remain strong during the first six months of 2017.

We actively manage exposures with deteriorating asset quality to reduce levels of potential loss exposure and closely monitor our reserves and capital to address both anticipated and unforeseen issues. Risk management activities include detailed analysis of portfolio segments and stress tests of certain segments to ensure that reserve and capital

levels are appropriate. We perform frequent loan and lease-level risk monitoring and risk rating reviews, which provide opportunities for early interventions to allow for credit exits or restructuring, loan and lease sales, and voluntary workouts and liquidations.

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

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

Table 16

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

(dollars in thousands)	June 30, 2017	December 31, 2016
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial		
Commercial and Industrial	$175	$151
Commercial Mortgage	1,460	997
Total Commercial	1,635	1,148
Consumer		
Residential Mortgage	9,337	13,780
Home Equity	3,405	3,147
Total Consumer	12,742	16,927
Total Non-Accrual Loans and Leases	14,377	18,075
Foreclosed Real Estate	1,991	1,686
Total Non-Performing Assets	$16,368	$19,761
Accruing Loans and Leases Past Due 90 Days or More		
Consumer		
Residential Mortgage	$2,269	$3,127
Home Equity	2,343	1,457
Automobile	539	894
Other [1]	1,859	1,592
Total Consumer	7,010	7,070
Total Accruing Loans and Leases Past Due 90 Days or More	$7,010	$7,070
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$53,158	$52,208
Total Loans and Leases	$9,387,613	$8,949,785
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.15 %	0.20 %
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.17 %	0.22 %
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.04 %	0.03 %
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.26 %	0.35 %
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Foreclosed Real Estate	0.25 %	0.30 %
Changes in Non-Performing Assets		
Balance as of December 31, 2016	$19,761	
Additions	2,793	
Reductions		
Payments	(1,514)	
Return to Accrual Status	(2,015)	
Sales of Foreclosed Real Estate	(1,883)	
Charge-offs/Write-downs	(774)	
Total Reductions	(6,186)	
Balance as of June 30, 2017	$16,368	

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

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

Total NPAs were $16.4 million as of June 30, 2017, a decrease of $3.4 million or 17% from December 31, 2016. The decrease was experienced in our consumer lending portfolio. The ratio of our NPAs to total loans and leases and foreclosed real estate was 0.17% as of June 30, 2017 and 0.22% as of December 31, 2016.

Commercial and industrial non-accrual loans were relatively unchanged from December 31, 2016.

Commercial mortgage non-accrual loans were $1.5 million as of June 30, 2017, an increase of $0.5 million or 46% from December 31, 2016, due to the addition of a loan from December 31, 2016. We have individually evaluated the commercial mortgage non-accrual loans for impairment and have recorded no partial charge-offs.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $4.4 million or 32% from December 31, 2016 primarily due to transfers to foreclosed real estate and from loans returning to accrual status. Residential mortgage non-accrual loans remain at elevated levels due mainly to the lengthy judicial foreclosure process as well as residential mortgage loan modifications the Bank entered into to assist borrowers wishing to remain in their residences despite having financial challenges. As of June 30, 2017, our residential mortgage non-accrual loans were comprised of 30 loans with a weighted average current LTV ratio of 61%.

Foreclosed real estate represents property acquired as the result of borrower defaults on loans. Foreclosed real estate is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market conditions and applicable regulations. Foreclosed real estate increased by $0.3 million or 18% from December 31, 2016 due to the addition of three residential properties, partially offset by the sale of one property.

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

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were $7.0 million as of June 30, 2017, a $0.1 million or 1% decrease from December 31, 2016.

Impaired Loans

Impaired loans are defined as loans for which we believe it is probable we will not collect all amounts due according to the contractual terms of the loan agreement. Included in impaired loans are all classes of commercial non-accruing loans (except lease financing and small business loans), all loans modified in a TDR (including accruing TDRs), and other loans where we believe that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment. Impaired loans were $58.7 million as of June 30, 2017 and $60.7 million as of December 31, 2016, and had a related Allowance of $3.8 million and $3.6 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, we have recorded cumulative charge-offs of $15.2 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

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

Loans Modified in a Troubled Debt Restructuring — Table 17

(dollars in thousands)	June 30, 2017	December 31, 2016
Commercial		
Commercial and Industrial	$8,690	$ 10,170
Commercial Mortgage	8,828	9,157
Construction	1,465	1,513
Lease Financing	—	—
Total Commercial	18,983	20,840
Consumer		
Residential Mortgage	21,947	25,625
Home Equity	1,735	1,516
Automobile	12,178	9,660
Other [1]	2,669	2,326
Total Consumer	38,529	39,127
Total	$57,512	$ 59,967

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

Loans modified in a TDR decreased by $2.5 million or 4% from December 31, 2016. Residential mortgage loans remain our largest TDR loan class.

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Reserve for Credit Losses

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

Reserve for Credit Losses — Table 18

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Balance at Beginning of Period	$111,636	$111,249	$110,845	$108,952
Loans and Leases Charged-Off				
Commercial				
Commercial and Industrial	(124)	(204)	(298)	(461)
Consumer				
Residential Mortgage	(506)	(79)	(689)	(284)
Home Equity	(282)	17	(645)	(626)
Automobile	(1,512)	(1,372)	(3,802)	(2,932)
Other [1]	(3,063)	(2,117)	(5,757)	(4,339)
Total Loans and Leases Charged-Off	(5,487)	(3,755)	(11,191)	(8,642)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial				
Commercial and Industrial	265	403	601	7,270
Commercial Mortgage	—	14	—	28
Construction	—	—	—	23
Lease Financing	1	1	1	2
Consumer				
Residential Mortgage	264	279	368	480
Home Equity	838	322	1,346	835
Automobile	607	541	1,227	1,133
Other [1]	551	450	1,078	923
Total Recoveries on Loans and Leases Previously Charged-Off	2,526	2,010	4,621	10,694
Net Loans and Leases Recovered (Charged-Off)	(2,961)	(1,745)	(6,570)	2,052
Provision for Credit Losses	4,250	1,000	8,650	(1,000)
Provision for Unfunded Commitments	250	—	250	500
Balance at End of Period [2]	$113,175	$110,504	$113,175	$110,504
Components				
Allowance for Loan and Lease Losses	$106,353	$103,932	$106,353	$103,932
Reserve for Unfunded Commitments	6,822	6,572	6,822	6,572
Total Reserve for Credit Losses	$113,175	$110,504	$113,175	$110,504
Average Loans and Leases Outstanding	$9,217,779	$8,205,104	$9,119,610	$8,072,600
Ratio of Net Loans and Leases Charged-Off (Recovered) to Average Loans and Leases Outstanding (annualized)	0.13%	0.09%	0.15%	(0.05)%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.13%	1.25%	1.13%	1.25%

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

[2]

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

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

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Allowance for Loan and Lease Losses

As of June 30, 2017, the Allowance was $106.4 million or 1.13% of total loans and leases outstanding, compared with an Allowance of $104.3 million or 1.17% of total loans and leases outstanding as of December 31, 2016. The decrease in the ratio of Allowance to loans and leases outstanding was commensurate with the Company's credit risk profile, loan growth, and a healthy Hawaii economy.

Net charge-offs on loans and leases were $3.0 million or 0.13% of total average loans and leases, on an annualized basis, in the second quarter of 2017 compared to net charge-offs of $1.7 million or 0.09% of total average loans and leases, on an annualized basis, in the second quarter of 2016. Net charge-offs on loans and leases were $6.6 million or 0.15% of total average loans and leases, on an annualized basis, for the first six months of 2017 compared to net recoveries of $2.1 million for the same period in 2016. Net recoveries in our commercial portfolios were $0.3 million for the first six months of 2017 compared to $6.9 million for the same period in 2016. Commercial recoveries in the first six months of 2016 were primarily due to the recovery of one commercial and industrial loan. Net charge-offs in our consumer portfolios were $6.9 million for the first six months of 2017 compared to $4.8 million for the same period in 2016. The higher net charge-offs during the first six months of 2017 were primarily in our automobile and installment loan portfolios.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of June 30, 2017, based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The Reserve for Unfunded Commitments

The Unfunded Reserve was $6.8 million as of June 30, 2017, an increase of $0.2 million from December 31, 2016. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

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Market Risk

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

Our primary market risk exposure is interest rate risk.

Interest Rate Risk

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

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

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

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

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

A key element in our ongoing process to measure and monitor interest rate risk is the utilization of an asset/liability simulation model that attempts to capture the dynamic nature of the statement of condition. The model is used to estimate and measure the statement of condition sensitivity to changes in interest rates. These estimates are based on assumptions about the behavior of loan and deposit pricing, repayment rates on mortgage-based assets, and principal amortization and maturities on other financial instruments. The model's analytics include the effects of standard

prepayment options on mortgages and customer withdrawal options for deposits. While such assumptions are inherently uncertain, we believe that our assumptions are reasonable.

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We utilize net interest income simulations to analyze short-term income sensitivities to changes in interest rates. Table 19 presents, for the twelve months subsequent to June 30, 2017 and December 31, 2016, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the statement of condition and interest rates are generally unchanged. Based on our net interest income simulation as of June 30, 2017, net interest income is expected to increase as interest rates rise. This is due in part to our strategy to maintain a relatively short investment portfolio duration. In addition, rising interest rates would drive higher rates on loans and investment securities, as well as induce a slower pace of premium amortization on certain securities within our investment portfolio. However, lower interest rates would likely cause a decline in net interest income as lower rates would lead to lower yields on loans and investment securities, as well as drive higher premium amortization on existing investment securities. Since deposit costs are already at low levels, we believe that lower interest rates are unlikely to significantly impact our funding costs. Based on our net interest income simulation as of June 30, 2017, net interest income sensitivity to changes in interest rates for the twelve months subsequent to June 30, 2017 was relatively comparable to the sensitivity profile for the twelve months subsequent to December 31, 2016.

Net Interest Income Sensitivity Profile — Table 19

	Impact on Future Annual Net Interest Income			
(dollars in thousands)	June 30, 2017		December 31, 2016	
Gradual Change in Interest Rates (basis points)				
+200	$ 17,663	3.8 %	$ 17,752	4.1 %
+100	9,049	2.0	8,524	1.9
-100	(9,985)	(2.2)	(10,810)	(2.5)
Immediate Change in Interest Rates (basis points)				
+200	$ 43,895	9.5 %	$ 45,372	10.4 %
+100	22,914	4.9	22,090	5.0
-100	(30,618)	(6.6)	(27,888)	(6.4)

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

Other Market Risks

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

Liquidity Risk Management

The objective of our liquidity risk management process is to manage cash flow and liquidity in an effort to provide continuous access to sufficient, reasonably priced funds. Funding requirements are impacted by loan originations and refinancings, deposit balance changes, liability issuances and settlements, and off-balance sheet funding

commitments. We consider and comply with various regulatory guidelines regarding required liquidity levels and periodically monitor our liquidity position in light of the changing economic environment and customer activity. Based on periodic liquidity assessments, we may alter our asset, liability, and off-balance sheet positions. The ALCO monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. This process, combined with our ability to raise funds in money and capital markets and through private placements, provides flexibility in managing the exposure to liquidity risk.

In an effort to satisfy our liquidity needs, we actively manage our assets and liabilities. We have access to immediate liquid resources in the form of cash which is primarily on deposit with the FRB. Potential sources of liquidity also include investment securities in our available-for-sale securities portfolio, our ability to sell loans in the secondary market, and to secure borrowings from the FRB and FHLB. Our held-to-maturity securities, while not intended for sale, may also be utilized in repurchase agreements to obtain funding. Our core deposits have historically provided us with a long-term source of stable and relatively lower cost source of funding. Additional funding is available through the issuance of long-term debt or equity.

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Maturities and payments on outstanding loans and maturing investment securities also provide a steady flow of funds. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and FRB. As of June 30, 2017, we had additional borrowing capacity of $1.9 billion from the FHLB and $675.5 million from the FRB based on the amount of collateral pledged.

We continued our focus on maintaining a strong liquidity position throughout the first six months of 2017. As of June 30, 2017, cash and cash equivalents were $874.2 million, the carrying value of our available-for-sale investment securities was $2.3 billion, and total deposits were $14.8 billion. As of June 30, 2017, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.27 years.

Capital Management

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

The Company and the Bank are each subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements could cause certain mandatory and discretionary actions by regulators that, if undertaken, would likely have a material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative and qualitative measures. These measures were established by regulation intended to ensure capital adequacy. As of June 30, 2017, the Company and the Bank were considered "well capitalized" under this regulatory framework. The Company's regulatory capital ratios are presented in Table 20 below. There have been no conditions or events since June 30, 2017 that management believes have changed either the Company's or the Bank's capital classifications.

As of June 30, 2017, shareholders' equity was $1.2 billion, an increase of $52.2 million or 4% from December 31, 2016. For the first six months of 2017, net income of $95.8 million, common stock issuances of $8.4 million, share-based compensation of $3.7 million, and other comprehensive income of $8.3 million were partially offset by cash dividends paid of $42.8 million, and common stock repurchased of $21.3 million. In the first six months of 2017, included in the amount of common stock repurchased were 237,066 shares repurchased under our share repurchase program. These shares were repurchased at an average cost per share of $82.32 and a total cost of $19.5 million. From the beginning of our share repurchase program in July 2001 through June 30, 2017, we repurchased a total of 53.9 million shares of common stock and returned a total of $2.05 billion to our shareholders at an average cost of $38.04 per share. As of June 30, 2017, remaining buyback authority under our share repurchase program was $45.5 million. From July 1, 2017 through July 18, 2017, the Parent repurchased an additional 33,000 shares of common stock at an average cost of $82.69 per share for a total of $2.7 million. Remaining buyback authority under our share repurchase program was $42.8 million as of July 18, 2017. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, regulatory rules, applicable SEC rules, and various other factors.

In July 2017, the Parent's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Parent's outstanding shares. The dividend will be payable on September 15, 2017 to shareholders of record at the close of business on August 31, 2017.

The final rules implementing the Basel Committee on Banking Supervision's ("BCBS") capital guidelines for U.S. banks became effective for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of June 30, 2017, the Company's

capital levels remained characterized as “well-capitalized” under the new rules. See the “Regulatory Initiatives Affecting the Banking Industry” section below for further discussion on Basel III.

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Table 20 presents our regulatory capital and ratios as of June 30, 2017 and December 31, 2016.

Regulatory Capital and Ratios — Table 20

(dollars in thousands)	June 30, 2017	December 31, 2016
Regulatory Capital		
Shareholders' Equity	$1,213,757	$1,161,537
Less: Goodwill [1]	27,413	27,413
Postretirement Benefit Liability Adjustments	(28,600)	(28,892)
Net Unrealized Gains (Losses) on Investment Securities [2]	2,987	(5,014)
Other	(198)	(198)
Common Equity Tier 1 Capital	1,212,155	1,168,228
Tier 1 Capital	1,212,155	1,168,228
Allowable Reserve for Credit Losses	113,575	110,300
Total Regulatory Capital	$1,325,730	$1,278,528
Risk-Weighted Assets	$9,087,057	$8,823,485
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	13.34 %	13.24 %
Tier 1 Capital Ratio	13.34	13.24
Total Capital Ratio	14.58	14.49
Tier 1 Leverage Ratio	7.37	7.21

[1] Calculated net of deferred tax liabilities.

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

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Regulatory Initiatives Affecting the Banking Industry

Basel III

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

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules' requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of June 30, 2017, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

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

Stress Testing

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

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

We submitted our latest stress testing results to the FRB on July 29, 2016 and disclosed the results to the public (via posting to our website) on October 25, 2016. Our next stress testing results will be submitted to the FRB by the required due date of July 31, 2017 and we will disclose the results to the public in October 2017.

Deposit Insurance Fund ("DIF") Assessment

In March 2016, the FDIC approved a final rule that imposes on banks with at least $10 billion in assets, such as the Company, a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The surcharge became effective for the third quarter of 2016 and the FDIC estimates the surcharge will be imposed for approximately two years. The surcharge took effect at the same time that the regular FDIC insurance assessment rates for all banks decline under a rule adopted by the FDIC in 2011. The net effect of the FDIC assessment changes noted

above reduced our FDIC insurance expense by approximately $0.2 million and $0.4 million for the three and six months ended June 30, 2017, respectively.

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Operational Risk

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

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

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

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

Off-Balance Sheet Arrangements

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

Credit Commitments and Contractual Obligations

Our credit commitments and contractual obligations have not changed materially since previously reported in our Annual Report on Form 10-K for the year ended December 31, 2016.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Market Risk” of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2017. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

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Part II - Other Information

Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

The Parent’s repurchases of its common stock during the second quarter of 2017 were as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
April 1 - 30, 2017	36,232	$ 80.32	35,266	$ 52,536,600
May 1 - 31, 2017	48,500	80.02	48,500	48,655,707
June 1 - 30, 2017	39,300	80.61	39,300	45,487,635
Total	124,032	$ 80.29	123,066	

[1] During the second quarter of 2017, 966 shares were purchased by the trustee of a trust established pursuant to the Bank of Hawaii Corporation Director Deferred Compensation Plan (the “DDCP”) directly from the Parent in satisfaction of the Company’s obligations to participants under the DDCP. The issuance of these shares was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”) by Section 4(a)(2) thereof. The trustee under the trust and the participants under the DDCP are accredited investors, as defined in Rule 501(a) under the Securities Act. These transactions did not involve a public offering and occurred without general solicitation or advertising. The shares were purchased at the closing price of the Parent’s common stock on the dates of purchase.

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

Item 6. Exhibits

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

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Signatures

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

Date: July 24, 2017 Bank of Hawaii Corporation

By: /s/ Peter S. Ho
Peter S. Ho
Chairman of the Board,
Chief Executive Officer, and
President

By: /s/ Dean Y. Shigemura
Dean Y. Shigemura
Chief Financial Officer

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Exhibit Index

Exhibit Number	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data File