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, 2018**

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 17, 2018, there were 42,031,229 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)	2018	2017	2018	2017
Interest Income				
Interest and Fees on Loans and Leases	$ 101,311	$ 90,909	$ 198,945	$ 178,846
Income on Investment Securities				
Available-for-Sale	12,380	11,835	24,521	22,919
Held-to-Maturity	20,711	19,918	42,007	39,624
Deposits	(4)	2	14	7
Funds Sold	846	696	1,603	1,586
Other	341	208	641	438
Total Interest Income	135,585	123,568	267,731	243,420
Interest Expense				
Deposits	9,459	4,998	17,040	8,689
Securities Sold Under Agreements to Repurchase	4,617	5,079	9,181	10,264
Funds Purchased	83	39	136	42
Short-Term Borrowings	13	64	29	64
Other Debt	917	1,109	1,893	2,210
Total Interest Expense	15,089	11,289	28,279	21,269
Net Interest Income	120,496	112,279	239,452	222,151
Provision for Credit Losses	3,500	4,250	7,625	8,650
Net Interest Income After Provision for Credit Losses	116,996	108,029	231,827	213,501
Noninterest Income				
Trust and Asset Management	11,356	11,796	22,537	23,275
Mortgage Banking	2,179	3,819	4,324	7,119
Service Charges on Deposit Accounts	6,865	8,009	13,994	16,334
Fees, Exchange, and Other Service Charges	14,400	13,965	28,733	27,297
Investment Securities Gains (Losses), Net	(1,702)	(520)	(2,368)	11,613
Annuity and Insurance	1,847	2,161	3,053	4,156
Bank-Owned Life Insurance	1,796	1,550	3,638	3,047
Other	4,557	4,456	11,422	8,311
Total Noninterest Income	41,298	45,236	85,333	101,152
Noninterest Expense				
Salaries and Benefits	52,148	49,676	106,570	100,841
Net Occupancy	8,588	8,131	17,122	16,299
Net Equipment	5,845	5,706	11,372	11,207
Data Processing	4,563	3,881	8,454	7,291
Professional Fees	2,546	2,592	5,319	5,371
FDIC Insurance	2,182	2,097	4,339	4,306
Other	14,919	16,106	31,999	31,442
Total Noninterest Expense	90,791	88,189	185,175	176,757
Income Before Provision for Income Taxes	67,503	65,076	131,985	137,896
Provision for Income Taxes	12,785	20,414	23,227	42,058
Net Income	$ 54,718	$ 44,662	$ 108,758	$ 95,838
Basic Earnings Per Share	$ 1.31	$ 1.05	$ 2.59	$ 2.26
Diluted Earnings Per Share	$ 1.30	$ 1.05	$ 2.57	$ 2.24
Dividends Declared Per Share	$ 0.60	$ 0.50	$ 1.12	$ 1.00
Basic Weighted Average Shares	41,884,221	42,353,976	41,960,743	42,379,730
Diluted Weighted Average Shares	42,152,200	42,658,885	42,252,900	42,704,010

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

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)	2018	2017	2018	2017
Net Income	$ 54,718	$ 44,662	$ 108,758	$ 95,838
Other Comprehensive Income (Loss), Net of Tax:				
Net Unrealized Gains (Losses) on Investment Securities	(2,974)	3,106	(12,095)	8,000
Defined Benefit Plans	216	147	432	293
Total Other Comprehensive Income (Loss)	(2,758)	3,253	(11,663)	8,293
Comprehensive Income	$ 51,960	$ 47,915	$ 97,095	$ 104,131

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

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

(dollars in thousands)	June 30, 2018	December 31, 2017
Assets		
Interest-Bearing Deposits in Other Banks	$ 3,524	$ 3,421
Funds Sold	361,933	181,413
Investment Securities		
Available-for-Sale	2,092,870	2,232,979
Held-to-Maturity (Fair Value of $3,500,497 and $3,894,121)	3,595,891	3,928,170
Loans Held for Sale	16,025	19,231
Loans and Leases	10,053,323	9,796,947
Allowance for Loan and Lease Losses	(108,188)	(107,346)
Net Loans and Leases	9,945,135	9,689,601
Total Earning Assets	16,015,378	16,054,815
Cash and Due From Banks	312,303	263,017
Premises and Equipment, Net	142,791	130,926
Accrued Interest Receivable	50,594	50,485
Foreclosed Real Estate	2,926	1,040
Mortgage Servicing Rights	24,583	24,622
Goodwill	31,517	31,517
Bank-Owned Life Insurance	281,018	280,034
Other Assets	263,052	252,596
Total Assets	$ 17,124,162	$ 17,089,052
Liabilities		
Deposits		
Noninterest-Bearing Demand	$ 4,729,203	$ 4,724,300
Interest-Bearing Demand	3,111,069	3,082,563
Savings	5,389,763	5,389,013
Time	1,713,323	1,688,092
Total Deposits	14,943,358	14,883,968
Short-Term Borrowings	330	—
Securities Sold Under Agreements to Repurchase	504,193	505,293
Other Debt	235,681	260,716
Retirement Benefits Payable	36,730	37,312
Accrued Interest Payable	7,395	6,946
Taxes Payable and Deferred Taxes	15,136	24,009
Other Liabilities	133,622	138,940
Total Liabilities	15,876,445	15,857,184
Shareholders' Equity		
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: June 30, 2018 - 58,070,285 / 42,084,066 and December 31, 2017 - 57,959,074 / 42,401,443)	577	576
Capital Surplus	566,436	561,161
Accumulated Other Comprehensive Loss	(53,855)	(34,715)
Retained Earnings	1,581,168	1,512,218
Treasury Stock, at Cost (Shares: June 30, 2018 - 15,986,219 and December 31, 2017 - 15,557,631)	(846,609)	(807,372)
Total Shareholders' Equity	1,247,717	1,231,868
Total Liabilities and Shareholders' Equity	$ 17,124,162	$ 17,089,052

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

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, 2017	42,401,443	$ 576	$ 561,161	$ (34,715)	$ 1,512,218	$ (807,372)	$ 1,231,868
Net Income	—	—	—	—	108,758	—	108,758
Other Comprehensive Loss	—	—	—	(11,663)	—	—	(11,663)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI	—	—	—	(7,477)	7,477	—	—
Share-Based Compensation	—	—	4,055	—	—	—	4,055
Common Stock Issued under Purchase and Equity Compensation Plans	179,644	1	1,220	—	166	2,992	4,379
Common Stock Repurchased	(497,021)	—	—	—	—	(42,229)	(42,229)
Cash Dividends Declared ($1.12 per share)	—	—	—	—	(47,451)	—	(47,451)
Balance as of June 30, 2018	42,084,066	$ 577	$ 566,436	$ (53,855)	$ 1,581,168	$ (846,609)	$ 1,247,717
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	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

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

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

(dollars in thousands)	Six Months Ended June 30, 2018	2017
Operating Activities		
Net Income	$ 108,758	$ 95,838
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	7,625	8,650
Depreciation and Amortization	6,788	6,565
Amortization of Deferred Loan and Lease Fees	(292)	(535)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	17,632	20,027
Share-Based Compensation	4,055	3,726
Benefit Plan Contributions	(798)	(741)
Deferred Income Taxes	(2,496)	3,635
Net Gains on Sales of Loans and Leases	(1,070)	(3,971)
Net Losses (Gains) on Sales of Investment Securities	2,368	(11,613)
Proceeds from Sales of Loans Held for Sale	152,004	146,478
Originations of Loans Held for Sale	(148,513)	(150,414)
Net Tax Benefits from Share-Based Compensation	949	2,077
Net Change in Other Assets and Other Liabilities	(18,529)	(21,803)
Net Cash Provided by Operating Activities	128,481	97,919
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Sales, Prepayments and Maturities	209,572	203,177
Purchases	(99,254)	(320,170)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	425,043	406,904
Purchases	(99,415)	(365,498)
Net Change in Loans and Leases	(264,304)	(508,529)
Proceeds from Sales of Loans	—	112,357
Premises and Equipment, Net	(18,652)	(12,629)
Net Cash Provided by (Used in) Investing Activities	152,990	(484,388)
Financing Activities		
Net Change in Deposits	59,390	464,409
Net Change in Short-Term Borrowings	(770)	(27,702)
Repayments of Long-Term Debt	(25,000)	—
Proceeds from Issuance of Common Stock	4,498	8,457
Repurchase of Common Stock	(42,229)	(21,287)
Cash Dividends Paid	(47,451)	(42,788)
Net Cash Provided by (Used in) Financing Activities	(51,562)	381,089
Net Change in Cash and Cash Equivalents	229,909	(5,380)
Cash and Cash Equivalents at Beginning of Period	447,851	879,607
Cash and Cash Equivalents at End of Period	$ 677,760	$ 874,227
Supplemental Information		
Cash Paid for Interest	$ 27,830	$ 21,498
Cash Paid for Income Taxes	24,487	32,058
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	2,307	2,207
Transfers from Loans to Loans Held for Sale	—	62,727

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

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, 2017.

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 $13.8 million and $17.5 million as of June 30, 2018 and December 31, 2017, respectively. These unfunded commitments are unconditional and legally binding and are recorded in other liabilities in the consolidated statements of condition. See Note 6 *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 $82.9 million and $87.6 million as of June 30, 2018 and December 31, 2017, respectively, and is included in other assets in the consolidated statements of condition.

Tax Cuts and Jobs Act

Public law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Company estimated the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded in the fourth quarter of 2017 related to the remeasurement of the Company's deferred tax balance resulted in additional income tax expense of $3.6 million. An additional $0.1 million was expensed in the first quarter of 2018 due to the remeasurement of the Company's deferred tax balance. In addition, during the first quarter of 2018, the Company recorded a $2.0 million basis adjustment on its low income housing partnership investments, which consequently reduced income tax expense by the same amount. The final impact of the Tax Act may differ from these estimates as a result of changes in management's interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service.

Accounting Standards Adopted in 2018

In May 2014, 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. Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify specific implementation issues including 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."* 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. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Based on this assessment, the

Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Company determined that the classification of certain debit and credit card related costs should change (i.e., costs previously recorded as expense is now recorded as contra-revenue, and vice versa). These classification changes resulted in immaterial changes to both revenue and expense. The Company also determined that certain costs related to ATMs should be recorded as an expense rather than a reduction of revenue. This change did not have a material effect to noninterest income or expense. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit and credit card costs and the ATM costs reclassifications noted above. See Note 15 *Revenue Recognition* for more information.

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. The Company's adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of June 30, 2018 using an exit price notion (see Note 14 *Fair Value of Assets and Liabilities*).

In August 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* At the time, GAAP was unclear or did 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 was effective for interim and annual reporting periods beginning after December 15, 2017. Entities were required to apply 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. The Company adopted ASU No. 2016-15 on January 1, 2018. ASU No. 2016-15 did not 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 are required to 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 of net periodic benefit cost separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. ASU No. 2017-07 became effective for interim and annual reporting periods beginning after December 15, 2017. 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 adopted ASU No. 2017-07 on January 1, 2018 and utilized 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 did not have a material impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*" This ASU allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for certain income tax effects stranded in AOCI as a result of the Tax Act. Consequently, the reclassification eliminates the stranded tax effects resulting from the Tax Act and is intended to improve the usefulness of information reported to financial statement users. However, because the ASU only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. ASU No. 2018-02 is effective for the Company's reporting period beginning on January 1, 2019; early adoption is permitted. The Company elected to early adopt ASU No. 2018-02 during the first quarter of 2018, and elected to reclassify the income tax effects of the Tax Act from AOCI to retained earnings. The reclassification decreased AOCI and increased retained earnings by $7.5 million, with zero net effect on total shareholders' equity. The Company utilizes the individual securities approach when releasing income tax effects from AOCI for its investment securities.

Accounting Standards Pending Adoption

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 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, along with the Company's regulatory capital ratios. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Financial Statements. The Company is nearing completion of identifying a complete inventory of arrangements containing a lease and accumulating the lease data necessary to apply the amended guidance. In addition, the Company purchased new software to aid in the transition to the new leasing guidance, and the majority of the Company's leases have been entered into this new leasing software program.

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 credit 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 team meets periodically to discuss the latest developments and ensure progress is being made. The team also keeps current on evolving interpretations and industry practices related to ASU 2016-13 via webcasts, publications, conferences, and peer bank meetings. The team is currently working with an advisory consultant in reviewing and validating the possible methodologies the Company can consider for CECL before determining the specific methodologies that will be utilized. 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. The Company is continuing to evaluate the extent of the potential impact.

In August 2017, the FASB issued ASU No. 2017-12, *"Targeted Improvements to Accounting for Hedging Activities."* This ASU's objectives are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities; and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company currently does not designate any derivative financial instruments as formal hedging relationships, and therefore, does not utilize hedge accounting. However, the Company is currently evaluating this ASU to determine whether its provisions will enhance the Company's ability to employ risk management strategies, while improving the transparency and understanding of those strategies for financial statement users.

Note 2. Cash and Cash Equivalents

The following table provides a reconciliation of cash and cash equivalents reported within the consolidated statements of condition that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

(dollars in thousands)		June 30, 2018		December 31, 2017
Interest-Bearing Deposits in Other Banks	$	3,524	$	3,421
Funds Sold		361,933		181,413
Cash and Due From Banks		312,303		263,017
Total Cash and Cash Equivalents	$	677,760	$	447,851

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Note 3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of June 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 446,766	$ 578	$ (2,632)	$ 444,712
Debt Securities Issued by States and Political Subdivisions	587,160	6,655	(1,214)	592,601
Debt Securities Issued by Corporations	224,997	79	(1,299)	223,777
Mortgage-Backed Securities:				
Residential - Government Agencies	209,624	2,180	(1,108)	210,696
Residential - U.S. Government-Sponsored Enterprises	579,602	383	(20,117)	559,868
Commercial - Government Agencies	65,565	—	(4,349)	61,216
Total Mortgage-Backed Securities	854,791	2,563	(25,574)	831,780
Total	$ 2,113,714	$ 9,875	$ (30,719)	$ 2,092,870
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 364,604	$ 1	$ (1,824)	$ 362,781
Debt Securities Issued by States and Political Subdivisions	236,567	7,400	—	243,967
Debt Securities Issued by Corporations	104,955	—	(2,977)	101,978
Mortgage-Backed Securities:				
Residential - Government Agencies	2,003,782	4,976	(70,085)	1,938,673
Residential - U.S. Government-Sponsored Enterprises	701,326	273	(26,872)	674,727
Commercial - Government Agencies	184,657	45	(6,331)	178,371
Total Mortgage-Backed Securities	2,889,765	5,294	(103,288)	2,791,771
Total	$ 3,595,891	$ 12,695	$ (108,089)	$ 3,500,497
December 31, 2017				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 424,912	$ 2,053	$ (1,035)	$ 425,930
Debt Securities Issued by States and Political Subdivisions	618,167	9,894	(1,042)	627,019
Debt Securities Issued by Corporations	268,003	199	(2,091)	266,111
Mortgage-Backed Securities:				
Residential - Government Agencies	233,268	3,129	(1,037)	235,360
Residential - U.S. Government-Sponsored Enterprises	619,795	420	(10,403)	609,812
Commercial - Government Agencies	71,999	—	(3,252)	68,747
Total Mortgage-Backed Securities	925,062	3,549	(14,692)	913,919
Total	$ 2,236,144	$ 15,695	$ (18,860)	$ 2,232,979
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 375,074	$ 18	$ (1,451)	$ 373,641
Debt Securities Issued by States and Political Subdivisions	238,504	9,125	—	247,629
Debt Securities Issued by Corporations	119,635	123	(1,591)	118,167
Mortgage-Backed Securities:				
Residential - Government Agencies	2,229,985	9,975	(37,047)	2,202,913
Residential - U.S. Government-Sponsored Enterprises	763,312	911	(11,255)	752,968
Commercial - Government Agencies	201,660	797	(3,654)	198,803
Total Mortgage-Backed Securities	3,194,957	11,683	(51,956)	3,154,684
Total	$ 3,928,170	$ 20,949	$ (54,998)	$ 3,894,121

The table below presents an analysis of the contractual maturities of the Company's investment securities as of June 30, 2018. 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	$ 46,250	$ 46,201
Due After One Year Through Five Years	628,271	628,659
Due After Five Years Through Ten Years	115,193	118,197
Due After Ten Years	22,994	23,856
	812,708	816,913
Debt Securities Issued by Government Agencies	446,215	444,177
Mortgage-Backed Securities:		
Residential - Government Agencies	209,624	210,696
Residential - U.S. Government-Sponsored Enterprises	579,602	559,868
Commercial - Government Agencies	65,565	61,216
Total Mortgage-Backed Securities	854,791	831,780
Total	$ 2,113,714	$ 2,092,870
Held-to-Maturity:		
Due in One Year or Less	$ 244,843	$ 244,173
Due After One Year Through Five Years	209,721	210,339
Due After Five Years Through Ten Years	234,444	236,128
Due After Ten Years	17,118	18,086
	706,126	708,726
Mortgage-Backed Securities:		
Residential - Government Agencies	2,003,782	1,938,673
Residential - U.S. Government-Sponsored Enterprises	701,326	674,727
Commercial - Government Agencies	184,657	178,371
Total Mortgage-Backed Securities	2,889,765	2,791,771
Total	$ 3,595,891	$ 3,500,497

Investment securities with carrying values of $2.3 billion and $2.4 billion as of June 30, 2018 and December 31, 2017, 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, 2018 and 2017.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Gross Gains on Sales of Investment Securities	$ —	$ —	$ —	$ 12,467
Gross Losses on Sales of Investment Securities	(1,702)	(520)	(2,368)	(854)
Net Gains (Losses) on Sales of Investment Securities	$ (1,702)	$ (520)	$ (2,368)	$ 11,613

The losses during the three and six months ended June 30, 2018 were due to fees paid to the counterparties of the Company's prior Visa Class B share sale transactions combined with a $1.0 million liability related to a change in the Visa Class B conversion ratio. The losses during the three and six months ended June 30, 2017 were due to fees paid to the counterparties of the Company's prior Visa Class B share sale transactions.

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The Company's gross unrealized losses and the related fair value of investment securities, aggregated by investment category and length of time in a continuous unrealized loss position, 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, 2018						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 230,073	$ (1,367)	$ 142,480	$ (1,265)	$ 372,553	$ (2,632)
Debt Securities Issued by States and Political Subdivisions	199,140	(1,207)	677	(7)	199,817	(1,214)
Debt Securities Issued by Corporations	24,725	(275)	163,972	(1,024)	188,697	(1,299)
Mortgage-Backed Securities:						
Residential - Government Agencies	8,510	(71)	18,042	(1,037)	26,552	(1,108)
Residential - U.S. Government-Sponsored Enterprises	344,981	(10,255)	191,811	(9,862)	536,792	(20,117)
Commercial - Government Agencies	—	—	61,216	(4,349)	61,216	(4,349)
Total Mortgage-Backed Securities	353,491	(10,326)	271,069	(15,248)	624,560	(25,574)
Total	$ 807,429	$ (13,175)	$ 578,198	$ (17,544)	$ 1,385,627	$ (30,719)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 273,578	$ (826)	$ 69,214	$ (998)	$ 342,792	$ (1,824)
Debt Securities Issued by Corporations	54,449	(1,000)	47,529	(1,977)	101,978	(2,977)
Mortgage-Backed Securities:						
Residential - Government Agencies	988,147	(31,731)	684,927	(38,354)	1,673,074	(70,085)
Residential - U.S. Government-Sponsored Enterprises	364,248	(11,698)	304,212	(15,174)	668,460	(26,872)
Commercial - Government Agencies	95,460	(1,154)	76,595	(5,177)	172,055	(6,331)
Total Mortgage-Backed Securities	1,447,855	(44,583)	1,065,734	(58,705)	2,513,589	(103,288)
Total	$ 1,775,882	$ (46,409)	$ 1,182,477	$ (61,680)	$ 2,958,359	$ (108,089)
December 31, 2017						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 103,842	$ (599)	$ 132,071	$ (436)	$ 235,913	$ (1,035)
Debt Securities Issued by States and Political Subdivisions	172,343	(1,032)	734	(10)	173,077	(1,042)
Debt Securities Issued by Corporations	12,985	(15)	192,927	(2,076)	205,912	(2,091)
Mortgage-Backed Securities:						
Residential - Government Agencies	11,035	(4)	10,618	(1,033)	21,653	(1,037)
Residential - U.S. Government-Sponsored Enterprises	429,342	(5,720)	150,887	(4,683)	580,229	(10,403)
Commercial - Government Agencies	—	—	68,747	(3,252)	68,747	(3,252)
Total Mortgage-Backed Securities	440,377	(5,724)	230,252	(8,968)	670,629	(14,692)
Total	$ 729,547	$ (7,370)	$ 555,984	$ (11,490)	$ 1,285,531	$ (18,860)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 254,283	$ (532)	$ 89,391	$ (919)	$ 343,674	$ (1,451)
Debt Securities Issued by Corporations	25,490	(110)	58,869	(1,481)	84,359	(1,591)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,030,472	(12,262)	704,545	(24,785)	1,735,017	(37,047)
Residential - U.S. Government-Sponsored Enterprises	293,530	(3,106)	339,232	(8,149)	632,762	(11,255)
Commercial - Government Agencies	497	(5)	82,288	(3,649)	82,785	(3,654)
Total Mortgage-Backed Securities	1,324,499	(15,373)	1,126,065	(36,583)	2,450,564	(51,956)
Total	$ 1,604,272	$ (16,015)	$ 1,274,325	$ (38,983)	$ 2,878,597	$ (54,998)

The Company does not believe that the investment securities that were in an unrealized loss position as of June 30, 2018, which were comprised of 468 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, 2018 and December 31, 2017, 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, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Taxable	$ 28,405	$ 26,741	$ 57,076	$ 52,508
Non-Taxable	4,686	5,012	9,452	10,035
Total Interest Income from Investment Securities	$ 33,091	$ 31,753	$ 66,528	$ 62,543

As of June 30, 2018, included in the Company’s investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $478.1 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 A1 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, 2018, 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, 2018 and December 31, 2017, 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, 2018	December 31, 2017
Federal Home Loan Bank Stock	$ 19,000	$ 20,000
Federal Reserve Bank Stock	20,796	20,645
Total	$ 39,796	$ 40,645

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 be insufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank’s Class B conversion ratio to unrestricted Class A shares. As of June 30, 2018, the conversion ratio was 1.6298. See Note 12 *Derivative Financial Instruments* for more information.

The Company occasionally sells these Visa Class B shares to other financial institutions. Concurrent with every sale the Company enters 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 83,014 Class B shares (135,296 Class A equivalents) that the Company owns as of June 30, 2018 are carried at a zero cost basis.

Note 4. 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, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018	December 31, 2017
Commercial		
Commercial and Industrial	$ 1,282,967	$ 1,279,347
Commercial Mortgage	2,169,357	2,103,967
Construction	185,350	202,253
Lease Financing	178,598	180,931
Total Commercial	3,816,272	3,766,498
Consumer		
Residential Mortgage	3,548,444	3,466,773
Home Equity	1,622,314	1,585,455
Automobile	592,705	528,474
Other [1]	473,588	449,747
Total Consumer	6,237,051	6,030,449
Total Loans and Leases	$ 10,053,323	$ 9,796,947

[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 $0.5 million and $1.8 million for the three months ended June 30, 2018 and 2017, respectively, and $0.8 million and $3.2 million for the six months ended June 30, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended June 30, 2018			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 64,110	$ 43,828	$ 107,938
Loans and Leases Charged-Off	(485)	(5,176)	(5,661)
Recoveries on Loans and Leases Previously Charged-Off	366	2,045	2,411
Net Loans and Leases Recovered (Charged-Off)	(119)	(3,131)	(3,250)
Provision for Credit Losses	(279)	3,779	3,500
Balance at End of Period	$ 63,712	$ 44,476	$ 108,188
Six Months Ended June 30, 2018			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 65,822	$ 41,524	$ 107,346
Loans and Leases Charged-Off	(691)	(10,958)	(11,649)
Recoveries on Loans and Leases Previously Charged-Off	694	4,172	4,866
Net Loans and Leases Recovered (Charged-Off)	3	(6,786)	(6,783)
Provision for Credit Losses	(2,113)	9,738	7,625
Balance at End of Period	$ 63,712	$ 44,476	$ 108,188
As of June 30, 2018			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ 100	$ 3,827	$ 3,927
Collectively Evaluated for Impairment	63,612	40,649	104,261
Total	63,712	44,476	108,188
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 12,184	$ 41,981	$ 54,165
Collectively Evaluated for Impairment	3,804,088	6,195,070	9,999,158
Total	$ 3,816,272	$ 6,237,051	$ 10,053,323
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

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 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. 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.

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, 2018 and December 31, 2017.

	June 30, 2018				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$ 1,239,719	$ 2,116,370	$ 182,092	$ 177,800	$ 3,715,981
Special Mention	31,290	37,903	—	473	69,666
Classified	11,958	15,084	3,258	325	30,625
Total	$ 1,282,967	$ 2,169,357	$ 185,350	$ 178,598	$ 3,816,272
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$ 3,541,722	$ 1,617,621	$ 592,030	$ 472,918	$ 6,224,291
Classified	6,722	4,693	675	670	12,760
Total	$ 3,548,444	$ 1,622,314	$ 592,705	$ 473,588	$ 6,237,051
Total Recorded Investment in Loans and Leases					$ 10,053,323

	December 31, 2017				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$ 1,234,738	$ 2,046,745	$ 198,926	$ 180,522	$ 3,660,931
Special Mention	15,394	35,762	6	11	51,173
Classified	29,215	21,460	3,321	398	54,394
Total	$ 1,279,347	$ 2,103,967	$ 202,253	$ 180,931	$ 3,766,498
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$ 3,457,531	$ 1,580,917	$ 527,587	$ 449,008	$ 6,015,043
Classified	9,242	4,538	887	739	15,406
Total	$ 3,466,773	$ 1,585,455	$ 528,474	$ 449,747	$ 6,030,449
Total Recorded Investment in Loans and Leases					$ 9,796,947

[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, 2018 and December 31, 2017.

(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, 2018								
Commercial								
Commercial and Industrial	$ 551	$ 696	$ 2	$ 917	$ 2,166	$ 1,280,801	$ 1,282,967	$ 716
Commercial Mortgage	491	—	5,680	659	$ 6,830	$ 2,162,527	2,169,357	434
Construction	707	—	—	—	707	184,643	185,350	—
Lease Financing	—	—	—	—	—	178,598	178,598	—
Total Commercial	1,749	696	5,682	1,576	9,703	3,806,569	3,816,272	1,150
Consumer								
Residential Mortgage	2,028	3,230	2,281	6,722	14,261	3,534,183	3,548,444	455
Home Equity	4,240	1,141	3,016	3,933	12,330	1,609,984	1,622,314	1,825
Automobile	10,809	1,976	674	—	13,459	579,246	592,705	—
Other [1]	2,794	1,401	1,660	—	5,855	467,733	473,588	—
Total Consumer	19,871	7,748	7,631	10,655	45,905	6,191,146	6,237,051	2,280
Total	$ 21,620	$ 8,444	$ 13,313	$ 12,231	$ 55,608	$ 9,997,715	$ 10,053,323	$ 3,430
As of December 31, 2017								
Commercial								
Commercial and Industrial	$ 4,196	$ 641	$ —	$ 448	$ 5,285	$ 1,274,062	$ 1,279,347	$ 313
Commercial Mortgage	187	404	—	1,398	1,989	2,101,978	2,103,967	465
Construction	—	—	—	—	—	202,253	202,253	—
Lease Financing	—	—	—	—	—	180,931	180,931	—
Total Commercial	4,383	1,045	—	1,846	7,274	3,759,224	3,766,498	778
Consumer								
Residential Mortgage	7,815	2,008	2,703	9,243	21,769	3,445,004	3,466,773	806
Home Equity	2,532	2,736	1,624	3,991	10,883	1,574,572	1,585,455	1,312
Automobile	11,728	2,232	886	—	14,846	513,628	528,474	—
Other [1]	3,007	1,639	1,934	—	6,580	443,167	449,747	—
Total Consumer	25,082	8,615	7,147	13,234	54,078	5,976,371	6,030,449	2,118
Total	$ 29,465	$ 9,660	$ 7,147	$ 15,080	$ 61,352	$ 9,735,595	$ 9,796,947	$ 2,896

[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, 2018 and December 31, 2017.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2018			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 6,097	$ 9,639	$ —
Commercial Mortgage	3,203	6,703	—
Construction	1,373	1,373	—
Total Commercial	10,673	17,715	—
Total Impaired Loans with No Related Allowance Recorded	$ 10,673	$ 17,715	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 1,288	$ 1,900	$ 78
Commercial Mortgage	223	223	22
Total Commercial	1,511	2,123	100
Consumer			
Residential Mortgage	20,619	25,362	3,110
Home Equity	2,488	2,488	276
Automobile	16,010	16,010	328
Other [1]	2,864	2,864	113
Total Consumer	41,981	46,724	3,827
Total Impaired Loans with an Allowance Recorded	$ 43,492	$ 48,847	$ 3,927
Impaired Loans:			
Commercial	$ 12,184	$ 19,838	$ 100
Consumer	41,981	46,724	3,827
Total Impaired Loans	$ 54,165	$ 66,562	$ 3,927
December 31, 2017			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 8,094	$ 15,747	$ —
Commercial Mortgage	8,696	12,196	—
Construction	1,415	1,415	—
Total Commercial	18,205	29,358	—
Total Impaired Loans with No Related Allowance Recorded	$ 18,205	$ 29,358	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 811	$ 811	$ 21
Commercial Mortgage	1,200	1,200	120
Total Commercial	2,011	2,011	141
Consumer			
Residential Mortgage	21,581	26,324	3,118
Home Equity	1,965	1,965	276
Automobile	14,811	14,811	305
Other [1]	2,645	2,645	76
Total Consumer	41,002	45,745	3,775
Total Impaired Loans with an Allowance Recorded	$ 43,013	$ 47,756	$ 3,916
Impaired Loans:			
Commercial	$ 20,216	$ 31,369	$ 141
Consumer	41,002	45,745	3,775
Total Impaired Loans	$ 61,218	$ 77,114	$ 3,916

[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, 2018 and 2017.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 7,540	$ 83	$ 8,717	$ 61
Commercial Mortgage	6,351	30	9,369	77
Construction	1,386	22	1,477	24
Total Commercial	15,277	135	19,563	162
Total Impaired Loans with No Related Allowance Recorded	$ 15,277	$ 135	$ 19,563	$ 162
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 1,128	$ 10	$ 657	$ 9
Commercial Mortgage	236	3	331	4
Total Commercial	1,364	13	988	13
Consumer				
Residential Mortgage	20,509	215	23,148	214
Home Equity	2,221	26	1,621	20
Automobile	15,819	278	11,547	195
Other [1]	2,806	56	2,663	57
Total Consumer	41,355	575	38,979	486
Total Impaired Loans with an Allowance Recorded	$ 42,719	$ 588	$ 39,967	$ 499
Impaired Loans:				
Commercial	$ 16,641	$ 148	$ 20,551	$ 175
Consumer	41,355	575	38,979	486
Total Impaired Loans	$ 57,996	$ 723	$ 59,530	$ 661

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 7,724	$ 196	$ 8,996	$ 142
Commercial Mortgage	7,132	117	9,370	162
Construction	1,396	45	1,489	48
Total Commercial	16,252	358	19,855	352
Total Impaired Loans with No Related Allowance Recorded	$ 16,252	$ 358	$ 19,855	$ 352
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 1,022	$ 20	$ 693	$ 20
Commercial Mortgage	557	6	342	8
Total Commercial	1,579	26	1,035	28
Consumer				
Residential Mortgage	20,866	427	23,974	426
Home Equity	2,135	51	1,586	37
Automobile	15,483	539	10,918	364
Other [1]	2,752	108	2,550	110
Total Consumer	41,236	1,125	39,028	937
Total Impaired Loans with an Allowance Recorded	$ 42,815	$ 1,151	$ 40,063	$ 965
Impaired Loans:				
Commercial	$ 17,831	$ 384	$ 20,890	$ 380
Consumer	41,236	1,125	39,028	937
Total Impaired Loans	$ 59,067	$ 1,509	$ 59,918	$ 1,317

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

For the three and six months ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 $52.6 million and $60.1 million as of June 30, 2018 and December 31, 2017, respectively. There were $0.3 million and $1.5 million commitments to lend additional funds on loans modified in a TDR as of June 30, 2018 and December 31, 2017, respectively.

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 is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a 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 commercial and consumer loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

The following presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2018 and 2017.

Troubled Debt Restructurings (dollars in thousands)	**Loans Modified as a TDR for the Three Months Ended June 30, 2018**			**Loans Modified as a TDR for the Three Months Ended June 30, 2017**		
	Number of Contracts	**Recorded Investment (as of period end)[1]**	**Increase in Allowance (as of period end)**	**Number of Contracts**	**Recorded Investment (as of period end)[1]**	**Increase in Allowance (as of period end)**
Commercial						
Commercial and Industrial	6	$ 712	$ 48	6	$ 4,191	$ 11
Commercial Mortgage	—	—	—	1	700	—
Total Commercial	6	712	48	7	4,891	11
Consumer						
Residential Mortgage	2	455	30	—	—	—
Home Equity	3	545	—	1	4	4
Automobile	72	1,521	31	99	2,115	49
Other [2]	63	468	14	40	304	8
Total Consumer	140	2,989	75	140	2,423	61
Total	146	$ 3,701	$ 123	147	$ 7,314	$ 72

Troubled Debt Restructurings (dollars in thousands)	**Loans Modified as a TDR for the Six Months Ended June 30, 2018**			**Loans Modified as a TDR for the Six Months Ended June 30, 2017**		
	Number of Contracts	**Recorded Investment (as of period end)[1]**	**Increase in Allowance (as of period end)**	**Number of Contracts**	**Recorded Investment (as of period end)[1]**	**Increase in Allowance (as of period end)**
Commercial						
Commercial and Industrial	7	$ 1,233	$ 48	11	$ 7,235	$ 11
Commercial Mortgage	—	—	—	2	1,096	—
Total Commercial	7	1,233	48	13	8,331	11
Consumer						
Residential Mortgage	2	455	30	—	—	—
Home Equity	3	545	—	1	239	4
Automobile	170	3,654	75	209	4,315	99
Other [2]	138	967	28	114	891	24
Total Consumer	313	5,621	133	324	5,445	127
Total	320	$ 6,854	$ 181	337	$ 13,776	$ 138

[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.

The following presents by class, all loans modified in a TDR that defaulted during the three and six months ended June 30, 2018 and 2017, 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.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Three Months Ended June 30, 2018 Number of Contracts		Three Months Ended June 30, 2018 Recorded Investment (as of period end)[1]	Three Months Ended June 30, 2017 Number of Contracts		Three Months Ended June 30, 2017 Recorded Investment (as of period end)[1]
Consumer						
Automobile	14	$	289	12	$	267
Other [2]	21		167	18		137
Total Consumer	35		456	30		404
Total	35	$	456	30	$	404

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Six Months Ended June 30, 2018 Number of Contracts		Six Months Ended June 30, 2018 Recorded Investment (as of period end)[1]	Six Months Ended June 30, 2017 Number of Contracts		Six Months Ended June 30, 2017 Recorded Investment (as of period end)[1]
Commercial						
Commercial and Industrial	—	$	—	1	$	49
Total Commercial	—		—	1		49
Consumer						
Home Equity	1		236	—		—
Automobile	32		606	17		390
Other [2]	41		295	36		255
Total Consumer	74		1,137	53		645
Total	74	$	1,137	54	$	694

[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 $3.9 million as of June 30, 2018.

Note 5. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was $2.9 billion as of June 30, 2018 and December 31, 2017. 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 14 *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 for the three months ended June 30, 2018 and 2017, and $3.6 million and $3.5 million for the six months ended June 30, 2018 and 2017, respectively. Servicing income is recorded in mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three and six months ended June 30, 2018 and 2017, 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)	2018	2017	2018	2017
Balance at Beginning of Period	$ 1,404	$ 1,586	$ 1,454	$ 1,655
Change in Fair Value:				
Due to Payoffs	(38)	(38)	(88)	(107)
Total Changes in Fair Value of Mortgage Servicing Rights	(38)	(38)	(88)	(107)
Balance at End of Period	$ 1,366	$ 1,548	$ 1,366	$ 1,548

For the three and six months ended June 30, 2018 and 2017, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Balance at Beginning of Period	$ 23,089	$ 22,705	$ 23,168	$ 22,008
Servicing Rights that Resulted From Asset Transfers	775	961	1,396	2,276
Amortization	(647)	(690)	(1,347)	(1,308)
Valuation Allowance Provision	—	(53)	—	(53)
Balance at End of Period	$ 23,217	$ 22,923	$ 23,217	$ 22,923
Valuation Allowance:				
Balance at Beginning of Period	$ —	$ —	$ —	$ —
Valuation Allowance Provision	—	(53)	—	(53)
Balance at End of Period	$ —	$ (53)	$ —	$ (53)
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method				
Beginning of Period	$ 28,600	$ 25,946	$ 26,716	$ 25,148
End of Period	$ 29,746	$ 25,479	$ 29,746	$ 25,479

The key data and assumptions used in estimating the fair value of the Company's mortgage servicing rights as of June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
Weighted-Average Constant Prepayment Rate [1]	6.45%	8.50%
Weighted-Average Life (in years)	8.13	7.09
Weighted-Average Note Rate	4.04%	4.04%
Weighted-Average Discount Rate [2]	9.76%	8.87%

[1] Represents annualized loan prepayment 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, 2018 and December 31, 2017 is presented in the following table.

(dollars in thousands)	June 30, 2018	December 31, 2017
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	$ (380)	$ (332)
Decrease in fair value from 50 bps adverse change	(756)	(657)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(332)	(289)
Decrease in fair value from 50 bps adverse change	(658)	(572)

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 6. 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 $68.9 million and $71.7 million as of June 30, 2018 and December 31, 2017, respectively, and are included in other assets in the consolidated statements of condition.

Unfunded Commitments

As of June 30, 2018, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)		Amount
2018	$	8,802
2019		4,126
2020		85
2021		45
2022		56
Thereafter		680
Total Unfunded Commitments	$	13,794

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, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Effective Yield Method				
Tax credits and other tax benefits recognized	$ 3,380	$ 3,439	$ 6,812	$ 6,869
Amortization Expense in Provision for Income Taxes	2,078	2,137	4,155	4,298
Proportional Amortization Method				
Tax credits and other tax benefits recognized	$ 410	$ 440	$ 820	$ 761
Amortization Expense in Provision for Income Taxes	333	358	666	611

There were no impairment losses related to LIHTC investments during the six months ended June 30, 2018 and 2017. During the first quarter of 2018, the Company recorded a $2.0 million adjustment to increase its LIHTC investments. This adjustment resulted in a decrease to provision for income tax.

Note 7. 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 $0.1 million and $3.2 million as of June 30, 2018 and December 31, 2017, respectively. See Note 12 *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, are recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures. 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 12 *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 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, 2018 and December 31, 2017, 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, 2018					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ —	$ 677	$ —	$ —	$ 677
Debt Securities Issued by States and Political Subdivisions	1,000	1,690	913	—	3,603
Mortgage-Backed Securities:					
Residential - Government Agencies	—	—	203,361	200,707	404,068
Residential - U.S. Government-Sponsored Enterprises	—	826	70,726	24,293	95,845
Total	$ 1,000	$ 3,193	$ 275,000	$ 225,000	$ 504,193
December 31, 2017					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ —	$ —	$ 110,392	$ 202,484	$ 312,876
Debt Securities Issued by States and Political Subdivisions	1,200	2,590	—	—	3,790
Mortgage-Backed Securities:					
Residential - Government Agencies	1,503	—	18,793	80,960	101,256
Residential - U.S. Government-Sponsored Enterprises	—	—	20,815	66,556	87,371
Total	$ 2,703	$ 2,590	$ 150,000	$ 350,000	$ 505,293

The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of June 30, 2018 and December 31, 2017. The swap agreements the Company has 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.

	(i)	(ii)	(iii) = (i)-(ii)	(iv)		(v) = (iii)-(iv)
				Gross Amounts Not Offset in the Statements of Condition		
(dollars in thousands)	Gross Amounts Recognized in the Statements of Condition	Gross Amounts Offset in the Statements of Condition	Net Amounts Presented in the Statements of Condition	Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged/Received [1]	Net Amount
June 30, 2018						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 12,569	$ —	$ 12,569	$ 1,391	$ 1,522	$ 9,656
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	1,391	—	1,391	1,391	—	—
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	4,193	—	4,193	—	4,193	—
	$ 504,193	$ —	$ 504,193	$ —	$ 504,193	$ —
December 31, 2017						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 5,453	$ —	$ 5,453	$ 4,017	$ —	$ 1,436
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	4,017	—	4,017	4,017	—	—
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	5,293	—	5,293	—	5,293	—
	$ 505,293	$ —	$ 505,293	$ —	$ 505,293	$ —

[1] The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For swap agreements with institutional counterparties, there was no collateral pledged to institutional counterparties as of June 30, 2018. The fair value of investment securities pledged to the institutional counterparties was $3.5 million as of December 31, 2017. For repurchase agreements with private institutions, the fair value of investment securities pledged was $539.4 million and $563.3 million as of June 30, 2018 and December 31, 2017, respectively. For repurchase agreements with government entities, the fair value of investment securities pledged was $6.9 million as of June 30, 2018 and December 31, 2017.

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Note 8. 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, 2018 and 2017:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended June 30, 2018			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (4,622)	$ (1,223)	$ (3,399)
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]	578	153	425
Net Unrealized Gains (Losses) on Investment Securities	(4,044)	(1,070)	(2,974)
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	436	116	320
Amortization of Prior Service Credit	(142)	(38)	(104)
Defined Benefit Plans, Net	294	78	216
Other Comprehensive Income (Loss)	$ (3,750)	$ (992)	$ (2,758)
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
Six Months Ended June 30, 2018			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (17,679)	$ (4,675)	$ (13,004)
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]	1,237	328	909
Net Unrealized Gains (Losses) on Investment Securities	(16,442)	(4,347)	(12,095)
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	872	232	640
Amortization of Prior Service Credit	(284)	(76)	(208)
Defined Benefit Plans, Net	588	156	432
Other Comprehensive Income (Loss)	$ (15,854)	$ (4,191)	$ (11,663)
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

[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.

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, 2018 and 2017:

(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, 2018				
Balance at Beginning of Period	$ (11,932)	$ (5,697)	$ (33,468)	$ (51,097)
Other Comprehensive Income (Loss) Before Reclassifications	(3,399)	—	—	(3,399)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	425	216	641
Total Other Comprehensive Income (Loss)	(3,399)	425	216	(2,758)
Balance at End of Period	$ (15,331)	$ (5,272)	$ (33,252)	$ (53,855)
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)
Six Months Ended June 30, 2018				
Balance at Beginning of Period	$ (1,915)	$ (5,085)	$ (27,715)	$ (34,715)
Other Comprehensive Income (Loss) Before Reclassifications	(13,004)	—	—	(13,004)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	909	432	1,341
Total Other Comprehensive Income (Loss)	(13,004)	909	432	(11,663)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI	(412)	(1,096)	(5,969)	(7,477)
Balance at End of Period	$ (15,331)	$ (5,272)	$ (33,252)	$ (53,855)
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)

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, 2018 and 2017:

Details about Accumulated Other Comprehensive Income (Loss) Components	**Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]**		**Affected Line Item in the Statement Where Net Income Is Presented**
	Three Months Ended June 30,		
(dollars in thousands)	**2018**	**2017**	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (578)	$ (491)	Interest Income
	153	194	Provision for Income Tax
	(425)	(297)	Net of Tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit [2]	142	80	
Net Actuarial Losses [2]	(436)	(322)	
	(294)	(242)	Total Before Tax
	78	95	Provision for Income Tax
	(216)	(147)	Net of Tax
Total Reclassifications for the Period	$ (641)	$ (444)	Net of Tax

Details about Accumulated Other Comprehensive Income (Loss) Components	**Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]**		**Affected Line Item in the Statement Where Net Income Is Presented**
	Six Months Ended June 30,		
(dollars in thousands)	**2018**	**2017**	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (1,237)	$ (995)	Interest Income
	328	393	Provision for Income Tax
	(909)	(602)	Net of Tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit [2]	284	161	
Net Actuarial Losses [2]	(872)	(645)	
	(588)	(484)	Total Before Tax
	156	191	Provision for Income Tax
	(432)	(293)	Net of Tax
Total Reclassifications for the Period	$ (1,341)	$ (895)	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 Other Noninterest Expense on the consolidated statements of income (see Note 11 *Pension Plans and Postretirement Benefit Plan* for additional details).

Note 9. 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, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Denominator for Basic Earnings Per Share	41,884,221	42,353,976	41,960,743	42,379,730
Dilutive Effect of Equity Based Awards	267,979	304,909	292,157	324,280
Denominator for Diluted Earnings Per Share	42,152,200	42,658,885	42,252,900	42,704,010
Antidilutive Stock Options and Restricted Stock Outstanding	1,293	7,127	1,293	—

Note 10. Business Segments

The Company’s business segments are defined as Retail Banking, Commercial Banking, Investment Services and Private Banking, 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 the Company’s 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 26% effective income tax rate. However, the provision for income taxes for the Company’s 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 385 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

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 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 customers.

Investment Services and Private Banking

Investment Services and Private Banking includes private banking and international client banking services, 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, 2018 and 2017 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services and Private Banking	Treasury and Other	Consolidated Total
Three Months Ended June 30, 2018					
Net Interest Income	$ 65,683	$ 44,010	$ 10,526	$ 277	$ 120,496
Provision for Credit Losses	3,445	(194)	—	249	3,500
Net Interest Income After Provision for Credit Losses	62,238	44,204	10,526	28	116,996
Noninterest Income	19,598	5,512	14,745	1,443	41,298
Noninterest Expense	(51,939)	(19,858)	(16,400)	(2,594)	(90,791)
Income Before Provision for Income Taxes	29,897	29,858	8,871	(1,123)	67,503
Provision for Income Taxes	(7,473)	(6,740)	(2,338)	3,766	(12,785)
Net Income	$ 22,424	$ 23,118	$ 6,533	$ 2,643	$ 54,718
Total Assets as of June 30, 2018	$ 6,142,457	$ 3,799,535	$ 342,464	$ 6,839,706	$ 17,124,162
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
Six Months Ended June 30, 2018					
Net Interest Income	$ 130,080	$ 86,908	$ 20,413	$ 2,051	$ 239,452
Provision for Credit Losses	7,188	(345)	(60)	842	7,625
Net Interest Income After Provision for Credit Losses	122,892	87,253	20,473	1,209	231,827
Noninterest Income	38,851	11,154	28,415	6,913	85,333
Noninterest Expense	(106,538)	(40,190)	(32,607)	(5,840)	(185,175)
Income Before Provision for Income Taxes	55,205	58,217	16,281	2,282	131,985
Provision for Income Taxes	(13,764)	(13,564)	(4,292)	8,393	(23,227)
Net Income	$ 41,441	$ 44,653	$ 11,989	$ 10,675	$ 108,758
Total Assets as of June 30, 2018	$ 6,142,457	$ 3,799,535	$ 342,464	$ 6,839,706	$ 17,124,162
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

Note 11. 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, 2018 and 2017.

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2018	2017	2018	2017
Three Months Ended June 30,				
Service Cost	$ —	$ —	$ 115	$ 123
Interest Cost	1,041	1,161	236	272
Expected Return on Plan Assets	(1,282)	(1,238)	—	—
Amortization of:				
Prior Service Credit	—	—	(142)	(80)
Net Actuarial Losses (Gains)	498	432	(62)	(110)
Net Periodic Benefit Cost	$ 257	$ 355	$ 147	$ 205
Six Months Ended June 30,				
Service Cost	$ —	$ —	$ 230	$ 246
Interest Cost	2,082	2,322	471	544
Expected Return on Plan Assets	(2,564)	(2,476)	—	—
Amortization of:				
Prior Service Credit	—	—	(284)	(161)
Net Actuarial Losses (Gains)	996	865	(124)	(220)
Net Periodic Benefit Cost	$ 514	$ 711	$ 293	$ 409

The service cost component of net periodic benefit cost are included in salaries and benefits and all other components of net periodic benefit cost are included in other noninterest expense in the consolidated statements of income for the Company's pension plans and postretirement benefit plan. For the three and six months ended June 30, 2018, 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 $0.5 million to the pension plans and $0.9 million to the postretirement benefit plan for the year ending December 31, 2018.

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Note 12. Derivative Financial Instruments

The notional amount and fair value of the Company's derivative financial instruments as of June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018		December 31, 2017	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	$ 31,298	$ 707	$ 35,422	$ 789
Forward Commitments	33,336	(115)	45,143	(56)
Interest Rate Swap Agreements				
Receive Fixed/Pay Variable Swaps	453,275	(11,494)	374,670	(1,331)
Pay Fixed/Receive Variable Swaps	453,275	11,178	374,670	1,436
Foreign Exchange Contracts	48,305	(241)	54,332	(13)
Conversion Rate Swap Agreement	81,058	(1,000)	70,571	—

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, 2018 and December 31, 2017:

Derivative Financial Instruments Not Designated as Hedging Instruments [1] (dollars in thousands)	June 30, 2018 Asset Derivatives	June 30, 2018 Liability Derivatives	December 31, 2017 Asset Derivatives	December 31, 2017 Liability Derivatives
Interest Rate Lock Commitments	$ 708	$ 1	$ 789	$ —
Forward Commitments	10	125	14	70
Interest Rate Swap Agreements	14,422	14,738	9,583	9,478
Foreign Exchange Contracts	72	313	132	145
Conversion Rate Swap Agreement	—	1,000	—	—
Total	$ 15,212	$ 16,177	$ 10,518	$ 9,693

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

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, 2018 and 2017:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses) Recognized in the Statements of Income	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest Rate Lock Commitments	Mortgage Banking	$ 968	$ 1,655	$ 1,498	$ 2,922
Forward Commitments	Mortgage Banking	240	(465)	925	(889)
Interest Rate Swap Agreements	Other Noninterest Income	632	525	750	680
Foreign Exchange Contracts	Other Noninterest Income	995	796	1,959	1,846
Conversion Rate Swap Agreement	Investment Securities Gains (Losses), Net	(1,000)	—	(1,000)	—
Total		$ 1,835	$ 2,511	$ 4,132	$ 4,559

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, 2018 and December 31, 2017, 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 7 *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), 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 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, 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 applied to new derivative contracts entered into by the Company after March 1, 2017, 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 causes any derivative cleared through one of 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 one of the clearinghouses. Going forward, the Company expects most of the swap agreements executed with third party financial institutions will be required to be cleared through one of 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. 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. However, in June 2018, Visa announced a reduction of the conversion ratio from 1.6483 to 1.6298 effective June 28, 2018. As a result, the Company recorded a $1.0 million liability in June 2018 which represents the amount due to the buyers of the Visa Class B shares in July 2018. Further reductions to the conversion ratio were deemed neither probable nor reasonably estimable by management. See Note 3 *Investment Securities* for more information.

Note 13. Commitments, Contingencies, and Guarantees

The Company's credit commitments as of June 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)		**June 30, 2018**		**December 31, 2017**
Unfunded Commitments to Extend Credit	$	2,869,256	$	2,780,724
Standby Letters of Credit		64,857		60,519
Commercial Letters of Credit		13,058		18,036
Total Credit Commitments	$	2,947,171	$	2,859,279

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.

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, 2018, the unpaid principal balance of residential mortgage loans sold by the Company was $2.7 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 potentially 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, 2018, there were five residential mortgage loans repurchased with an aggregate unpaid principal balance of $1.2 million as a result of the representation and warranty provisions contained in these contracts. Four of the loans were delinquent in payment of principal and interest at the time of repurchase, however no material losses were incurred related to these repurchases. As of June 30, 2018, 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 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, 2018, there were no loans repurchased related to loan servicing activities. As of June 30, 2018, 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, 2018, 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, 2018, 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 14. 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 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, 2018 and December 31, 2017, 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, the Company 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 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 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, 2018 and December 31, 2017, the conversion rate swap agreements were valued at $1.0 million and zero, respectively. This conversion rate swap agreement is classified as a Level 2 measurement. See Note 12 *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.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

(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, 2018				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 535	$ 444,177	$ —	$ 444,712
Debt Securities Issued by States and Political Subdivisions	—	592,601	—	592,601
Debt Securities Issued by Corporations	—	223,777	—	223,777
Mortgage-Backed Securities:				
Residential - Government Agencies	—	210,696	—	210,696
Residential - U.S. Government-Sponsored Enterprises	—	559,868	—	559,868
Commercial - Government Agencies	—	61,216	—	61,216
Total Mortgage-Backed Securities	—	831,780	—	831,780
Total Investment Securities Available-for-Sale	535	2,092,335	—	2,092,870
Loans Held for Sale	—	16,025	—	16,025
Mortgage Servicing Rights	—	—	1,366	1,366
Other Assets	32,400	—	—	32,400
Derivatives [1]	—	82	15,130	15,212
Total Assets Measured at Fair Value on a Recurring Basis as of June 30, 2018	$ 32,935	$ 2,108,442	$ 16,496	$ 2,157,873
Liabilities:				
Derivatives [1]	$ —	$ 1,438	$ 14,739	$ 16,177
Total Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2018	$ —	$ 1,438	$ 14,739	$ 16,177
December 31, 2017				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 538	$ 425,392	$ —	$ 425,930
Debt Securities Issued by States and Political Subdivisions	—	627,019	—	627,019
Debt Securities Issued by Corporations	—	266,111	—	266,111
Mortgage-Backed Securities:				
Residential - Government Agencies	—	235,360	—	235,360
Residential - U.S. Government-Sponsored Enterprises	—	609,812	—	609,812
Commercial - Government Agencies	—	68,747	—	68,747
Total Mortgage-Backed Securities	—	913,919	—	913,919
Total Investment Securities Available-for-Sale	538	2,232,441	—	2,232,979
Loans Held for Sale	—	19,231	—	19,231
Mortgage Servicing Rights	—	—	1,454	1,454
Other Assets	29,230	—	—	29,230
Derivatives [1]	—	146	10,372	10,518
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2017	$ 29,768	$ 2,251,818	$ 11,826	$ 2,293,412
Liabilities:				
Derivatives [1]	$ —	$ 215	$ 9,478	$ 9,693
Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2017	$ —	$ 215	$ 9,478	$ 9,693

[1] The fair value of each class of derivatives is shown in Note 12 *Derivative Financial Instruments*.

For the three and six months ended June 30, 2018 and 2017, 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, 2018		
Balance as of April 1, 2018	$ 1,404	$ 547
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(38)	968
Transfers to Loans Held for Sale	—	(1,198)
Variation Margin Payments	—	74
Balance as of June 30, 2018	$ 1,366	$ 391
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2018	$ —	$ 391
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
Six Months Ended June 30, 2018		
Balance as of January 1, 2018	$ 1,454	$ 894
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(88)	1,505
Transfers to Loans Held for Sale	—	(1,580)
Variation Margin Payments	—	(428)
Balance as of June 30, 2018	$ 1,366	$ 391
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of June 30, 2018	$ —	$ 391
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

[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.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2018 and December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Valuation Technique	Significant Unobservable Inputs (weighted-average) Description	June 30, 2018	Dec. 31, 2017	Fair Value June 30, 2018	Fair Value Dec. 31, 2017
Mortgage Servicing Rights	Discounted Cash Flow	Constant Prepayment Rate [1]	6.45%	8.50%	$ 31,112	$ 28,170
		Discount Rate [2]	9.76%	8.87%		
Net Derivative Assets and Liabilities:						
Interest Rate Lock Commitments	Pricing Model	Closing Ratio	91.95%	93.25%	$ 707	$ 789
Interest Rate Swap Agreements	Discounted Cash Flow	Credit Factor	0.02%	0.10%	$ (316)	$ 105

[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 comparing the model’s results to historical prepayment data. 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 the Company’s secondary marketing system using historical data and the ratio is periodically reviewed by the Company.

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.

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. As of June 30, 2018 and December 31, 2017, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

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, 2018 and December 31, 2017.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
June 30, 2018			
Loans Held for Sale	$ 16,025	$ 15,669	$ 356
December 31, 2017			
Loans Held for Sale	$ 19,231	$ 18,854	$ 377

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, 2018 and 2017, the net gains or losses from the change in fair value of the Company's residential mortgage loans held for sale were not material.

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Financial Instruments Not Recorded at Fair Value on a Recurring Basis

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, 2018 and December 31, 2017. 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, 2018					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$ 3,595,891	$ 3,500,497	$ 362,782	$ 3,137,715	$ —
Loans [1]	9,688,883	9,577,141	—	—	9,577,141
Financial Instruments - Liabilities					
Time Deposits	1,713,323	1,699,097	—	1,699,097	—
Securities Sold Under Agreements to Repurchase	504,193	504,167	—	504,167	—
Other Debt [2]	225,000	223,424	—	223,424	—
December 31, 2017					
Financial Instruments - Assets					
Investment Securities Held-to-Maturity	$ 3,928,170	$ 3,894,121	$ 373,640	$ 3,520,481	$ —
Loans [1]	9,436,506	9,519,369	—	—	9,519,369
Financial Instruments - Liabilities					
Time Deposits	1,688,092	1,679,684	—	1,679,684	—
Securities Sold Under Agreements to Repurchase	505,293	505,278	—	505,278	—
Other Debt [2]	250,000	248,520	—	248,520	—

[1] Carrying amount is net of unearned income and the Allowance. In accordance with the prospective adoption of ASU No. 2016-01, the fair value of loans as of June 30, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

[2] Excludes capitalized lease obligations.

Note 15. Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. As stated in Note 1 *Summary of Significant Accounting Policies*, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Trust and Asset Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, Exchange, and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Annuity and Insurance

Annuity and insurance income primarily consists of commissions received on annuity product sales. The Company acts as an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the annuity policy. Shortly after the policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue. The Company does not earn a significant amount of trailer fees on annuity sales. The majority of the trailer fees relates to variable annuity products and are calculated based on a percentage of market value at period end. Revenue is not recognized until the annuity's market value can be determined.

Other

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisor fees from the Company's Managed Account Platform Services (MAPS) wealth management product, safety deposit box rental fees, and other miscellaneous revenue streams. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation. The Company also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Investment advisor fees from the MAPS wealth management product is earned over time and based on an annual percentage rate of the net asset value. The investment advisor fees are charged to the customer's account in advance on the first month of the quarter, and the revenue is recognized over the following three-month period. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Noninterest Income				
In-scope of Topic 606:				
Trust and Asset Management	$ 11,356	$ 11,796	$ 22,537	$ 23,275
Service Charges on Deposit Accounts	3,214	3,823	6,788	7,856
Fees, Exchange, and Other Service Charges	11,457	11,279	23,050	22,034
Annuity and Insurance	1,758	1,999	2,901	3,890
Other	2,532	2,449	4,810	4,544
Noninterest Income (in-scope of Topic 606)	30,317	31,346	60,086	61,599
Noninterest Income (out-of-scope of Topic 606)	10,981	13,890	25,247	39,553
Total Noninterest Income	$ 41,298	$ 45,236	$ 85,333	$ 101,152

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

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 changes to such initiatives, such as the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018; 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, including Public Law 115-97, commonly known as the Tax Cuts and Jobs Act, 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 or negatively impacting the tourism industry in Hawaii. 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, 2017, 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.

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.

The Company's 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 2018 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 2018, total visitor arrivals increased 8.4% while total visitor spending increased 10.9% compared to the same period in 2017. The Hawaii statewide seasonally-adjusted unemployment rate was 2.1% in June 2018 compared to 4.0% nationally. For the first six months of 2018, the volume of single-family home sales on Oahu decreased 1.6%, while the volume of condominium sales on Oahu increased 1.3% compared with the same period in 2017. The median price of single-family home sales and condominium sales on Oahu increased 3.9% and 6.5%, respectively, for the first six months of 2018 compared to the same period in 2017. As of June 30, 2018, months of inventory of single-family homes and condominiums on Oahu remained low at 2.7 months and 3.0 months, respectively.

Earnings Summary

Net income for the second quarter of 2018 was $54.7 million, an increase of $10.1 million or 23% compared to the same period in 2017. Diluted earnings per share was $1.30 for the second quarter of 2018, an increase of $0.25 or 24% compared to the same period in 2017.

The Company's higher earnings for the second quarter of 2018 were primarily due to the following:

- The provision for income taxes for the second quarter of 2018 was $12.8 million, a decrease of $7.6 million or 37% compared to the same period in 2017 primarily due to the federal corporate tax rate changing from 35% to 21% as a result of the Tax Cuts and Jobs Act. The effective tax rate for the second quarter of 2018 was 18.94%, down from 31.37% for the same period in 2017.
- Net interest income for the second quarter of 2018 was $120.5 million, an increase of $8.2 million or 7% compared to the same period in 2017. 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. The Company's net interest margin was 3.04% in the second quarter of 2018, an increase of 12 basis points compared to the same period in 2017. The higher margin in 2018 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 2017. In addition, yields on our commercial loans, home equity loans, and investments portfolio increased. This increase was partially offset by an increase in rates offered on our deposit products and a decrease in automobile loan rates due to higher rate payoff activity and the addition of lower rate automobile loans to our portfolio.

This increase was partially offset by the following:

- Salaries and benefits for the second quarter of 2018 were $52.1 million, an increase of $2.5 million or 5% compared to the same period in 2017 primarily due to merit and minimum wage increases.
- Mortgage banking income for the second quarter of 2018 was $2.2 million, a decrease of $1.6 million or 43% compared to the same period in 2017 primarily due to lower loan sales.
- Investment securities gains (losses), net totaled $(1.7) million in the second quarter of 2018 compared to $(0.5) million during the same period in 2017. In June 2018, Visa announced a reduction of the conversion ratio on its Class B shares from 1.6483 to 1.6298 effective June 28, 2018. As a result, the Company recorded a $1.0 million liability in June 2018, which represents the amount that will become payable to the buyers of our Visa Class B shares in July 2018.

Net income for the first six months of 2018 was $108.8 million, an increase of $12.9 million or 13% compared to the same period in 2017. Diluted earnings per share was $2.57 for the first six months of 2018, an increase of $0.33 or 15% compared to the same period in 2017.

The Company's higher earnings for the first six months of 2018 were primarily due to the following:

- The provision for income taxes for the first six months of 2018 was $23.2 million, a decrease of $18.8 million or 45% compared to the same period in 2017 primarily due to the federal corporate tax rate changing from 35% to 21% as a result of the Tax Cuts and Jobs Act. The effective tax rate for the first six months of 2018 was 17.60%, down from 30.50% for the same period in 2017. The tax rate was also favorably impacted by a $2.0 million basis adjustment to the Company's low income housing investments in the first quarter of 2018.

- Net interest income for the first six months of 2018 was $239.5 million, an increase of $17.3 million or 8% compared to the same period in 2017. 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 3.02% in the first six months of 2018, an increase of 12 basis points compared to the same period in 2017. The higher margin in 2018 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 2017. In addition, yields on our commercial loans, home equity loans, and investments portfolio increased. This increase was partially offset by an increase in rates offered on our deposit products and a decrease in automobile loan rates due to higher rate payoff activity and the addition of lower rate automobile loans to our portfolio.

This increase was partially offset by the following:

- Investment securities gains (losses), net totaled $(2.4) million for the first six months of 2018 compared to $11.6 million during the same period in 2017. The net losses in the first six months of 2018 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions combined with a $1.0 million liability related to a change in the Visa Class B share conversion ratio. The net gain in the first six months of 2017 was primarily due the sale of 90,000 Visa Class B shares.

- Mortgage banking income for the first six months of 2018 was $4.3 million a decrease of $2.8 million or 39% compared to the same period in 2017. This decrease was primarily due to reduced sales of conforming saleable loans from our mortgage loan portfolio.

We maintained a strong balance sheet during the second quarter of 2018, with what we believe are adequate reserves for credit losses and high levels of liquidity and capital.

- Total loans and leases were $10.1 billion as of June 30, 2018, an increase of $256.4 million or 3% from December 31, 2017 primarily due to growth in our commercial and consumer lending portfolio.

- The allowance for loan and lease losses (the "Allowance") was $108.2 million as of June 30, 2018, an increase of $0.8 million or 1% from December 31, 2017. The Allowance represents 1.08% of total loans and leases outstanding as of June 30, 2018 and 1.10% of total loans and leases outstanding as of December 31, 2017. 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, 2018, the total carrying value of our investment securities portfolio was $5.7 billion, a decrease of $472.4 million or 8% compared to December 31, 2017. During the first six months of 2018, we reduced our positions in mortgage-backed securities issued by Ginnie Mae and Fannie Mae. We re-invested these proceeds primarily into higher yielding loan products. In addition, we increased our holdings in Small Business Administration securities. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio.

- Total deposits were $14.9 billion as of June 30, 2018, an increase of $59.4 million or less than 1% from December 31, 2017 primarily due to an increase in consumer deposits offset by a decrease in commercial, public and other deposits.

- Total shareholders' equity was $1.2 billion as of June 30, 2018, an increase of $15.8 million or 1% from December 31, 2017. We continued to return capital to our shareholders in the form of share repurchases and dividends. During the first six months of 2018, we acquired 497,021 shares of our common stock at a total cost of $42.2 million under our share repurchase program and from shares obtained 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 $47.5 million during the first six months of 2018.

Our financial highlights are presented in Table 1.

Financial Highlights **Table 1**

(dollars in thousands, except per share amounts)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
For the Period:				
Operating Results				
Net Interest Income	$ 120,496	$ 112,279	$ 239,452	$ 222,151
Provision for Credit Losses	3,500	4,250	7,625	8,650
Total Noninterest Income	41,298	45,236	85,333	101,152
Total Noninterest Expense	90,791	88,189	185,175	176,757
Net Income	54,718	44,662	108,758	95,838
Basic Earnings Per Share	1.31	1.05	2.59	2.26
Diluted Earnings Per Share	1.30	1.05	2.57	2.24
Dividends Declared Per Share	0.60	0.50	1.12	1.00
Performance Ratios				
Return on Average Assets	1.30%	1.09%	1.29%	1.17%
Return on Average Shareholders' Equity	17.68	14.87	17.71	16.22
Efficiency Ratio [1]	56.12	55.99	57.01	54.67
Net Interest Margin [2]	3.04	2.92	3.02	2.90
Dividend Payout Ratio [3]	45.80	47.62	43.24	44.25
Average Shareholders' Equity to Average Assets	7.34	7.30	7.31	7.23
Average Balances				
Average Loans and Leases	$ 9,962,860	$ 9,217,779	$ 9,883,746	$ 9,119,610
Average Assets	16,921,820	16,495,925	16,939,527	16,465,435
Average Deposits	14,709,299	14,253,149	14,714,752	14,236,112
Average Shareholders' Equity	1,241,672	1,204,837	1,238,628	1,191,157
Market Price Per Share of Common Stock				
Closing	$ 83.42	$ 82.97	$ 83.42	$ 82.97
High	88.92	84.99	89.09	90.80
Low	80.20	75.92	78.40	75.92

	June 30, 2018	December 31, 2017
As of Period End:		
Balance Sheet Totals		
Loans and Leases	$ 10,053,323	$ 9,796,947
Total Assets	17,124,162	17,089,052
Total Deposits	14,943,358	14,883,968
Other Debt	235,681	260,716
Total Shareholders' Equity	1,247,717	1,231,868
Asset Quality		
Non-Performing Assets	$ 15,157	$ 16,120
Allowance for Loan and Lease Losses	108,188	107,346
Allowance to Loans and Leases Outstanding	1.08%	1.10%
Capital Ratios		
Common Equity Tier 1 Capital Ratio	13.27%	13.24%
Tier 1 Capital Ratio	13.27	13.24
Total Capital Ratio	14.47	14.46
Tier 1 Leverage Ratio	7.53	7.26
Total Shareholders' Equity to Total Assets	7.29	7.21
Tangible Common Equity to Tangible Assets [4]	7.12	7.04
Tangible Common Equity to Risk-Weighted Assets [4]	12.68	12.84
Non-Financial Data		
Full-Time Equivalent Employees	2,173	2,132

Branches	69	69
ATMs	385	387

[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.

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, 2018		December 31, 2017
Total Shareholders’ Equity	$	1,247,717	$	1,231,868
Less: Goodwill		31,517		31,517
Tangible Common Equity	$	1,216,200	$	1,200,351
Total Assets	$	17,124,162	$	17,089,052
Less: Goodwill		31,517		31,517
Tangible Assets	$	17,092,645	$	17,057,535
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements	$	9,593,242	$	9,348,296
Total Shareholders’ Equity to Total Assets		7.29%		7.21%
Tangible Common Equity to Tangible Assets (Non-GAAP)		7.12%		7.04%
Tier 1 Capital Ratio		13.27%		13.24%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP)		12.68%		12.84%

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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, 2018			Three Months Ended June 30, 2017			Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
(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	Yield/ Rate
Earning Assets												
Interest-Bearing Deposits in Other Banks	$ 2.9	$ —	(0.52)%	$ 3.6	$ —	0.29%	$ 2.9	$ —	0.94%	$ 3.5	$ —	0.42%
Funds Sold	185.2	0.8	1.81	353.5	0.7	0.78	194.9	1.6	1.64	448.3	1.6	0.70
Investment Securities												
Available-for-Sale												
Taxable	1,564.5	9.2	2.35	1,683.4	8.4	1.98	1,579.7	18.0	2.29	1,654.6	15.9	1.93
Non-Taxable	583.6	4.0	2.78	658.9	5.4	3.26	594.1	8.2	2.76	659.8	10.7	3.26
Held-to-Maturity												
Taxable	3,471.7	19.2	2.22	3,596.1	18.4	2.05	3,551.0	39.0	2.20	3,592.9	36.6	2.04
Non-Taxable	237.1	1.9	3.17	240.9	2.3	3.88	237.6	3.8	3.17	241.4	4.7	3.88
Total Investment Securities	5,856.9	34.3	2.35	6,179.3	34.5	2.23	5,962.4	69.0	2.32	6,148.7	67.9	2.21
Loans Held for Sale	14.8	0.2	4.44	23.8	0.2	4.04	14.5	0.3	4.11	27.1	0.6	4.01
Loans and Leases [1]												
Commercial and Industrial	1,307.6	12.8	3.92	1,251.2	10.9	3.51	1,294.3	24.6	3.83	1,257.4	21.5	3.44
Commercial Mortgage	2,123.5	21.9	4.13	1,946.3	18.4	3.80	2,110.0	42.4	4.06	1,914.1	35.9	3.78
Construction	183.4	2.2	4.82	240.0	2.8	4.70	186.4	4.3	4.63	249.5	5.7	4.62
Commercial Lease Financing	179.4	1.0	2.24	208.0	1.2	2.27	179.5	2.0	2.22	208.3	2.3	2.22
Residential Mortgage	3,526.9	33.6	3.81	3,272.7	31.1	3.80	3,502.6	66.9	3.82	3,237.4	62.0	3.83
Home Equity	1,612.7	15.1	3.76	1,445.8	13.1	3.62	1,604.1	29.7	3.73	1,406.8	25.0	3.59
Automobile	573.6	5.7	3.97	474.1	5.9	4.97	557.7	11.3	4.08	467.9	11.6	5.01
Other [2]	455.8	8.9	7.86	379.7	7.6	8.06	449.1	17.6	7.88	378.2	15.0	7.98
Total Loans and Leases	9,962.9	101.2	4.07	9,217.8	91.0	3.96	9,883.7	198.8	4.04	9,119.6	179.0	3.95
Other	39.8	0.4	3.43	41.0	0.2	2.03	40.3	0.7	3.19	40.5	0.4	2.16
Total Earning Assets [3]	16,062.5	136.9	3.41	15,819.0	126.6	3.21	16,098.7	270.4	3.37	15,787.7	249.5	3.17
Cash and Due From Banks	251.0			120.8			239.9			126.5		
Other Assets	608.3			556.1			600.9			551.2		
Total Assets	$ 16,921.8			$ 16,495.9			$ 16,939.5			$ 16,465.4		
Interest-Bearing Liabilities												
Interest-Bearing Deposits												
Demand	$ 2,969.8	$ 1.2	0.16 %	$ 2,862.7	$ 0.5	0.07%	$ 2,974.0	$ 1.9	0.13%	$ 2,864.6	$ 0.8	0.06%
Savings	5,392.2	3.1	0.23	5,376.9	1.6	0.12	5,379.3	5.3	0.20	5,391.4	2.9	0.11
Time	1,705.7	5.2	1.21	1,480.5	2.9	0.78	1,709.6	9.8	1.16	1,397.5	5.0	0.72
Total Interest-Bearing Deposits	10,067.7	9.5	0.38	9,720.1	5.0	0.21	10,062.9	17.0	0.34	9,653.5	8.7	0.18
Short-Term Borrowings	21.0	0.1	1.80	36.5	0.1	1.10	20.0	0.2	1.64	23.1	0.1	0.91
Securities Sold Under Agreements to Repurchase	505.1	4.6	3.62	505.3	5.1	3.98	505.2	9.2	3.61	508.8	10.2	4.01
Other Debt	235.7	0.9	1.56	267.9	1.1	1.66	246.3	1.9	1.55	267.9	2.2	1.66
Total Interest-Bearing Liabilities	10,829.5	15.1	0.56	10,529.8	11.3	0.43	10,834.4	28.3	0.52	10,453.3	21.2	0.41
Net Interest Income		$ 121.8			$ 115.3			$ 242.1			$ 228.3	
Interest Rate Spread			2.85 %			2.78%			2.85%			2.76%
Net Interest Margin			3.04 %			2.92%			3.02%			2.90%
Noninterest-Bearing Demand Deposits	4,641.6			4,533.0			4,651.9			4,582.6		
Other Liabilities	209.0			228.3			214.6			238.3		
Shareholders' Equity	1,241.7			1,204.8			1,238.6			1,191.2		
Total Liabilities and Shareholders' Equity	$ 16,921.8			$ 16,495.9			$ 16,939.5			$ 16,465.4		

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 21% for 2018 and 35% for 2017, of $1.3 million and $3.1 million for the three and six months ended June 30, 2018, and of $3.1 million and $6.1 million for the three and six months ended June 30, 2017, respectively.

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

	Six Months Ended June 30, 2018 Compared to June 30, 2017		
(dollars in millions)	Volume [1]	Rate [1]	Total
Change in Interest Income:			
Funds Sold	$ (1.3)	$ 1.3	$ —
Investment Securities			
Available-for-Sale			
Taxable	(0.8)	2.9	2.1
Non-Taxable	(1.0)	(1.5)	(2.5)
Held-to-Maturity			
Taxable	(0.4)	2.8	2.4
Non-Taxable	(0.1)	(0.8)	(0.9)
Total Investment Securities	(2.3)	3.4	1.1
Loans Held for Sale	(0.3)	—	(0.3)
Loans and Leases			
Commercial and Industrial	0.6	2.5	3.1
Commercial Mortgage	3.8	2.7	6.5
Construction	(1.4)	—	(1.4)
Commercial Lease Financing	(0.3)	—	(0.3)
Residential Mortgage	5.0	(0.1)	4.9
Home Equity	3.6	1.1	4.7
Automobile	2.0	(2.3)	(0.3)
Other [2]	2.8	(0.2)	2.6
Total Loans and Leases	16.1	3.7	19.8
Other	—	0.3	0.3
Total Change in Interest Income	12.2	8.7	20.9
Change in Interest Expense:			
Interest-Bearing Deposits			
Demand	—	1.1	1.1
Savings	—	2.4	2.4
Time	1.3	3.5	4.8
Total Interest-Bearing Deposits	1.3	7.0	8.3
Short-Term Borrowings	—	0.1	0.1
Securities Sold Under Agreements to Repurchase	(0.1)	(0.9)	(1.0)
Other Debt	(0.2)	(0.1)	(0.3)
Total Change in Interest Expense	1.0	6.1	7.1
Change in Net Interest Income	$ 11.2	$ 2.6	$ 13.8

[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 $120.5 million for the second quarter of 2018, an increase of $8.2 million or 7% compared to the same period in 2017. On a taxable-equivalent basis, net interest income was $121.8 million for the second quarter of 2018, an increase of $6.5 million or 6% compared to the same period in 2017. Net interest income was $239.5 million for the first six months of 2018, an increase of $17.3 million or 8% compared to the same period in 2017. On a taxable-equivalent basis, net interest income was $242.1 million for the first six months of 2018, an increase of $13.8 million or 6% compared to the same period in 2017. 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 3.04% for the second quarter of 2018, an increase of 12 basis points compared to the same period in 2017. Net interest margin was 3.02% for the first six months of 2018, an increase of 12 basis points compared to the same period in 2017. The higher margin in 2018 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 2017.

Yields on our earning assets increased by 20 basis points in both the second quarter and the first six months of 2018 compared to the same periods in 2017 primarily due to the aforementioned shift in the mix of our earning assets from investment securities to loans, which generally have higher yields. Yield increases in our commercial and industrial, commercial mortgage, and home equity loans are primarily due to higher yields on floating rate loans. Yields on our commercial and industrial loans increased by 41 basis points in the second quarter of 2018 and by 39 basis points in the first six months of 2018 compared to the same periods in 2017. Yields on our commercial mortgage loans increased by 33 basis points in the second quarter of 2018 and by 28 basis points in the first six months of 2018 compared to the same periods in 2017. In addition, yields on our home equity loans also increased by 14 basis points in both the second quarter of 2018 and the first six months of 2018 compared to the same periods in 2017. Yields on our investment securities portfolio increased by 12 basis points in the second quarter of 2018 and by 11 basis points in the first six months of 2018 compared to the same periods in 2017 primarily due to the higher interest rate environment and lower premium amortization. These yield increases were partially offset by a 100 basis point decrease in our automobile loan portfolios in the second quarter of 2018 and by 93 basis points in the first six months of 2018 compared to the same periods in 2017.

Interest rates paid on our interest-bearing liabilities increased by 13 basis points in the second quarter of 2018, and 11 basis points in the first six months of 2018 compared to the same periods in 2017. Increases to our funding costs are primarily due to higher rates paid on our interest-bearing deposits. Interest rates paid on our time deposits increased by 43 basis points in the second quarter of 2018 and by 44 basis points in the first six months of 2018 compared to the same periods in 2017, a reflection of the higher interest rate environment. The average balances of core deposits increased by $122.4 million in the second quarter of 2018 and by $97.2 million in the first six months of 2018 compared to the same periods 2017. The higher funding costs were partially offset by the lower rates paid on our securities sold under agreements to repurchase. Interest rates paid on our repurchase agreements decreased by 36 basis points in the second quarter of 2018 and by 40 basis points in the first six months of 2018 compared to the same periods in 2017 primarily due to the restructuring of three repurchase agreements with private institutions with an aggregate total of $200.0 million. These repurchase agreements had a weighted-average interest rate of 3.94%. The restructuring of the agreements lowered the weighted-average interest rate to 2.70% effective June 2017.

Average balances of our earning assets increased by $243.5 million or 2% in the second quarter of 2018 and by $311.0 million or 2% in the first six months of 2018 compared to the same periods in 2017 primarily due to loan growth as the average balances of our loan and lease portfolio increased by $745.1 million in the second quarter of 2018 and by $764.1 million in the first six months of 2018 compared to the same periods in 2017. The average balance of our residential mortgage portfolio increased by $254.2 million in the second quarter of 2018 and by $265.2 million in the first six months of 2018 compared to the same periods in 2017 primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. The average balance of our home equity portfolio increased by $166.9 million in the second quarter of 2018 and by $197.3 million in the first six months of 2018 compared to the same periods in 2017 due in large part to the continued loan demand in light of a healthy Hawaii economy and stable real estate market conditions. In addition, utilization on new and existing home equity lines remained steady during 2018. The average balance of our commercial mortgage portfolio increased by $177.2 million in the second quarter of 2018 and by $195.9 million in the first six months of 2018 compared to the same periods in 2017 as a result of continued demand from new and existing customers as a result of a healthy Hawaii economy. Partially offsetting the increase in the average balances of our loans and leases portfolio was a $322.4 million decrease in the average balance of our total investment securities portfolio in the second quarter of 2018 and a $186.3 million decrease in the first six months of 2018 compared to the same periods in 2017 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 $299.7 million or 3% in the second quarter of 2018 and by $381.1 million or 4% in the first six months of 2018 compared to the same periods in 2017 primarily due to growth in our time deposits, along with continued growth in our relationship checking products. Additionally, average balances of our time deposits increased by $225.2 million in the second quarter of 2018 and by $312.1 million in the first six months of 2018, while interest-bearing demand accounts increased by $107.1 million for the second quarter of 2018 and by $109.4 million in the first six months of 2018 compared to the same periods in 2017.

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 $3.5 million in the second quarter of 2018 compared to a $4.3 million provision in the same period in 2017. Our decision to record a 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 $3.9 million or 9% in the second quarter of 2018 and by $15.8 million or 16% for the first six months of 2018 compared to the same period in 2017.

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)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Trust and Asset Management	$ 11,356	$ 11,796	$ (440)	$ 22,537	$ 23,275	$ (738)
Mortgage Banking	2,179	3,819	(1,640)	4,324	7,119	(2,795)
Service Charges on Deposit Accounts	6,865	8,009	(1,144)	13,994	16,334	(2,340)
Fees, Exchange, and Other Service Charges	14,400	13,965	435	28,733	27,297	1,436
Investment Securities Gains (Losses), Net	(1,702)	(520)	(1,182)	(2,368)	11,613	(13,981)
Annuity and Insurance	1,847	2,161	(314)	3,053	4,156	(1,103)
Bank-Owned Life Insurance	1,796	1,550	246	3,638	3,047	591
Other Income	4,557	4,456	101	11,422	8,311	3,111
Total Noninterest Income	$ 41,298	$ 45,236	$ (3,938)	$ 85,333	$ 101,152	$ (15,819)

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 $9.3 billion and $9.0 billion as of June 30, 2018 and 2017, respectively. Trust and asset management income decreased by $0.4 million or 4% in the second quarter of 2018 and by $0.7 million or 3% for the first six months of 2018 compared to the same periods in 2017 due to a decrease in termination, transfer, and real estate service 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 $1.6 million or 43% in the second quarter of 2018 and by $2.8 million or 39% for the first six months of 2018 compared to the same periods in 2017. This decrease was primarily due to reduced sales of conforming saleable loans from our mortgage loan portfolio.

Service charges on deposit accounts decreased by $1.1 million or 14% in the second quarter of 2018 compared to the same period in 2017. This decrease was primarily due to a $0.7 million decrease in account analysis fees and a $0.5 million decrease in overdraft fees. Service charges on deposit accounts decreased by $2.3 million or 14% for the first six months of 2018 compared to the same periods in 2017 primarily due to a $1.3 million decrease in overdraft and a $1.2 million decrease in account analysis fees partially offset by an increase in other service and monthly fees.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, fees from ATMs, merchant service activity, and other loan fees and service charges. Fees, exchange, and other service charges increased by $0.4 million or 3% in the second quarter of 2018 and by $1.4 million or 5% for the first six months of 2018 compared to the same periods in 2017. This year-to-date increase was primarily due to $1.2 million in merchant income, which was recorded as a reduction of other noninterest expense in 2017. This accounting change was related to the 2018 adoption of the new revenue recognition accounting guidance.

Investment securities gains (losses), net totaled $(1.7) million in the second quarter of 2018 compared to $(0.5) million during the same period in 2017. In June 2018, Visa announced a reduction of the conversion ratio of its Class B shares from 1.6483 to 1.6298 effective June 28, 2018. As a result, the Company recorded a $1.0 million liability in June 2018, which represents the amount due to the buyers of our Visa Class B shares in July 2018. Investment securities gains (losses), net totaled $(2.4) million in the first six months of 2018 compared to net gains on sales of investment securities of $11.6 million during the same period in 2017. The net loss in 2018 was primarily due to fees paid to the counterparties of our prior Visa Class B share sale transactions combined with the aforementioned Visa Class B conversion ratio liability. The net gain in 2017 was primarily due to a gain on the sale of 90,000 Visa Class B shares. We received these Class B shares in 2008 as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account be insufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with each sale of 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 83,014 Visa Class B shares (135,296 Class A equivalents) that we own are carried at a zero cost basis. We also contributed 3,600 Visa Class B shares to the Bank of Hawaii Foundation in the second quarter of 2018.

Annuity and insurance income decreased by $0.3 million or 15% in the second quarter of 2018 and by $1.1 million or 27% for the first six months of 2018 compared to the same periods in 2017. This decrease was primarily due to lower sales of our annuity products.

Bank-owned life insurance increased by $0.2 million or 16% in the second quarter of 2018 and by $0.6 million or 19% for the first six months of 2018 compared to the same periods in 2017. This increase was primarily due to death benefits received.

Other noninterest income remained relatively unchanged in the second quarter of 2018 compared to the same period in 2017. Other noninterest income increased by $3.1 million or 37% for the first six months of 2018 compared to the same period in 2017 primarily due to a distribution received in the first quarter of 2018 from a low-income housing investment sale totaling $2.8 million.

Noninterest Expense

Noninterest expense increased by $2.6 million or 3% in the second quarter of 2018 and by $8.4 million or 5% for the first six months of 2018 compared to the same periods in 2017.

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)	2018	2017	Change	2018	2017	Change
Salaries	$ 33,269	$ 30,553	$ 2,716	$ 65,973	$ 59,978	$ 5,995
Incentive Compensation	4,416	5,125	(709)	9,594	10,899	(1,305)
Share-Based Compensation	2,423	2,879	(456)	4,504	5,182	(678)
Commission Expense	1,272	1,791	(519)	2,226	3,627	(1,401)
Retirement and Other Benefits	4,178	3,722	456	9,019	8,326	693
Payroll Taxes	2,568	2,427	141	6,740	6,371	369
Medical, Dental, and Life Insurance	3,820	3,136	684	7,281	6,415	866
Separation Expense	202	43	159	1,233	43	1,190
Total Salaries and Benefits	52,148	49,676	2,472	106,570	100,841	5,729
Net Occupancy	8,588	8,131	457	17,122	16,299	823
Net Equipment	5,845	5,706	139	11,372	11,207	165
Data Processing	4,563	3,881	682	8,454	7,291	1,163
Professional Fees	2,546	2,592	(46)	5,319	5,371	(52)
FDIC Insurance	2,182	2,097	85	4,339	4,306	33
Other Expense:						
Delivery and Postage Services	2,132	2,207	(75)	4,421	4,540	(119)
Mileage Program Travel	1,208	1,210	(2)	2,343	2,335	8
Merchant Transaction and Card Processing Fees	1,196	1,099	97	2,524	2,036	488
Advertising	1,253	1,269	(16)	2,508	2,551	(43)
Amortization of Solar Energy Partnership Investments	916	848	68	1,832	1,696	136
Other	8,214	9,473	(1,259)	18,371	18,284	87
Total Other Expense	14,919	16,106	(1,187)	31,999	31,442	557
Total Noninterest Expense	$ 90,791	$ 88,189	$ 2,602	$ 185,175	$ 176,757	$ 8,418

Total salaries and benefits expense increased by $2.5 million or 5% in the second quarter of 2018 compared to the same period in 2017 primarily due to merit and minimum wage increases. In addition, medical expenses increased by $0.7 million. These increases were partially offset by a $0.7 million decrease in incentive compensation. Total salaries and benefits expense increased by $5.7 million or 6% for the first six months of 2018 compared to the same period in 2017. This increase was primarily due to merit and minimum wage increases. In addition, separation expense increased by $1.2 million. These increases were partially offset by a $1.4 million decrease in commission expense due to a decrease in loan origination and refinancing activity coupled with lower sales of annuity products. In addition, incentive compensation decreased by $1.3 million.

Net occupancy increased by $0.5 million or 6% in the second quarter of 2018 and by $0.8 million or 5% for the first six months of 2018 compared to the same periods in 2017. Net occupancy increased by $0.3 million in the second quarter of 2018 and by $0.5 million for the first six months of 2018 due to ATM lease space rental costs. These costs were recorded as a reduction of ATM fee income in 2017. This accounting change was related to the 2018 adoption of the new revenue recognition accounting guidance.

Data processing increased by $0.7 million or 18% in the second quarter of 2018 and by $1.2 million or 16% for the first six months of 2018 compared to the same periods in 2017 due to ongoing information technology projects.

Total other expense decreased by $1.2 million or 7% in the second quarter of 2018 compared to the same period in 2017 due to decreases in the provision for unfunded commitments ($0.3 million), business travel ($0.3 million), and temporary services ($0.3 million). Total other expense increased by $0.6 million or 2% for the first six months of 2018 compared to the same periods in 2017 primarily due to a $2.0 million legal reserve recorded in first quarter 2018 partially offset by decreases in temporary services ($0.4 million) and business travel ($0.3 million).

Provision for Income Taxes

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

Provision for Income Taxes and Effective Tax Rates **Table 7**

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2018**	**2017**	**2018**	**2017**
Provision for Income Taxes	$ 12,785	$ 20,414	$ 23,227	$ 42,058
Effective Tax Rates	18.94%	31.37%	17.60%	30.50%

The effective tax rate for the second quarter of 2018 was 18.94%, down from 31.37% for the same period in 2017. The lower effective rate in the second quarter of 2018 was primarily due to the federal corporate tax rate changing from 35% to 21% as a result of the Tax Cuts and Jobs Act. Also favorably impacting our effective tax rate in 2018 was a $0.5 million tax benefit from the exercise of stock options and the vesting of restricted stock. The other significant transaction that favorably impacted our effective tax rate was an early buyout of our equity interest in a leveraged lease, which resulted in a $0.5 million credit. These were partially offset by the reduced tax benefit from municipal bonds due to the lower corporate tax rate.

The effective tax rate for the first six months of 2018 was 17.60%, down from 30.50% for the same period in 2017. The effective tax rate for the first six months of 2018 was favorably impacted by the aforementioned reduction in the federal corporate tax rate. The tax rate was also favorably impacted by a $2.0 million basis adjustment to the company’s low income housing investments in the first quarter of 2018.

Analysis of Statements of Condition

Investment Securities

The carrying value of our investment securities portfolio was $5.7 billion as of June 30, 2018, a decrease of $472.4 million or 8% compared to December 31, 2017. As of June 30, 2018, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.6 years.

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

During the first six months of 2018, we reduced our positions in mortgage-backed securities issued by Ginnie Mae and Fannie Mae. We re-invested these proceeds primarily into higher yielding loan products. In addition, we increased our holdings in Small Business Administration securities. Ginnie Mae mortgage-backed securities continue to be the largest concentration in our portfolio. As of June 30, 2018, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of June 30, 2018, 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, 2018, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.4 years.

Gross unrealized gains in our investment securities portfolio were $22.6 million as of June 30, 2018 and $36.6 million as of December 31, 2017. Gross unrealized losses on our temporarily impaired investment securities were $138.8 million as of June 30, 2018 and $73.9 million as of December 31, 2017. The higher unrealized losses were primarily caused by the higher interest rate environment. 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 3 to the Consolidated Financial Statements for more information.

As of June 30, 2018, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $478.1 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 A1 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, 2018, 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.

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, 2018**		**December 31, 2017**
Commercial				
Commercial and Industrial	$	1,282,967	$	1,279,347
Commercial Mortgage		2,169,357		2,103,967
Construction		185,350		202,253
Lease Financing		178,598		180,931
Total Commercial		3,816,272		3,766,498
Consumer				
Residential Mortgage		3,548,444		3,466,773
Home Equity		1,622,314		1,585,455
Automobile		592,705		528,474
Other [1]		473,588		449,747
Total Consumer		6,237,051		6,030,449
Total Loans and Leases	$	10,053,323	$	9,796,947

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

Total loans and leases as of June 30, 2018 increased by $256.4 million or 3% from December 31, 2017 primarily due to growth in our consumer lending portfolio.

Commercial loans and leases as of June 30, 2018 increased by $49.8 million or 1% from December 31, 2017. Commercial and industrial loans remained relatively unchanged from December 31, 2017. Commercial mortgage loans increased by $65.4 million or 3% from December 31, 2017 primarily due to continued demand from new and existing customers as the Hawaii economy continues to be strong. Construction loans decreased by $16.9 million or 8% from December 31, 2017 primarily due to paydowns and successful completion of construction projects such as condominiums and low-income housing, partially offset by increased activity in our portfolio. Lease financing remained relatively unchanged from December 31, 2017.

Consumer loans and leases as of June 30, 2018 increased by $206.6 million or 3% from December 31, 2017. Residential mortgage loans increased by $81.7 million or 2% from December 31, 2017 primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. Home equity lines and loans increased by $36.9 million or 2% from December 31, 2017 as a result of continued loan demand in light of a healthy Hawaii economy and stable real estate market conditions. Additionally, utilization on new and existing home equity lines remained steady during 2018. Automobile loans increased by $64.2 million or 12% from December 31, 2017 primarily driven by healthy automobile loan demand and competitive loan programs. Other consumer loans increased by $23.8 million or 5% from December 31, 2017, primarily due to growth in our automobile leasing and installment loans.

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, 2018						
Commercial						
Commercial and Industrial	$ 1,114,342	$ 82,585	$ 84,544	$ 635	$ 861	$ 1,282,967
Commercial Mortgage	1,849,188	56,323	263,369	477	—	2,169,357
Construction	185,350	—	—	—	—	185,350
Lease Financing	55,662	118,571	908	—	3,457	178,598
Total Commercial	3,204,542	257,479	348,821	1,112	4,318	3,816,272
Consumer						
Residential Mortgage	3,467,736	—	79,092	1,616	—	3,548,444
Home Equity	1,584,809	625	35,638	1,242	—	1,622,314
Automobile	468,233	—	117,500	6,972	—	592,705
Other [3]	394,276	—	50,443	28,869	—	473,588
Total Consumer	5,915,054	625	282,673	38,699	—	6,237,051
Total Loans and Leases	$ 9,119,596	$ 258,104	$ 631,494	$ 39,811	$ 4,318	$ 10,053,323
December 31, 2017						
Commercial						
Commercial and Industrial	$ 1,119,348	$ 99,099	$ 59,233	$ 762	$ 905	$ 1,279,347
Commercial Mortgage	1,837,831	57,331	208,805	—	—	2,103,967
Construction	189,401	—	—	12,852	—	202,253
Lease Financing	53,329	123,619	1,071	—	2,912	180,931
Total Commercial	3,199,909	280,049	269,109	13,614	3,817	3,766,498
Consumer						
Residential Mortgage	3,382,961	—	82,026	1,786	—	3,466,773
Home Equity	1,547,619	867	35,718	1,251	—	1,585,455
Automobile	423,364	—	101,680	3,430	—	528,474
Other [3]	373,941	—	46,703	29,103	—	449,747
Total Consumer	5,727,885	867	266,127	35,570	—	6,030,449
Total Loans and Leases	$ 8,927,794	$ 280,916	$ 535,236	$ 49,184	$ 3,817	$ 9,796,947

[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 $191.8 million or 2% from December 31, 2017, reflective of a healthy Hawaii economy.

Other Assets

Table 10 presents the major components of other assets.

Other Assets		**Table 10**
(dollars in thousands)	**June 30, 2018**	**December 31, 2017**
Federal Home Loan Bank and Federal Reserve Bank Stock	$ 39,796	$ 40,645
Derivative Financial Instruments	15,212	10,518
Low-Income Housing and Other Equity Investments	82,940	87,632
Deferred Compensation Plan Assets	32,400	29,230
Prepaid Expenses	11,305	7,944
Accounts Receivable	38,318	43,195
Other	43,081	33,432
Total Other Assets	$ 263,052	$ 252,596

Total other assets increased by $10.5 million or 4% from December 31, 2017. The increase was primarily due to a $5.9 million increase in principal receivables mainly related to matured securities in the second quarter of 2018. In addition, derivative financial instruments increased $4.7 million primarily due to the fair value increase of our interest rate swap agreement assets, which is affected by prevailing interest rates. Due to our risk mitigating strategies in structuring these agreements, fair value changes to our swap agreement assets are offset with similar fair value changes to our swap agreement liabilities.

Deposits

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

Deposits		**Table 11**
(dollars in thousands)	**June 30, 2018**	**December 31, 2017**
Consumer	$ 7,672,435	$ 7,478,228
Commercial	5,921,414	5,973,763
Public and Other	1,349,509	1,431,977
Total Deposits	$ 14,943,358	$ 14,883,968

Total deposits were $14.9 billion as of June 30, 2018, an increase of $59.4 million or less than 1% from December 31, 2017. Consumer deposits increased by $194.2 million primarily due to $190.7 million increase in time deposits. This increase was partially offset by an $82.5 million decrease in public and other deposits. In addition, commercial deposits decreased by $52.3 million primarily resulting from a decline in analyzed business checking accounts.

Table 12 presents the composition of our savings deposits.

Savings Deposits		**Table 12**
(dollars in thousands)	**June 30, 2018**	**December 31, 2017**
Money Market	$ 1,835,984	$ 1,827,090
Regular Savings	3,553,779	3,561,923
Total Savings Deposits	$ 5,389,763	$ 5,389,013

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, 2018		December 31, 2017
Private Institutions	$	500,000	$	500,000
Government Entities		4,193		5,293
Total Securities Sold Under Agreements to Repurchase	$	504,193	$	505,293

Securities sold under agreements to repurchase was $504.2 million and $505.3 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, the weighted-average maturity was 152 days for our repurchase agreements with government entities and 3.1 years for our repurchase agreements with private institutions. Some of our repurchase agreements with private institutions may be terminated at earlier specified dates by the private institution or in some cases by either the private institution or the Company. If all such agreements were to terminate at the earliest possible date, the weighted-average maturity for our repurchase agreements with private institutions would decrease to 2.5 years. As of June 30, 2018, the weighted-average interest rate for outstanding agreements with government entities and private institutions was 0.88% 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.

Other Debt

Table 14 presents the composition of our other debt.

Other Debt **Table 14**

(dollars in thousands)		June 30, 2018		December 31, 2017
Federal Home Loan Bank Advances	$	225,000	$	250,000
Capital Lease Obligations		10,681		10,716
Total	$	235,681	$	260,716

Other debt was $235.7 million as of June 30, 2018, a decrease of $25.0 million or 10% from December 31, 2017. This decrease was primarily due to a $25.0 million FHLB advance which matured during the first quarter of 2018. As of June 30, 2018, 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, 2018, our remaining unused line of credit with the FHLB was $2.1 billion.

Analysis of Business Segments

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

Table 15 summarizes net income from our business segments. Additional information about segment performance is presented in Note 10 to the Consolidated Financial Statements.

Business Segment Net Income								**Table 15**
	Three Months Ended June 30,				**Six Months Ended June 30,**			
(dollars in thousands)		**2018**		**2017**		**2018**		**2017**
Retail Banking	$	22,424	$	21,410	$	41,441	$	40,757
Commercial Banking		23,118		19,013		44,653		37,959
Investment Services and Private Banking		6,533		4,203		11,989		7,815
Total		52,075		44,626		98,083		86,531
Treasury and Other		2,643		36		10,675		9,307
Consolidated Total	$	54,718	$	44,662	$	108,758	$	95,838

Retail Banking

Net income increased by $1.0 million or 5% in the second quarter of 2018 compared to the same period in 2017 primarily due to a decrease in the effective income tax rate used to allocate the provision for income taxes. This was partially offset by decreases in noninterest income and net interest income, and an increase in the Provision. Noninterest income decreased primarily due to reduced sales of conforming saleable loans from our mortgage portfolio and lower margins on those sales. In addition, overdraft fees decreased in the second quarter of 2018 compared to the same period in 2017. The decrease in net interest income was primarily due to lower average rates in the segment’s loan portfolio and lower average balances in the segment’s deposit portfolio, the latter primarily due to the transfer of deposits to the Investment Services and Private Banking segment. This was partially offset by higher average rates in the segment’s deposit portfolio and higher average balances in the segment’s loan portfolio. The increase in the Provision was primarily due to higher net charge-offs in the segment’s small business, personal credit line, and home equity loan portfolios, partially offset by lower net charge-offs in the segment’s mortgage loan and auto loan portfolios.

Net income increased by $0.7 million or 2% in the first half of 2018 compared to the same period in 2017 primarily due to a decrease in the effective income tax rate used to allocate the provision for income taxes. This was partially offset by decreases in noninterest income and net interest income and an increase in noninterest expense. In addition, the Provision increased. The decrease in noninterest income was primarily due to reduced sales of conforming saleable loans from our mortgage portfolio and lower margins on those sales. In addition, overdraft fees decreased in the first half of 2018 compared to the same period in 2017. The decrease in net interest income was primarily due to lower average rates in the segment’s loan portfolio and lower average balances in the segment’s deposit portfolio, the latter primarily due to the transfer of deposits to the Investment Services and Private Banking segment. This was partially offset by higher average rates in the segment’s deposit portfolio and higher average balances in the segment’s loan portfolio. Noninterest expense increased primarily due to a $2.0 million increase in legal reserves recorded in the first quarter of 2018 and higher allocated technology expense and allocated finance expense. This was partially offset by the reclassification in the first half of 2018 of certain ATM and debit transaction processing fees as contra revenue, and a decrease in professional fees. The increase in the Provision was primarily due to higher net charge-offs in the segment’s small business, credit card and installment loan portfolios, partially offset by lower net charge-offs in the segment’s mortgage loan and home equity portfolios.

Commercial Banking

Net income increased by $4.1 million or 22% in the second quarter of 2018 compared to the same period in 2017 primarily due to an increase in net interest income and to a decrease in the provision for income taxes. This was 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 earnings credits on the segment’s deposit portfolio, and partially due to growth in the segment’s loan portfolio. The decrease in noninterest income was due to lower account analysis fees as a result of higher earnings credit rates on customer accounts, and to lower net gains on sale of equipment leases. The increase in noninterest expense was primarily due to higher salaries, operating and allocated expenses. The decrease in the provision for income taxes was due to the lower effective tax rate allocated to the segment.

Net income increased by $6.7 million or 18% for the first six months of 2018 compared to the same period in 2017 primarily to an increase in net interest income and to a decrease in the provision for income taxes. This was partially offset by an increase in noninterest expense. The increase in net interest income was primarily due to higher earnings credits on the segment’s deposit portfolio, and partially due to growth in the segment’s loan portfolio. The increase in noninterest expense was primarily due to higher salaries, operating and allocated expenses. The decrease in the provision for income taxes was due to the lower effective tax rate allocated to the segment.

Investment Services and Private Banking

Net income increased by $2.3 million or 55% in the second quarter of 2018 compared to the same period in 2017 primarily due to an increase in net interest income which was partially offset by higher noninterest expense and lower noninterest income. The increase in net interest income was primarily driven by the transfer of deposits and loans from the Retail Banking segment and growth of the segment’s deposit portfolio. The increase in noninterest expense was primarily due to higher salaries and benefits expense and higher allocated expenses. The decrease in noninterest income was primarily driven by a decrease in trust service fees.

Net income increased by $4.2 million or 53% for the first six months of 2018 compared to the same period in 2017 primarily due to an increase in net interest income offset by an increase in noninterest expense and a decrease in noninterest income. The increase in net interest income was primarily driven by the transfer of deposits and loans from the Retail Banking segment and growth of the segment’s deposit portfolio. The increase in noninterest expense was primarily due to higher salaries and benefits expense and higher allocated expenses. The decrease in noninterest income was driven by lower annuity sales and lower trust service fees.

Treasury and Other

Net income increased to $2.6 million in the second quarter of 2018 from less than $0.1 million in the same period in 2017 primarily due to an increase in net interest income and a reduction in the Provision partially offset by lower non-interest income. The reduction in non-interest income was primarily due to a $1.0 million liability related to a change in the Visa Class B conversion ratio.

Net income increased by $1.4 million or 15% for the first six months of 2018 compared to the same period in 2017 primarily due to an increase in net interest income and a decrease in the Provision. This was partially offset by a decrease in noninterest income. The increase in net interest income was primarily due to an increase in funding income related to lending activities and interest income from investment securities resulting from an increase in associated yields. This was partially offset by higher deposit funding costs. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The decrease in noninterest income was primarily due to the sale of 90,000 Visa Class B shares in the first quarter of 2017. Partially offsetting this was a $2.8 million distribution from a low-income housing investment sale in the first quarter of 2018.

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, 2018, 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 2018.

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.

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

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

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

(dollars in thousands)		June 30, 2018		December 31, 2017
Non-Performing Assets				
Non-Accrual Loans and Leases				
Commercial				
Commercial and Industrial	$	917	$	448
Commercial Mortgage		659		1,398
Total Commercial		1,576		1,846
Consumer				
Residential Mortgage		6,722		9,243
Home Equity		3,933		3,991
Total Consumer		10,655		13,234
Total Non-Accrual Loans and Leases		12,231		15,080
Foreclosed Real Estate		2,926		1,040
Total Non-Performing Assets	$	15,157	$	16,120
Accruing Loans and Leases Past Due 90 Days or More				
Commercial				
Commercial and Industrial	$	2	$	—
Commercial Mortgage		5,680		—
Total Commercial		5,682		—
Consumer				
Residential Mortgage		2,281	$	2,703
Home Equity		3,016		1,624
Automobile		674		886
Other [1]		1,660		1,934
Total Consumer		7,631		7,147
Total Accruing Loans and Leases Past Due 90 Days or More	$	13,313	$	7,147
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$	50,212	$	55,672
Total Loans and Leases	$	10,053,323	$	9,796,947
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases		0.12%		0.15%
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate		0.15%		0.16%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate		0.04%		0.05%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate		0.22%		0.24%
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		0.28%		0.24%
Changes in Non-Performing Assets				
Balance as of December 31, 2017	$	16,120		
Additions		4,281		
Reductions				
Payments		(3,098)		
Return to Accrual Status		(1,396)		
Sales of Foreclosed Real Estate		(421)		
Charge-offs/Write-downs		(329)		
Total Reductions		(5,244)		
Balance as of June 30, 2018	$	15,157		

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

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 $15.2 million as of June 30, 2018, a decrease of $1.0 million or 6% from December 31, 2017. The ratio of our NPAs to total loans and leases and foreclosed real estate was 0.15% as of June 30, 2018 and 0.16% as of December 31, 2017.

Commercial and industrial non-accrual loans increased by $0.5 million or 105% from December 31, 2017 primarily due to the addition of one borrower. We have evaluated this borrower for impairment and recorded no partial charge-offs in the first six months of 2018.

Commercial mortgage non-accrual loans were $0.7 million as of June 30, 2018, a decrease of $0.7 million or 53% from December 31, 2017 due to payoff of two loans. We have evaluated the remaining commercial mortgage non-accrual loans for impairment and recorded no charge-offs.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $2.5 million or 27% from December 31, 2017 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, 2018, our residential mortgage non-accrual loans were comprised of 25 loans with a weighted average current loan-to-value ratio of 56%.

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 $1.9 million or 181% from December 31, 2017 due to the addition of four residential properties.

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 $13.3 million as of June 30, 2018, a $6.2 million or 86% increase from December 31, 2017. The increase was primarily due to one commercial mortgage loan.

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 $54.2 million as of June 30, 2018 and $61.2 million as of December 31, 2017, and had a related Allowance of $3.9 million as of June 30, 2018 and December 31, 2017. As of June 30, 2018, we have recorded cumulative charge-offs of $12.4 million related to our total impaired loans. Our impaired loans are considered in management’s assessment of the overall adequacy of the Allowance.

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, 2018**	**December 31, 2017**
Commercial		
Commercial and Industrial	$ 6,467	$ 8,486
Commercial Mortgage	2,768	9,205
Construction	1,374	1,416
Total Commercial	10,609	19,107
Consumer		
Residential Mortgage	20,619	21,581
Home Equity	2,488	1,965
Automobile	16,010	14,811
Other [1]	2,864	2,645
Total Consumer	41,981	41,002
Total	$ 52,590	$ 60,109

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

Loans modified in a TDR decreased by $7.5 million or 13% from December 31, 2017. The decrease was primarily due to the full repayments of commercial mortgage loans during the second quarter of 2018. Residential mortgage loans remain our largest TDR loan class.

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)	**2018**	**2017**	**2018**	**2017**
Balance at Beginning of Period	$ 114,760	$ 111,636	$ 114,168	$ 110,845
Loans and Leases Charged-Off				
Commercial				
Commercial and Industrial	(485)	(124)	(691)	(298)
Consumer				
Residential Mortgage	(3)	(506)	(100)	(689)
Home Equity	(44)	(282)	(135)	(645)
Automobile	(1,515)	(1,512)	(3,769)	(3,802)
Other [1]	(3,614)	(3,063)	(6,954)	(5,757)
Total Loans and Leases Charged-Off	(5,661)	(5,487)	(11,649)	(11,191)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial				
Commercial and Industrial	366	265	694	601
Lease Financing	—	1	—	1
Consumer				
Residential Mortgage	214	264	434	368
Home Equity	451	838	1,076	1,346
Automobile	738	607	1,337	1,227
Other [1]	642	551	1,325	1,078
Total Recoveries on Loans and Leases Previously Charged-Off	2,411	2,526	4,866	4,621
Net Loans and Leases Charged-Off	(3,250)	(2,961)	(6,783)	(6,570)
Provision for Credit Losses	3,500	4,250	7,625	8,650
Provision for Unfunded Commitments	—	250	—	250
Balance at End of Period [2]	$ 115,010	$ 113,175	$ 115,010	$ 113,175
Components				
Allowance for Loan and Lease Losses	$ 108,188	$ 106,353	$ 108,188	$ 106,353
Reserve for Unfunded Commitments	6,822	6,822	6,822	6,822
Total Reserve for Credit Losses	$ 115,010	$ 113,175	$ 115,010	$ 113,175
Average Loans and Leases Outstanding	$ 9,962,860	$ 9,217,779	$ 9,883,746	$ 9,119,610
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding (annualized)	0.13%	0.13%	0.14%	0.15%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.08%	1.13%	1.08%	1.13%

[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.

Allowance for Loan and Lease Losses

As of June 30, 2018, the Allowance was $108.2 million or 1.08% of total loans and leases outstanding, compared with an Allowance of $107.3 million or 1.10% of total loans and leases outstanding as of December 31, 2017. 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 $3.3 million or 0.13% of total average loans and leases, on an annualized basis, in the second quarter of 2018 compared to net charge-offs of $3.0 million or 0.13% of total average loans and leases, on an annualized basis, in the second quarter of 2017. Net charge-offs on loans and leases were $6.8 million or 0.14% of total average loans and leases, on an annualized basis, for the first six months of 2018 compared to net charge-offs of $6.6 million or 0.15% of total average loans and leases, on an annualized basis, in the first six months of 2017. Net charge-offs were primarily reflected in our consumer portfolios, totaling $6.8 million and $6.9 million for the first six months of 2018 and 2017, respectively.

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, 2018, 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, 2018, unchanged from December 31, 2017. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

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 12 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.

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, 2018 and December 31, 2017, 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, 2018, 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, 2018, net interest income sensitivity to changes in interest rates for the twelve months subsequent to June 30, 2018 was slightly less sensitive in comparison to the sensitivity profile for the twelve months subsequent to December 31, 2017.

Net Interest Income Sensitivity Profile **Table 19**

	Impact on Future Annual Net Interest Income			
(dollars in thousands)	June 30, 2018		December 31, 2017	
Gradual Change in Interest Rates (basis points)				
+200	$ 12,638	2.6 %	$ 12,420	2.6 %
+100	6,769	1.4	6,622	1.4
-100	(6,759)	(1.4)	(6,789)	(1.4)
Immediate Change in Interest Rates (basis points)				
+200	$ 28,332	5.7 %	$ 29,876	6.2 %
+100	14,866	3.0	16,328	3.4
-100	(19,252)	(3.9)	(21,653)	(4.5)

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 were to 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.

Maturities and payments on outstanding loans and 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, 2018, we had additional borrowing capacity of $2.1 billion from the FHLB and $545.7 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 2018. As of June 30, 2018, cash and cash equivalents were $677.8 million, the carrying value of our available-for-sale investment securities was $2.1 billion, and total deposits were $14.9 billion. As of June 30, 2018, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.4 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, 2018, 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, 2018 that management believes have changed either the Company's or the Bank's capital classifications.

As of June 30, 2018, shareholders' equity was $1.2 billion, an increase of $15.8 million or 1% from December 31, 2017. For the first six months of 2018, net income of $108.8 million, common stock issuances of $4.4 million, share-based compensation of $4.1 million were partially offset by other comprehensive loss of $11.7 million, cash dividends paid of $47.5 million, and common stock repurchased of $42.2 million. In the first six months of 2018, included in the amount of common stock repurchased were 457,500 shares repurchased under our share repurchase program. These shares were repurchased at an average cost per share of $84.67 and a total cost of $38.7 million. From the beginning of our share repurchase program in July 2001 through June 30, 2018, we repurchased a total of 54.6 million shares of common stock and returned a total of $2.11 billion to our shareholders at an average cost of $38.68 per share.

From July 1, 2018 through July 17, 2018, the Parent repurchased an additional 53,000 shares of common stock at an average cost of $84.63 per share for a total of $4.5 million. Remaining buyback authority under our share repurchase program was $76.8 million as of July 17, 2018. 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 2018, the Parent's Board of Directors declared a quarterly cash dividend of $0.60 per share on the Parent's outstanding shares. The dividend will be payable on September 17, 2018 to shareholders of record at the close of business on August 31, 2018.

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, 2018, 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.

Table 20 presents our regulatory capital and ratios as of June 30, 2018 and December 31, 2017.

Regulatory Capital and Ratios **Table 20**

(dollars in thousands)		June 30, 2018	December 31, 2017
Regulatory Capital			
Shareholders' Equity		$ 1,247,717	$ 1,231,868
Less:	Goodwill [1]	28,718	28,718
	Postretirement Benefit Liability Adjustments	(33,252)	(27,715)
	Net Unrealized Gains (Losses) on Investment Securities [2]	(20,603)	(7,000)
	Other	(198)	(198)
Common Equity Tier 1 Capital		1,273,052	1,238,063
Tier 1 Capital		1,273,052	1,238,063
Allowable Reserve for Credit Losses		115,010	114,168
Total Regulatory Capital		$ 1,388,062	$ 1,352,231
Risk-Weighted Assets		$ 9,593,242	$ 9,348,296
Key Regulatory Capital Ratios			
Common Equity Tier 1 Capital Ratio		13.27 %	13.24 %
Tier 1 Capital Ratio		13.27	13.24
Total Capital Ratio		14.47	14.46
Tier 1 Leverage Ratio		7.53	7.26

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

Regulatory Initiatives Affecting the Banking Industry

Basel III

The FRB and the FDIC approved the final rules implementing the BCBS's 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 implemented by January 1, 2019. As of June 30, 2018, 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.

We submitted our latest stress testing results to the FRB on July 28, 2017 and disclosed the results to the public on October 24, 2017. The disclosure is available on our website www.boh.com, in the 2017 Financial Reports section of the Investor Relations area.

Enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018 significantly altered several provisions of the Dodd-Frank Act, including how stress tests are run. Bank holding companies with assets of less than $100 billion, such as the Company, are no longer be subject to company-run stress testing requirements in section 165(i)(2) of the Dodd-Frank Act, including publishing a summary of results.

Deposit Insurance Fund 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 took effect at the same time that the regular FDIC insurance assessment rates for all banks declined under a rule adopted by the FDIC in 2011. The surcharge is scheduled to end on December 31, 2018 unless the deposit insurance fund's reserve ratio reaches a specified benchmark before then. If the reserve ratio does not meet the benchmark by December 31, 2018, a special assessment will be applied in March 2019.

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, 2017.

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, 2018. 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, 2018.

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, 2018 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

The Parent’s repurchases of its common stock during the second quarter of 2018 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, 2018	79,095	$ 83.33	78,000	$ 99,579,352
May 1 - 31, 2018	103,000	85.27	103,000	90,797,016
June 1 - 30, 2018	111,000	85.74	111,000	81,280,288
Total	293,095	$ 84.92	292,000	

[1] During the second quarter of 2018, 1,095 shares were acquired 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.

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 23, 2018		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

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

Exhibit 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

I, Peter S. Ho, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Hawaii Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and risk committee of the registrant's board of directors:
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2018

/s/ Peter S. Ho

Peter S. Ho
Chairman of the Board,
Chief Executive Officer, and
President

Exhibit 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

I, Dean Y. Shigemura, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Hawaii Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit and risk committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2018	/s/ Dean Y. Shigemura
	Dean Y. Shigemura
	Chief Financial Officer

Exhibit 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

We hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Bank of Hawaii Corporation (the “Company”) for the quarter ended June 30, 2018 (the “Report”):

- fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 23, 2018

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

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.