UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

OR

☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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.

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

Yes ☐ No ☒

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter), determined using the per share closing price on that date on the New York Stock Exchange of $82.97, was approximately $3,441,510,556. There was no non-voting common equity of the registrant outstanding on that date.

As of February 16, 2018, there were 42,325,091 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2018 Annual Meeting of Shareholders to be held on April 27, 2018, are incorporated by reference into Part III of this Report.

Bank of Hawaii Corporation
2017 Form 10-K Annual Report
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Part I

Item 1. Business

General

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company ("BHC") headquartered in Honolulu, Hawaii. The Parent's principal operating subsidiary, Bank of Hawaii (the "Bank"), was organized on December 17, 1897 and is chartered by the State of Hawaii. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") and the Bank is a member of the Federal Reserve System.

The Bank, directly and through its subsidiaries, provides a broad range of financial products and services primarily to customers in Hawaii, Guam, and other Pacific Islands. References to "we," "our," "us," or "the Company" refer to the Parent and its subsidiaries and are consolidated for financial reporting purposes. The Bank's subsidiaries include Bank of Hawaii Leasing, Inc., Bankoh Investment Services, Inc., and Pacific Century Life Insurance Corporation. The Bank's subsidiaries are engaged in equipment leasing, securities brokerage, investment advisory services, and providing credit insurance.

We are organized into four business segments for management reporting purposes: Retail Banking, Commercial Banking, Investment Services and Private Banking, and Treasury and Other. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 13 to the Consolidated Financial Statements for more information.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports can be found free of charge on our website at www.boh.com as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Corporate Governance Guidelines; charters of the Audit and Risk Committee, the Human Resources and Compensation Committee, and the Nominating and Corporate Governance Committee; and our Code of Business Conduct and Ethics are available on our website at www.boh.com. Printed copies of this information may be obtained, without charge, by written request to the Corporate Secretary at 130 Merchant Street, Honolulu, Hawaii, 96813.

Competition

The Company operates in a highly competitive environment subject to intense competition from traditional financial service providers including banks, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services including financial service subsidiaries of commercial and manufacturing companies. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through delivery channels such as the Internet, may be based outside of the markets that we serve. By emphasizing our extensive branch network, exceptional service levels, and knowledge of local trends and conditions, we believe the Company has developed an effective competitive advantage in its market.

Supervision and Regulation

Our operations are subject to extensive regulation by federal and state governmental authorities. The regulations are primarily intended to protect depositors, customers, and the integrity of the U.S. banking system and capital markets. The following information describes some of the more significant laws and regulations applicable to us. The descriptions below are qualified in their entirety by reference to the applicable laws and regulations. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures, and with the various bank regulatory agencies. Changes in applicable laws or regulations, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations, and earnings.

The Parent

The Parent is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is subject to the supervision of and to examination by the Board of Governors of the Federal Reserve (the "FRB"). The Parent is also registered as a financial institution holding company under the Hawaii Code of Financial Institutions (the "Code") and is subject to the registration, reporting, and examination requirements of the Code.

The BHC Act prohibits, with certain exceptions, a BHC from acquiring direct or indirect beneficial ownership or control of either a company that is not a bank, or more than 5% of the voting shares of any bank, without the FRB's prior approval. A BHC is generally prohibited from engaging in any activity other than banking, managing or controlling banks or other subsidiaries authorized under the BHC Act, or an activity that the FRB has determined to be so closely related to those activities as to be a proper incident to one of them.

Under FRB policy, a BHC is expected to serve as a source of financial and management strength to its subsidiary bank. A BHC is also expected to commit resources to support its subsidiary bank in circumstances where it might not do so absent such a policy. Under this policy, a BHC is expected to maintain reliable funding and contingency plans to stand ready to provide adequate capital funds to its subsidiary bank during periods of financial adversity and to maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank. In 2016, the FRB reaffirmed the policy by signaling concerns about some holding companies creating arrangements favoring existing shareholders in ways that might limit their financing flexibility and the ability to raise capital in the future.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") banks and BHCs from any state are permitted to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. Banks also have the ability, subject to certain restrictions, to acquire branches outside their home states by acquisition or merger. The establishment of new interstate branches is also possible in those states with laws that expressly permit de novo branching. Because the Code permits de novo branching by out-of-state banks, those banks may establish new branches in Hawaii.

Bank of Hawaii

The Bank is subject to extensive federal, state, territorial and foreign regulations that significantly affect its business and activities. The Bank is subject to supervision and examination by the FRB of San Francisco, the Consumer Financial Protection Bureau (the "CFPB"), and the State of Hawaii Department of Commerce and Consumer Affairs' ("DCCA") Division of Financial Institutions. For example, these regulatory bodies have broad authority to implement standards and to initiate proceedings designed to prohibit depository institutions from engaging in activities that may represent "unsafe" or "unsound" banking practices or constitute violations of applicable laws, rules, regulations, administrative orders, or written agreements with regulators. The standards relate generally to operations and management, asset quality, interest rate exposure, capital, executive compensation, and consumer protection. The regulatory bodies are authorized to take action against institutions that fail to meet such standards, including the assessment of civil monetary penalties and restitution, the issuance of cease-and-desist orders, and other actions including closure of an institution in extreme cases.

Bankoh Investment Services, Inc., the broker-dealer and investment advisor subsidiary of the Bank, is incorporated in Hawaii and is regulated by the SEC, the Financial Industry Regulatory Authority, and the DCCA's Insurance Division. Pacific Century Life Insurance Corporation is incorporated in Arizona and is regulated by the State of Arizona Department of Insurance.

The Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and its regulations implemented sweeping changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services sector by requiring ongoing stress testing of banks' capital, mandating higher capital and liquidity requirements, establishing new standards for mortgage lenders, increasing regulation of executive and incentive-based compensation and numerous other provisions. Provisions also limit or place significant burdens and costs on activities traditionally conducted by banking organizations, such as arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds.

Most of the rules and regulations have been implemented. These new rules and regulations have and will continue to significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions, including the Company. It remains difficult to anticipate or predict the overall future financial impact the Dodd-Frank Act will have on the Company, our customers, our financial condition and results of operations, or the financial industry in general. The Company continues to monitor and implement rules and regulations as they are adopted and modified, and to evaluate their application to our current and future operations.

Capital Requirements

In July, 2013, the FRB, the Office of the Comptroller of the Currency (the "OCC") and the FDIC adopted new capital rules (the "Rules"). These Rules were designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations. The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which are commonly called "Basel III" standards) as well as requirements by the Dodd-Frank Act. The Rules applied to the Company beginning in 2015. The Rules also include a new capital conservation buffer which began phasing in on January 1, 2016 and increases annually until fully phased-in by January 1, 2019. Certain calculations under the Rules will also have phase-in periods. See the "Regulatory Initiatives Affecting the Banking Industry" section in MD&A for more information on Basel III.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. FDICIA identifies five capital categories for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized."

The federal banking agencies prompt corrective action powers impose progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. These actions can include: requiring an insured depository institution to adopt a capital restoration plan guaranteed by the institution's parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distribution without prior regulatory approval; and ultimately appointing a receiver for the institution.

Under regulations established by the federal banking agencies in connection with implementation of the Basel III capital guidelines, a "well capitalized" institution must have a Common Equity Tier 1 Capital Ratio of at least 6.5%, a Tier 1 Capital Ratio of at least 8%, a Total Capital Ratio of at least 10%, a Tier 1 Leverage Ratio of at least 5%, and not be subject to a capital directive order. As of December 31, 2017, the Bank was classified as "well capitalized." The classification of a depository institution under one of the categories set out above is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions, and is not intended to be, nor should it be interpreted as, a representation of the overall financial condition or the prospects of that financial institution. See Note 11 to the Consolidated Financial Statements for more information.

All financial companies (including banks) supervised by a primary federal financial regulatory agency and having more than $10 billion in total consolidated assets are required under the Dodd-Frank Act to conduct an annual company-run stress test. See the "Regulatory Initiatives Affecting the Banking Industry" section in MD&A for more information on the Company's stress testing.

Dividend Restrictions

The Parent is a legal entity separate and distinct from the Bank. The Parent's principal source of funds to pay dividends on its common stock and to service its debt is dividends from the Bank. Various federal and state laws and regulations limit the amount of dividends the Bank may pay to the Parent without regulatory approval. The FRB is authorized to determine the circumstances when the payment of dividends would be an unsafe or unsound practice and to prohibit such payments. The right of the Parent, its shareholders, and creditors to participate in any distribution of the assets or earnings of its subsidiaries is also subject to the prior claims of creditors of those subsidiaries. For information regarding the limitations on the Bank's ability to pay dividends to the Parent, see Note 11 to the Consolidated Financial Statements.

Transactions with Affiliates and Insiders

Transactions between the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of the Bank is any company or entity which controls, is controlled by or is under common control with the Bank which is not a subsidiary of the Bank. Under federal law, the Bank is subject to restrictions that limit the transfer of funds or other items of value to the Parent, and any other non-bank affiliates in "covered transactions." In general, covered transactions include making loans to an affiliate, the purchase of or investment in the securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral security for a loan or extensions of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, or certain transactions with an affiliate that involve the borrowing or lending of securities and certain derivative transactions with an affiliate.

Unless an exemption applies, covered transactions by the Bank with a single affiliate are limited to 10% of the Bank's capital and surplus, and with respect to all covered transactions with affiliates in the aggregate, they are limited to 20% of the Bank's capital and surplus. Section 23B of the Federal Reserve Act and Federal Reserve Regulation W also require that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other non-affiliated persons.

The Federal Reserve Act and Federal Reserve Regulation O place restrictions and certain reporting requirements on any extension of credit made by a member bank to (a) an executive officer, director, or principal shareholder of the bank, or any company of which the bank is a subsidiary, and of any other subsidiary of that company, and (b) a company controlled by such a person, or to a political or campaign committee that benefits or is controlled by such a person (collectively referred to as "insiders"). These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. There is also an aggregate limitation on all loans to insiders and their related interests. Certain restrictions also extend to extensions of credit made to an executive officer, directors, or principal shareholder of a bank (or to a related interest of such person) by a correspondent bank.

The Volcker Rule

In December 2013, the Federal Reserve, the OCC, the FDIC, the SEC, and the Commodities Futures Trading Commission issued final rules to implement certain provisions of the Dodd-Frank Act commonly known as the "Volker Rule." The Volcker Rule generally prohibits U.S. banks from engaging in proprietary trading and restricts those banking entities from sponsoring, investing in, or having certain relationships with hedge funds and private equity funds. The prohibitions under the Volcker Rule are subject to a number of statutory exemptions, restrictions, and definitions. The Volcker Rule has not had a material impact on the Company's Consolidated Financial Statements, but we continue to evaluate its application to our current and future operations.

FDIC Insurance

The FDIC provides insurance coverage for certain deposits through the Deposit Insurance Fund, which the FDIC maintains by assessing depository institutions an insurance premium. The Company is assessed deposit insurance premiums by the FDIC using a base rate, to which is added temporary surcharges that are used to establish a FDIC reserve fund and pay certain bond obligations. The Bank's FDIC insurance assessment was $8.7 million in 2017, $8.6 million in 2016, and $8.7 million in 2015.

A depository institution's deposit insurance may be terminated by the FDIC upon a finding that the institution's financial condition is unsafe or unsound, or that the institution has engaged in unsafe or unsound practices, or has violated any applicable rule, regulation, or order or condition enacted or imposed by a regulatory agency. Termination of the Bank's deposit insurance would end its ability to function as a commercial bank in Hawaii.

Other Safety and Soundness Regulations

The federal banking agencies also have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines before capital becomes impaired.

Community Reinvestment and Consumer Protection Laws

- *Community Reinvestment.* The Community Reinvestment Act of 1977 ("CRA") requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The regulatory assessment of the bank's record is made available to the public. Further, these assessments are considered by regulators when evaluating mergers, acquisitions and applicants to open or relocate a branch or facility. The Bank received an "outstanding" rating in its most recent CRA evaluation.

- *Consumer Protection Laws.* In addition to the CRA, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population in connection with its lending activities. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act.

  Federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated third parties. The Fair and Accurate Credit Transaction Act ("FACT Act") requires financial institutions to develop and implement an identity theft prevention program to detect, prevent and mitigate identity theft "red flags" to reduce the risk that customer information will be misused to conduct fraudulent financial transactions.

  A number of other federal and state consumer protection laws extensively govern the Bank's relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state and territorial usury laws and laws regarding unfair and deceptive acts and practices. These and other laws require, among other things, disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight.

  The CFPB was created under the Dodd-Frank Act as an agency responsible for promulgating and enforcing regulations designed to protect consumers including adding prohibitions on unfair, deceptive and abusive acts and practices. The CFPB, along with other prudential regulators and the Department of Justice, have also expanded the focus of their regulatory examinations and investigations to include "fair and responsible banking." Fair and responsible banking strives to provide equal credit opportunities to all applicants of a community, to prohibit discrimination by lenders on the basis of certain borrower characteristics, and to ensure that a bank's practices are not deceptive, unfair, or take unreasonable advantage of consumers or businesses. The enhanced focus encompasses the entire loan life cycle, including post-closing activities such as collections and servicing, and pre-application activities such as marketing and loan solicitation and origination.

  Violations of applicable consumer protection laws and regulations can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain required bank regulatory approvals for transactions the Bank may wish to pursue, or prohibit us from engaging in such transactions even if approval is not required.

Bank Secrecy Act / Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. The USA PATRIOT Act created new laws, regulations, and penalties, imposed significant new compliance and due diligence obligations, and expanded the application of those laws outside the U.S. Additionally, like all United States companies and individuals, the Company is prohibited from transacting business with certain individuals and entities named on the Office of Foreign Asset Control's list of Specially Designed Nationals and Blocked Persons.

The Bank has been required to implement policies, procedures, and controls to detect, prevent, and report potential money laundering and terrorist financing and to verify the identity of its customers. The Company maintains systems to monitor and block transactions related to prohibited persons and entities. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, the federal financial institution regulatory agencies consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and BHC acquisitions.

Employees

As of December 31, 2017, we employed 2,132 full-time equivalent employees.

Executive Officers of the Registrant

Listed below are executive officers of the Parent as of December 31, 2017.

Peter S. Ho, 52
Chairman and Chief Executive Officer since July 2010 and President since April 2008.

Kent T. Lucien, 64
Vice Chairman and Chief Strategy Officer since March 2017; Vice Chairman and Chief Financial Officer from April 2008 to February 2017.

Dean Y. Shigemura, 54
Vice Chairman since December 2017, and Chief Financial Officer since March 2017; Senior Executive Vice President and Controller from August 2014 to February 2017; Senior Executive Vice President and Treasurer from May 2008 to July 2014.

Sharon M. Crofts, 52
Vice Chairman, Client Solutions Group since April 2016; Vice Chairman, Operations and Technology from October 2012 to March 2016; Senior Executive Vice President of Operations from May 2008 to October 2012.

Wayne Y. Hamano, 63
Vice Chairman since December 2008 and Chief Commercial Officer since September 2007.

James C. Polk, 51
Vice Chairman, Mortgage Banking since July 2017 and Consumer Banking now known as The Private Bank from June 2016 to June 2017; Senior Executive Vice President, Consumer Banking from January 2016 to May 2016; Senior Executive Vice President, Mortgage Banking from August 2014 to January 2016; Senior Executive Vice President, Commercial Banking from September 2010 to July 2014.

Mark A. Rossi, 68
Vice Chairman, Chief Administrative Officer, General Counsel, and Corporate Secretary since February 2007.

Mary E. Sellers, 61
Vice Chairman and Chief Risk Officer since July 2005.

Donna A. Tanoue, 63
Vice Chairman, Client Relations and Community Activities since February 2007; President of the Bank of Hawaii Foundation since April 2006.

Brent T. Flygar, 50
Senior Vice President and Controller since March 2017.

Item 1A. Risk Factors

There are a number of risks and uncertainties that could negatively affect our business, financial condition or results of operations. We are subject to various risks resulting from changing economic, environmental, political, industry, business, financial and regulatory conditions. The risks and uncertainties described below are some of the important inherent risk factors that could affect our business and operations, although they are not the only risks that may have a material adverse effect on the Company.

Changes in business and economic conditions, in particular those of Hawaii, Guam and other Pacific Islands, could lead to lower revenue, lower asset quality, and lower earnings.

Unlike larger national or other regional banks that are more geographically diversified, our business and earnings are closely tied to the economies of Hawaii and the Pacific Islands. These local economies rely heavily on tourism, the U.S. military, real estate, construction, government, and other service-based industries. Lower visitor arrivals or spending, real or threatened acts of war or terrorism, increases in energy costs, the availability of affordable air transportation, climate change, natural disasters and adverse weather, public health issues including Asian air pollution, and Federal, State of Hawaii and local government budget issues may impact consumer and corporate spending. As a result, such events may contribute to a significant deterioration in general economic conditions in our markets which could adversely impact us and our customers' operations.

General economic conditions in Hawaii remained healthy in 2017, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. However, deterioration of economic conditions, either locally or nationally, could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenues and lower earnings. The level of visitor arrivals and spending, housing prices, and unemployment rates are some of the metrics that we continually monitor. We also monitor the value of collateral, such as real estate, that secures the loans we have made. The borrowing power of our customers could also be negatively impacted by a decline in the value of collateral.

Any reduction in defense spending by the federal government could adversely impact the economy in Hawaii and the Pacific Islands.

The U.S. military has a major presence in Hawaii and the Pacific Islands. As a result, the U.S. military is an important aspect of the economies in which we operate. The funding of the U.S. military is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events, macroeconomic conditions, and the ability and willingness of the U.S. Government to enact legislation. U.S. Government appropriations have been and likely will continue to be affected by larger U.S. Government budgetary issues and related legislation. Cuts in defense and other security spending could have an adverse impact on the economies in which we operate, which could adversely affect our business, financial condition, and results of operations.

Changes in interest rates could adversely impact our results of operations and capital.

Our earnings are highly dependent on the spread between the interest earned on loans, leases, and investment securities and the interest paid on deposits and borrowings. We primarily rely on customer deposits as a sizable source of relatively stable and low-cost funds. Changes in market interest rates impact the rates earned on loans, leases, and investment securities and the rates paid on deposits and borrowings. In addition, changes to market interest rates could impact the level of loans, leases, investment securities, deposits, and borrowings, and the credit profile of our current borrowers. Interest rates are affected by many factors beyond our control, and fluctuate in response to general economic conditions, currency fluctuations, and the monetary and fiscal policies of various governmental and regulatory authorities.

Changes in monetary policy, including changes in interest rates, will influence the origination of loans and leases, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Any substantial prolonged change in market interest rates may negatively impact our ability to attract deposits, originate loans and leases, and achieve satisfactory interest rate spreads. If we are unable to continue to fund loans and other assets through customer deposits or access capital markets on favorable terms or if we otherwise fail to manage our liquidity effectively, our liquidity, net interest margin, financial results and conditions may be adversely affected.

Credit losses could increase if economic conditions stagnate or deteriorate.

Although economic conditions are currently healthy nationally and in Hawaii, increased credit losses for us could result if economic conditions stagnate or deteriorate. The risk of nonpayment on loans and leases is inherent in all lending activities. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan, lease, and commitment portfolios as of the balance sheet date. Management makes various assumptions and judgments about the loan and lease portfolio in determining the level of the reserve for credit losses. Many of these assumptions are based on current economic conditions. Should economic conditions stagnate or deteriorate nationally or in Hawaii, we may experience higher credit losses in future periods.

Inability of our borrowers to make timely repayments on their loans, or decreases in real estate collateral values may result in increased delinquencies, foreclosures, and customer bankruptcies, any of which could have a material adverse effect on our financial condition or results of operations.

Legislation and regulatory initiatives affecting the financial services industry, including new restrictions and requirements, could detrimentally affect the Company's business.

After the financial crisis which began in 2008, regulators increased their focus on the regulation of financial institutions. Laws and regulations, and in particular banking and securities laws, are under intense scrutiny. The Dodd-Frank Act, enacted in July 2010, triggered sweeping reforms to the financial services industry. Although many of the rules and regulations implementing the Dodd-Frank Act have already gone into effect, some of the rules have yet to be implemented and will require further interpretation and rulemaking by federal regulators. We are closely monitoring all relevant sections of the Dodd-Frank Act, as well as statements and initiatives by the new administration regarding potential delay or cancellation of such rulemaking, in our efforts to comply with these new laws and regulations. The Dodd-Frank Act and its implementing rules and regulations have resulted and are likely to continue to result in increased compliance costs and fees, along with possible restrictions on our operations, any of which may have a material adverse effect on our operating results and financial condition.

The CFPB has exercised its broad rule-making, supervisory, and examination authority of consumer financial products, as well as expanded data collection and enforcement powers, over depository institutions with more than $10.0 billion in assets. As a result of greater regulatory scrutiny of consumer financial products, the Company has become subject to more and expanded regulatory examinations and/or investigations, which also could result in increased costs and harm to our reputation in the event of a failure to comply with the increased regulatory requirements. All of these rules have created challenges for product and service offerings, operations and compliance programs for the Company.

Regulation of overall safety and soundness, the CRA, federal housing and flood insurance, as they pertain to consumer financial products and services, remain with the FRB. Many of the rules and regulations of the CFPB have not been implemented, and therefore, the scope and impact of the CFPB's actions cannot be determined at this time. This creates significant uncertainty for us and for the financial services industry in general.

These new laws, regulations, and changes, and the uncertainty surrounding whether such laws, regulations and changes will be fully implemented, repealed or reinstated, may continue to increase our costs of regulatory compliance. They may significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability.

Changes in the capital, leverage, liquidity requirements and the introduction of stress testing requirements for financial institutions could materially affect future requirements of the Company.

Under Basel III, financial institutions are required to have more capital and a higher quality of capital. Under the final rules issued by the banking regulators, minimum requirements increased for both the quantity and quality of capital held by the Company. The phase-in period for the final rules began 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.

On October 9, 2012, the FRB published final rules implementing the stress testing requirements for banks, such as the Company, with total consolidated assets of more than $10.0 billion but less than $50.0 billion. The final stress testing rules set forth the timing and type of stress test activities, as well as rules governing controls, oversight and disclosure.

Compliance with Basel III and the results of our stress testing may result in increased capital, liquidity, and disclosure requirements. See the "Regulatory Initiatives Affecting the Banking Industry" section in MD&A for more information.

Consumer protection initiatives related to the foreclosure process could affect our remedies as a creditor.

Proposed consumer protection initiatives related to the foreclosure process, including voluntary and/or mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure, could increase our credit losses or increase our expense in pursuing our remedies as a creditor.

Hawaii has overhauled its rules for nonjudicial, or out-of-court, foreclosures. The revised rules have had the unintended effect of many lenders forgoing nonjudicial foreclosures entirely and filing all foreclosures in court, creating a backlog that has slowed the judicial foreclosure process. In addition, the joint federal-state settlement with several mortgage servicers over foreclosure practice abuses creates additional uncertainty for the Company, and the mortgage servicing industry in general, as it relates to the implementation of mortgage loan modifications and loss mitigation practices in the future. The manner in which these issues are ultimately resolved could impact our foreclosure procedures, which in turn could affect our financial condition or results of operations.

Competition may adversely affect our business.

Our future depends on our ability to compete effectively. We compete for deposits, loans, leases, and other financial services with a variety of competitors, including banks, thrifts, savings associations, credit unions, mortgage companies, finance companies, mutual funds, brokerage firms, insurance companies, and other non-traditional providers of financial services, including financial service subsidiaries of commercial and manufacturing companies, all of which may be based in or outside of Hawaii and the Pacific Islands. We expect competitive conditions to intensify as consolidation in the financial services industry continues. The financial services industry is also likely to become more competitive as further technological advances enable more companies, including non-depository institutions, to provide financial services. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and BHCs. As a result, some of our competitors may have lower cost structures. Also, some of our competitors, through delivery channels such as the Internet, may be based outside of the markets that we serve. Under the Riegle-Neal Interstate Banking and Branching Efficiency Act, banks and bank holding companies from any state are permitted to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. Because the Code permits de novo branching by out-of-state banks, those banks may establish new branches in Hawaii. Interstate branches are subject to certain laws of the states in which they are located. Failure to effectively compete, innovate, and to make effective use of available channels to deliver our products and services could adversely affect our financial condition or results of operations.

A failure in or breach of our operational systems, information systems, or infrastructure, or those of our third party vendors and other service providers, may result in financial losses, loss of customers, or damage to our reputation.

We rely heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. These third parties with which we do business or that facilitate our business activities, including exchanges, clearing firms, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including breakdowns or failures of their own systems or capacity constraints. Although we have safeguards and business continuity plans in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses, loss of customers, or damage to our reputation.

An interruption or breach in security of our information systems or those related to merchants and third party vendors, including as a result of cyber attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, or result in financial losses.

Our technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. These cybersecurity threats and attacks may include, but are not limited to, attempts to access information, including customer and company information, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may result from human error, fraud or malice on the part of external or internal parties, or from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased.

Our business requires the collection and retention of large volumes of customer data, including payment card numbers and other personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. As customer, public, legislative and regulatory expectations and requirements regarding operational and information security have increased, our operations systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns.

Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e-mails and other communications in attempts to misappropriate passwords, payment card numbers, bank account information or other personal information or to introduce viruses or other malware through "trojan horse" programs to our customers' computers. These communications may appear to be legitimate messages sent by the Bank or other businesses, but direct recipients to fake websites operated by the sender of the e-mail or request that the recipient send a password or other confidential information via e-mail or download a program. Despite our efforts to mitigate these threats through product improvements, use of encryption and authentication technology to secure online transmission of confidential consumer information, and customer and employee education, such attempted frauds against us or our merchants and our third party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber-crime are complex and continue to evolve. In light of several recent high-profile data breaches involving customer personal and financial information, we believe the potential impact of a cyber security incident involving the Company, any exposure to consumer losses and the cost of technology investments to improve security could cause customer and/or Bank losses, damage to our brand, and increase our costs.

Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well-protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber-attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption could: 1) disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers; 2) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers, including account numbers and other financial information; 3) result in a violation of applicable privacy, data breach and other laws, subjecting the Bank to additional regulatory scrutiny and exposing the Bank to civil litigation, governmental fines and possible financial liability; 4) require significant management attention and resources to remedy the damages that result; or 5) harm our reputation or cause a decrease in the number of customers that choose to do business with us or reduce the level of business that our customers do with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our results of operations, financial condition, and cash flows as well as damage our brand and reputation.

Negative public opinion could damage our reputation and adversely impact our earnings and liquidity.

Reputational risk, or the risk to our business, earnings, liquidity, and capital from negative public opinion, could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues, or inadequate protection of customer information. We expend significant resources to comply with regulatory requirements. Failure to comply could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers, and adversely impact our earnings and liquidity.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are, from time to time, involved in various legal proceedings arising from our normal business activities. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of these cases is uncertain. Substantial legal liability or significant regulatory action against us could have material financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could materially affect our results of operations and financial condition. Based on information currently available, we believe that the eventual outcome of known actions against us will not be materially in excess of such amounts accrued by us. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters may be material to our financial results for any particular period. See the *Contingencies* section of Note 20 to the Consolidated Financial Statements for more information.

Changes in income tax laws and interpretations, or in accounting standards, could materially affect our financial condition or results of operations.

Further changes in income tax laws could be enacted, or interpretations of existing income tax laws could change, causing an adverse effect on our financial condition or results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of these policies require use of estimates and assumptions that may affect the value of our assets, liabilities, and financial results. Periodically, new accounting standards are issued or existing standards are revised, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our financial condition and results of operations.

Our performance depends on attracting and retaining key employees and skilled personnel to operate our business effectively.

Our success is dependent on our ability to recruit qualified and skilled personnel to operate our business effectively. Competition for these qualified and skilled people is intense. There are a limited number of qualified personnel in the markets we serve, so our success depends in part on the continued services of many of our current management and other key employees. Failure to retain our key employees and maintain adequate staffing of qualified personnel could adversely impact our operations and our ability to compete.

The soundness of other financial institutions, as counterparties, may adversely impact our financial condition or results of operations.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, lending, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions or the financial services industry in general have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We have exposure to many different industries and counterparties, and we routinely execute transactions with brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Such losses could materially affect our financial condition or results of operations.

Changes in the capital markets could materially affect the level of assets under management and the demand for our other fee-based services.

Changes in the capital markets could affect the volume of income from and demand for our fee-based services. Our investment management revenues depend in large part on the level of assets under management. Market volatility that leads customers to liquidate investments, move investments to other institutions or asset classes, as well as lower asset values can reduce our level of assets under management and thereby decrease our investment management revenues.

Our mortgage banking income may experience significant volatility.

Our mortgage banking income is highly influenced by the level and direction of mortgage interest rates, real estate activity, and refinancing activity. Interest rates can affect the amount of mortgage banking activity and impact fee income and the fair value of our derivative financial instruments and mortgage servicing rights. Mortgage banking income may also be impacted by changes in our strategy to manage our residential mortgage portfolio. For example, we may occasionally decide to add more conforming saleable loans to our portfolio (as opposed to selling the loans in the secondary market) which would reduce our gains on sales of residential mortgage loans. These variables could adversely affect mortgage banking income.

Our mortgage loan servicing business may be impacted if we do not meet our obligations, or if servicing standards change.

We act as servicer for mortgage loans sold into the secondary market, primarily to government sponsored entities (GSEs) such as Fannie Mae. As a seller and servicer for those loans, we both make warranties about their origination and are required to perform servicing according to complex contractual and handbook requirements. We maintain systems and procedures intended to ensure that we comply with these requirements. We may be penalized and, in rare instances required to repurchase certain mortgages, due to alleged failures to adhere to these requirements. Should GSEs change the requirements in their servicing handbooks, we may sustain higher compliance costs.

The requirement to record certain assets and liabilities at fair value may adversely affect our financial results.

We report certain assets, including available-for-sale investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we record these assets at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. The level of interest rates can impact the estimated fair value of investment securities. Disruptions in the capital markets may require us to recognize other-than-temporary impairments in future periods with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

The Parent's liquidity is dependent on dividends from the Bank.

The Parent is a separate and distinct legal entity from the Bank. The Parent receives substantially all of its cash in the form of dividends from the Bank. These dividends are the principal source of funds to pay, for example, dividends on the Parent's common stock or to repurchase common stock under the Parent's share repurchase program. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Parent. If the amount of dividends paid by the Bank is further limited, the Parent's ability to meet its obligations, pay dividends to shareholders, or repurchase stock, may be further limited as well.

There can be no assurance that the Parent will continue to declare cash dividends or repurchase stock.

During 2017, the Parent repurchased 549,199 shares of common stock at a total cost of $45.0 million under its share repurchase program. The Parent also paid cash dividends of $87.1 million during 2017. In January 2018, the Parent's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Parent's outstanding shares. In addition, from January 1, 2018 through February 16, 2018, the Parent repurchased an additional 80,000 shares of common stock at an average cost of $84.27 per share and a total cost of $6.7 million.

Whether we continue, and the amount and timing of, such dividends and/or stock repurchases is subject to capital availability and periodic determinations by our Board of Directors. We continue to evaluate the potential impact that regulatory proposals may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act. The actual amount and timing of future dividends and share repurchases, if any, will depend on market and economic conditions, applicable SEC rules, federal and state regulatory restrictions, and various other factors. In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from repurchasing shares. Our dividend payments and/or stock repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends and/or repurchase stock in any particular amounts or at all. A reduction in or elimination of our dividend payments and/or stock repurchases could have a negative effect on our stock price.

Natural disasters and adverse weather could negatively affect real estate property values and bank operations.

Real estate and real estate property values play an important role for the Bank in several ways. The Bank owns or leases many real estate properties in connection with its operations, primarily located in Hawaii. Real estate is also utilized as collateral for many of our loans. A natural disaster could cause property values to fall, which could require the Bank to record an impairment on its financial statements. A natural disaster could also impact collateral values, which would increase our exposure to loan defaults. Our business operations could also suffer to the extent the Bank cannot utilize its branch network due to weather-related damage.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are located in the Financial Plaza of the Pacific in Honolulu, Hawaii. We own and lease other branch offices and operating facilities located throughout Hawaii and the Pacific Islands. Additional information with respect to premises and equipment is presented in Notes 6 and 20 to the Consolidated Financial Statements.

Item 3. Legal Proceedings

We are from time to time subject to lawsuits, investigations and claims arising out of the conduct of our business. Management believes that the ultimate resolution of these matters is not likely to materially affect our financial position and results of operations. For additional information, see Note 20 to the Consolidated Financial Statements, under the discussion related to Contingencies.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Shareholders, and Dividends

Information regarding the historical market prices of the Parent's common stock, book value, and dividends declared on that stock are shown below.

Market Prices, Book Values, and Common Stock Dividends Per Share

	Market Price Range				
Year/Period	High	Low	Close	Book Value	Dividends Declared
2017	$ 90.80	$ 74.72	$ 85.70	$ 29.05	$ 2.04
First Quarter	90.80	77.03	82.36		0.50
Second Quarter	84.99	75.92	82.97		0.50
Third Quarter	86.19	74.72	83.36		0.52
Fourth Quarter	88.38	77.71	85.70		0.52
2016	$ 89.72	$ 54.55	$ 88.69	$ 27.24	$ 1.89
First Quarter	69.37	54.55	68.28		0.45
Second Quarter	72.77	64.96	68.80		0.48
Third Quarter	73.44	65.19	72.62		0.48
Fourth Quarter	89.72	71.73	88.69		0.48

The common stock of the Parent is traded on the New York Stock Exchange (NYSE Symbol: BOH) and quoted daily in leading financial publications. As of February 16, 2018, there were 5,971 common shareholders of record.

The Parent's Board of Directors considers on a quarterly basis the feasibility of paying a cash dividend to its shareholders and the level and feasibility of repurchasing shares of the Parent's common stock. Under the Parent's historical practice, dividends declared are paid within the quarter. See "Dividend Restrictions" under "Supervision and Regulation" in Item 1 of this report and Note 11 to the Consolidated Financial Statements for more information.

Issuer Purchases of Equity Securities

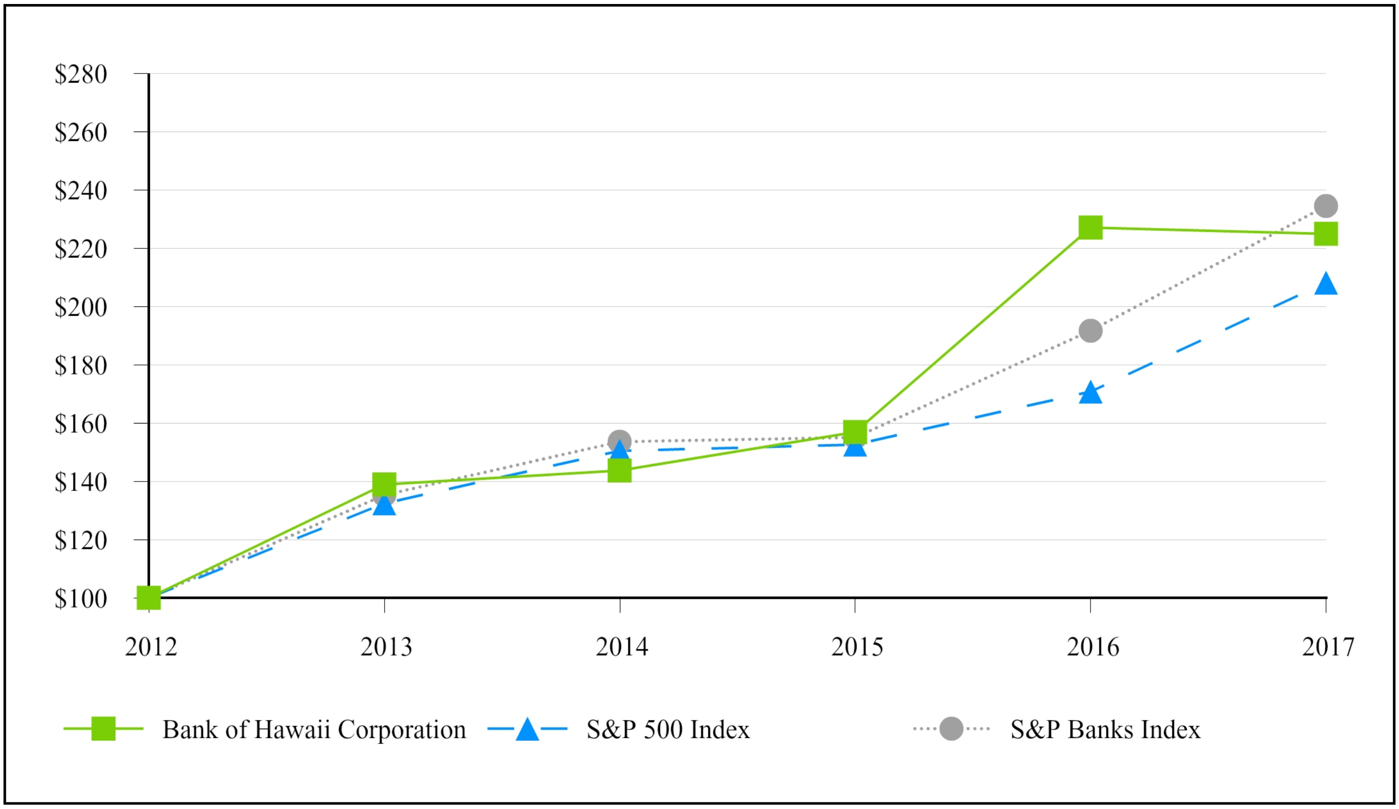
Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 1 - 31, 2017	61,119	$ 83.63	60,133	$ 125,612,157
November 1 - 30, 2017	53,000	80.47	53,000	121,347,250
December 1 - 31, 2017	15,500	85.74	15,500	120,018,312
Total	129,619	$ 82.59	128,633	

[1] During the fourth quarter of 2017, 986 shares were purchased by the trustee of a trust established pursuant to the Bank of Hawaii Corporation Director Deferred Compensation Plan (the "DDCP") directly from the Parent in satisfaction of the Company's obligations to participants under the DDCP. The issuance of these shares was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") by Section 4(a)(2) thereof. The trustee under the trust and the participants under the DDCP are accredited investors, as defined in Rule 501(a) under the Securities Act. The transaction 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.

Performance Graph

The following graph shows the cumulative total return for the Parent's common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the S&P Banks Index. The graph assumes that $100 was invested on December 31, 2012 in the Parent's common stock, the S&P 500 Index, and the S&P Banks Index. The cumulative total return on each investment is as of December 31 of each of the subsequent five years and assumes reinvestment of dividends.



	2012	2013	2014	2015	2016	2017
Bank of Hawaii Corporation	$100	$139	$144	$157	$227	$225
S&P 500 Index	$100	$132	$151	$153	$171	$208
S&P Banks Index	$100	$135	$154	$155	$192	$234

Item 6. Selected Financial Data
Summary of Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	2017	2016	2015	2014	2013
Year Ended December 31,					
Operating Results					
Net Interest Income	$ 457.2	$ 417.6	$ 394.1	$ 379.7	$ 358.9
Provision for Credit Losses	16.9	4.8	1.0	(4.9)	—
Total Noninterest Income	185.4	197.3	186.2	180.0	186.2
Total Noninterest Expense	357.7	350.6	348.1	326.9	331.0
Net Income	184.7	181.5	160.7	163.0	150.5
Basic Earnings Per Share	4.37	4.26	3.72	3.71	3.39
Diluted Earnings Per Share	4.33	4.23	3.70	3.69	3.38
Dividends Declared Per Share	2.04	1.89	1.80	1.80	1.80
Performance Ratios					
Net Income to Average Total Assets (ROA)	1.10 %	1.15 %	1.06 %	1.14 %	1.10 %
Net Income to Average Shareholders' Equity (ROE)	15.27	15.79	14.82	15.50	14.78
Efficiency Ratio [1]	55.66	57.01	59.99	58.41	60.71
Net Interest Margin [2]	2.93	2.83	2.81	2.85	2.81
Dividend Payout Ratio [3]	46.68	44.37	48.39	48.52	53.10
Average Shareholders' Equity to Average Assets	7.22	7.26	7.16	7.35	7.44
Average Balances					
Average Loans and Leases	$ 9,346.8	$ 8,362.2	$ 7,423.6	$ 6,405.4	$ 5,883.7
Average Assets	16,749.2	15,825.4	15,136.5	14,317.5	13,692.1
Average Deposits	14,505.4	13,619.5	12,925.2	12,122.1	11,396.8
Average Shareholders' Equity	1,209.1	1,149.3	1,084.1	1,052.2	1,018.3
Weighted Average Shares Outstanding					
Basic Weighted Average Shares	42,280,931	42,644,100	43,217,818	43,899,208	44,380,948
Diluted Weighted Average Shares	42,607,057	42,879,783	43,454,877	44,125,456	44,572,725
As of December 31,					
Balance Sheet Totals					
Loans and Leases	$ 9,797.0	$ 8,949.8	$ 7,879.0	$ 6,897.6	$ 6,095.4
Total Assets	17,089.1	16,492.4	15,455.0	14,787.2	14,084.3
Total Deposits	14,884.0	14,320.2	13,251.1	12,633.1	11,914.7
Other Debt	260.7	267.9	245.8	173.9	174.7
Total Shareholders' Equity	1,231.9	1,161.5	1,116.3	1,055.1	1,012.0
Asset Quality					
Allowance for Loan and Lease Losses	$ 107.3	$ 104.3	$ 102.9	$ 108.7	$ 115.5
Non-Performing Assets	16.1	19.8	28.8	30.1	39.7
Financial Ratios					
Allowance to Loans and Leases Outstanding	1.10 %	1.17 %	1.31 %	1.58 %	1.89 %
Tier 1 Capital Ratio [4]	13.24	13.24	13.97	14.69	16.05
Total Capital Ratio [4]	14.46	14.49	15.22	15.94	17.31
Tier 1 Leverage Ratio [4]	7.26	7.21	7.26	7.13	7.24
Total Shareholders' Equity to Total Assets	7.21	7.04	7.22	7.14	7.19
Tangible Common Equity to Tangible Assets [5]	7.04	6.86	7.03	6.94	6.98
Tangible Common Equity to Risk-Weighted Assets [4, 5]	12.84	12.81	13.62	14.46	15.67
Non-Financial Data					
Full-Time Equivalent Employees	2,132	2,122	2,164	2,161	2,196
Branches and Offices	69	69	70	74	74
ATMs	387	449	456	459	466
Common Shareholders of Record	5,982	6,121	6,279	6,421	6,564

1 Efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and 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 December 31, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.
5 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 company, 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. The following table provides a reconciliation of these Non-GAAP financial measures with their most closely related GAAP measures.

GAAP to Non-GAAP Reconciliation

	December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Total Shareholders' Equity	$ 1,231,868	$ 1,161,537	$ 1,116,260	$ 1,055,086	$ 1,011,976
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Tangible Common Equity	$ 1,200,351	$ 1,130,020	$ 1,084,743	$ 1,023,569	$ 980,459
Total Assets	$ 17,089,052	$ 16,492,367	$ 15,455,016	$ 14,787,208	$ 14,084,280
Less: Goodwill	31,517	31,517	31,517	31,517	31,517
Tangible Assets	$ 17,057,535	$ 16,460,850	$ 15,423,499	$ 14,755,691	$ 14,052,763
Risk-Weighted Assets, determined in accordance with prescribed regulatory requirements [1]	$ 9,348,296	$ 8,823,485	$ 7,962,484	$ 7,077,035	$ 6,258,143
Total Shareholders' Equity to Total Assets	7.21%	7.04%	7.22%	7.14%	7.19%
Tangible Common Equity to Tangible Assets (Non-GAAP)	7.04%	6.86%	7.03%	6.94%	6.98%
Tier 1 Capital Ratio [1]	13.24%	13.24%	13.97%	14.69%	16.05%
Tangible Common Equity to Risk-Weighted Assets (Non-GAAP) [1]	12.84%	12.81%	13.62%	14.46%	15.67%

[1] December 31, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include statements concerning, among other things, the anticipated economic and business environment in our service area and elsewhere, credit quality and other financial and business matters in future periods, our future results of operations and financial position, our business strategy and plans and our objectives and future operations. We also may make forward-looking statements in our other documents filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). In addition, our senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Our forward-looking statements are based on numerous assumptions, any of which could prove to be inaccurate, and actual results may differ materially from those projected because of a variety of risks and uncertainties, including, but not limited to: 1) general economic conditions either nationally, internationally, or locally may be different than expected, and particularly, any event that negatively impacts the tourism industry in Hawaii; 2) unanticipated changes in the securities markets, public debt markets, and other capital markets in the U.S. and internationally; 3) competitive pressures in the markets for financial services and products; 4) the impact of legislative and regulatory initiatives, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and the new administration's review of potential changes to such initiatives; 5) changes in fiscal and monetary policies of the markets in which we operate; 6) the increased cost of maintaining or the Company's ability to maintain adequate liquidity and capital, based on the requirements adopted by the Basel Committee on Banking Supervision and U.S. regulators; 7) actual or alleged conduct which could harm our reputation; 8) changes in accounting standards; 9) changes in tax laws or regulations, 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. 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 I of this report. 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.

Critical Accounting Policies

Our Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1 to the Consolidated Financial Statements. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the Consolidated Financial Statements. These factors include among other things, whether the policy requires management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The accounting policies which we believe to be most critical in preparing our Consolidated Financial Statements are those that are related to the determination of the reserve for credit losses, fair value estimates, leased asset residual values, and income taxes.

Reserve for Credit Losses

A consequence of lending activities is that we may incur credit losses. The amount of such losses will vary depending upon the risk characteristics of the loan and lease portfolio as affected by economic conditions such as rising interest rates and the financial performance of borrowers. The reserve for credit losses consists of the allowance for loan and lease losses (the "Allowance") and the reserve for unfunded commitments (the "Unfunded Reserve"). The Allowance provides for probable and estimable losses inherent in our loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged-off on particular segments of the loan and lease portfolio. The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Management's evaluation of the adequacy of the reserve for credit losses is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the reserve for credit losses is a critical accounting estimate as it requires significant reliance on the accuracy of credit risk ratings on individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows on impaired loans, significant reliance on estimated loss rates on homogenous portfolios, and consideration of our quantitative and qualitative evaluation of economic factors and trends. While our methodology in establishing the reserve for credit losses attributes portions of the Allowance and Unfunded Reserve to the commercial and consumer portfolio segments, the entire Allowance and Unfunded Reserve is available to absorb credit losses inherent in the total loan and lease portfolio and total amount of unfunded credit commitments, respectively.

The reserve for credit losses related to our commercial portfolio segment is generally most sensitive to the accuracy of credit risk ratings assigned to each borrower. Commercial loan risk ratings are evaluated based on each situation by experienced senior credit officers and are subject to periodic review by an independent internal team of credit specialists. The reserve for credit losses related to our consumer portfolio segment is generally most sensitive to economic assumptions and delinquency trends. The reserve for credit losses attributable to each portfolio segment also includes an amount for inherent risks not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of criticized and classified loans.

See Note 4 to the Consolidated Financial Statements and the "Corporate Risk Profile – Credit Risk" section in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for more information on the Allowance and the Unfunded Reserve.

Fair Value Measurements

Fair value is 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. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 valuations as those based on quoted prices, unadjusted, for identical instruments traded in active markets. Level 2 valuations are those based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in the market. Level 3 valuations are based on model-based techniques that use at least one significant assumption not observable in the market, or significant management judgment or estimation, some of which may be internally developed.

Financial assets that are recorded at fair value on a recurring basis include available-for-sale investment securities, loans held for sale, mortgage servicing rights, investments related to deferred compensation arrangements, and derivative financial instruments. As of December 31, 2017 and 2016, $2.3 billion or 13% and $2.3 billion or 14%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available-for-sale investment securities measured using information from a third-party pricing service. These investments in debt securities and mortgage-backed securities were all classified in either Levels 1 or 2 of the fair value hierarchy. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. As of December 31, 2017 and 2016, $9.7 million and $12.6 million, respectively, or less than 1% of our total liabilities consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2017 and 2016, Level 3 financial assets recorded at fair value on a recurring basis were $11.8 million and $14.5 million, respectively, or less than 1% of our total assets, and were comprised of mortgage servicing rights and derivative financial instruments. As of December 31, 2017 and 2016, Level 3 financial liabilities recorded at fair value on a recurring basis were $9.5 million and $11.8 million, respectively, or less than 1% of our total liabilities, and were comprised of derivative financial instruments.

Our third-party pricing service makes no representations or warranties that the pricing data provided to us is complete or free from errors, omissions, or defects. As a result, we have processes in place to monitor and periodically review the information provided to us by our third-party pricing service such as: 1) Our third-party pricing service provides us with documentation by asset class of inputs and methodologies used to value securities. We review this documentation to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy. This documentation is periodically updated by our third-party pricing service. Accordingly, transfers of securities within the fair value hierarchy are made if deemed necessary. 2) On a quarterly basis, management reviews the pricing information received from our 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 our third-party pricing service. We also identify 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 historic levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2017 and 2016, management did not make adjustments to prices provided by our third-party pricing service as a result of illiquid or inactive markets. 3) On a quarterly basis, management also selects a sample of securities priced by the Company's third-party pricing service and reviews the significant assumptions and valuation methodologies used by the pricing service with respect to those securities. 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. 4) On an annual basis, to the extent available, we obtain and review independent auditor's reports from our third-party pricing service related to controls placed in operation and tests of operating effectiveness. We did not note any significant control deficiencies in our review of the independent auditor's reports related to services rendered by our third-party pricing service. 5) Our third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. Our third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. Our third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Based on the composition of our investment securities portfolio, we believe that we have developed appropriate internal controls and performed appropriate due diligence procedures to prevent or detect material misstatements. See Note 21 to the Consolidated Financial Statements for more information on our fair value measurements.

Income Taxes

We determine our liabilities for income taxes based on current tax regulations and interpretations in tax jurisdictions where our income is subject to taxation. Currently, we file tax returns in seven federal, state and local domestic jurisdictions, and four foreign jurisdictions. In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial, and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted through the provision for income taxes. Changes in the estimate of income taxes payable or receivable occur periodically due to changes in tax rates, interpretations of tax law, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impact the relative merits and risks of each tax position. These changes, when they occur, may affect the provision for income taxes as well as current and deferred income taxes, and may be significant to our statements of income and condition.

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. As of December 31, 2017 and 2016, we carried a valuation allowance of $1.0 million and $3.7 million, respectively, related to our deferred tax assets established in connection with our low-income housing investments.

We are also required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2017 and 2016, our liabilities for UTBs were $5.3 million and $6.6 million, respectively.

In 2017, the Company recognized federal and State of Hawaii investment tax credits from energy investments. The Company uses the deferral method of accounting for its investment tax credit with the benefit recognized in the provision for income taxes. These credits reduced the Company's provision for income taxes by $5.4 million, 4.7 million and 3.5 million in 2017, 2016 and 2015, respectively.

On December 22, 2017, Public law No. 115-97, commonly known as the Tax Cuts and Jobs Act was signed into law, a tax reform bill which, among other items, reduces the current corporate federal income 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 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. Management continues to analyze certain aspects of the Act and refine calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. See Note 16 to the Consolidated Financial Statements and the “Income Taxes” section in MD&A for more information on income taxes and the impact of this legislation.

Overview

We are a regional financial services company serving businesses, consumers, and governments in Hawaii, Guam, and other Pacific Islands. Our principal operating subsidiary, the Bank, was founded in 1897 and is the largest independent financial institution in Hawaii.

Our business strategy is to use our unique market knowledge, prudent management discipline and brand strength to deliver exceptional value to our stakeholders. Our business plan is balanced between growth and risk management while maintaining flexibility to adjust to economic changes. We will continue to focus on providing customers with best-in-class service and an innovative mix of products and services. We will also remain focused on continuing to deliver strong financial results while maintaining prudent risk and capital management strategies as well as our commitment to support our local communities.

Hawaii Economy

General economic conditions in Hawaii remained healthy during 2017, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Total visitor arrivals increased 5.0% and visitor spending increased 6.2% during 2017 compared to 2016. The statewide seasonally-adjusted unemployment rate was 2.0% in December 2017 compared to 4.1% nationally. The volume of single-family home sales on Oahu increased 6.3% in 2017 compared to 2016, while the volume of condominium sales on Oahu increased 6.9% in 2017 compared to 2016. The median price of single-family home sales and condominium sales on Oahu increased 2.7% and 3.8%, respectively, in 2017 compared to 2016. As of December 31, 2017, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 2.1 months and 2.3 months, respectively.

Earnings Summary

Net income for 2017 was $184.7 million, an increase of $3.2 million or 2% compared to 2016. Diluted earnings per share were $4.33 in 2017, an increase of $0.10 or 2% compared to 2016. Our return on average assets was 1.10% in 2017, a decrease of 5 basis points from 2016, and our return on average shareholders' equity was 15.27% in 2017, a decrease of 52 basis points from 2016.

Our higher net income in 2017 was primarily due to the following:

- Net interest income was $457.2 million in 2017, an increase of $39.7 million or 9% compared to 2016. On a taxable-equivalent basis, net interest income was $469.1 million in 2017, an increase of $39.5 million or 9% compared to 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 2.93% in 2017, a 10 basis point increase from 2016, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans.

- Other noninterest expense was $61.7 million in 2017, a decrease of $3.0 million or 5% compared to 2016. The decrease was due in part to a $0.9 million decrease in delivery and postage service and a $0.8 million decrease in solar energy tax credit partnership amortization expense.

These items were partially offset by the following:

- We recorded a $16.9 million provision for credit losses in 2017 compared to a $4.8 million provision recorded in 2016. The provision recorded was based on our determination that the allowance for loan and lease losses should be $107.3 million as of December 31, 2017.

- Mortgage banking income was $12.9 million in 2017, a decrease of $6.9 million or 35% compared to 2016. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio.

- Provision for income taxes was $83.4 million in 2017, an increase of $5.3 million or 7% compared to 2016 primarily due to higher effective tax rate and pretax income. The effective tax rate was 31.11% in 2017 compared to 30.10% in 2016. The higher effective tax rate in 2017 compared to 2016 was primarily due to a $3.6 million charge for the write down of net deferred tax assets as a result of the Tax Cuts and Jobs Act, partially offset by a $3.4 million release of a valuation allowance for the sale of low income housing investments.

- Salaries and benefits expense was $205.5 million in 2017, an increase of $4.4 million or 2% compared to 2016 primarily due to a $6.0 million increase in salaries expense mainly due to merit increases and a $2.2 million bonus, inclusive of payroll taxes, paid in the fourth quarter of 2017, due in part to anticipated future tax expense reductions resulting from the Tax Cuts and Jobs Act. Separation expense increased by $1.2 million. These increases were partially offset by a $2.0 million decrease in share-based compensation. Commission expense also decreased by $1.0 million primarily due to a decrease in loan origination and refinancing activity.

- Other noninterest income was $15.8 million in 2017, a decrease of $2.8 million or 15% compared to 2016. This decrease was primarily due to a $2.3 million decrease in fees from our customer interest rate swap derivatives, and a $0.9 million decrease in net gain on sale of lease assets.

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

- Total loans and leases were $9.8 billion as of December 31, 2017, an increase of $0.8 billion or 9% from December 31, 2016 primarily due to growth in both our commercial and consumer lending portfolios.

- The allowance for loan and lease losses (the "Allowance") was $107.3 million as of December 31, 2017, an increase of $3.1 million or 3% from December 31, 2016. The ratio of our Allowance to total loans and leases outstanding decreased to 1.10% as of December 31, 2017, compared to 1.17% as of December 31, 2016. The level of our Allowance was commensurate with the Company's credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

- The total carrying value of our investment securities portfolio was $6.2 billion as of December 31, 2017, an increase of $142.1 million or 2% from December 31, 2016. In 2017, we primarily increased our holdings in mortgage-backed securities issued by Fannie Mae and Ginnie Mae. In addition, we also increased our holdings in Small Business Administration securities, while decreasing our holdings in U.S. Treasury securities. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio.

- Total deposits were $14.9 billion as of December 31, 2017, an increase of $0.6 billion or 4% from December 31, 2016 primarily due to higher consumer core and time deposits.

- Total shareholders' equity was $1.2 billion as of December 31, 2017, an increase of $70.3 million or 6% from December 31, 2016. We continued to return capital to our shareholders in the form of share repurchases and dividends. During 2017, we repurchased 571,626 shares of common stock at a total cost of $47.1 million under our share repurchase program and 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 $87.1 million during 2017.

Analysis of Statements of Income

Average balances, related income and expenses, and resulting yields and rates are presented in Table 1. An analysis of the change in net interest income, on a taxable-equivalent basis, is presented in Table 2.

Average Balances and Interest Rates – Taxable-Equivalent Basis — Table 1

(dollars in millions)	2017 Average Balance	2017 Income/ Expense	2017 Yield/ Rate	2016 Average Balance	2016 Income/ Expense	2016 Yield/ Rate	2015 Average Balance	2015 Income/ Expense	2015 Yield/ Rate
Earning Assets									
Interest-Bearing Deposits in Other Banks	$ 3.4	$ —	0.45 %	$ 4.1	$ —	0.22 %	$ 3.4	$ —	0.22 %
Funds Sold	423.0	3.9	0.92	595.9	2.8	0.48	483.1	1.1	0.23
Investment Securities									
Available-for-Sale									
Taxable	1,659.3	33.1	2.00	1,579.1	27.7	1.75	1,554.2	26.6	1.71
Non-Taxable	643.7	21.0	3.27	690.6	21.9	3.17	721.7	22.9	3.18
Held-to-Maturity									
Taxable	3,648.6	75.7	2.07	3,615.2	72.9	2.02	3,981.2	83.3	2.09
Non-Taxable	240.4	9.3	3.88	244.1	9.5	3.90	247.8	9.8	3.93
Total Investment Securities	6,192.0	139.1	2.25	6,129.0	132.0	2.15	6,504.9	142.6	2.19
Loans Held for Sale	22.6	0.9	3.99	32.3	1.2	3.59	8.7	0.3	3.83
Loans and Leases [1]									
Commercial and Industrial	1,262.8	44.5	3.52	1,179.9	40.3	3.42	1,152.3	36.6	3.18
Commercial Mortgage	1,977.1	75.7	3.83	1,735.2	64.5	3.72	1,543.5	58.5	3.79
Construction	238.4	11.2	4.69	224.2	10.0	4.43	123.9	5.9	4.79
Commercial Lease Financing	205.9	4.8	2.32	198.6	4.8	2.40	217.8	7.5	3.46
Residential Mortgage	3,307.6	126.4	3.82	3,037.0	120.6	3.97	2,774.7	113.9	4.10
Home Equity	1,467.7	53.2	3.62	1,211.9	43.7	3.61	944.0	34.2	3.63
Automobile	486.5	23.2	4.78	416.8	21.5	5.16	352.3	18.4	5.21
Other [2]	400.8	31.8	7.93	358.6	27.7	7.72	315.1	23.7	7.51
Total Loans and Leases	9,346.8	370.8	3.97	8,362.2	333.1	3.98	7,423.6	298.7	4.02
Other	40.5	0.9	2.33	39.2	0.8	2.07	49.0	1.3	2.67
Total Earning Assets [3]	16,028.3	515.6	3.22	15,162.7	469.9	3.10	14,472.7	444.0	3.07
Cash and Due from Banks	158.7			129.0			130.0		
Other Assets	562.2			533.7			533.8		
Total Assets	$ 16,749.2			$ 15,825.4			$ 15,136.5		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Demand	$ 2,871.7	$ 1.7	0.06 %	$ 2,757.6	$ 0.9	0.03 %	$ 2,616.4	$ 0.8	0.03 %
Savings	5,388.5	6.7	0.12	5,217.9	4.6	0.09	5,015.6	4.4	0.09
Time	1,589.4	13.9	0.88	1,254.9	7.1	0.57	1,252.9	4.4	0.35
Total Interest-Bearing Deposits	9,849.6	22.3	0.23	9,230.4	12.6	0.14	8,884.9	9.6	0.11
Short-Term Borrowings	17.7	0.2	1.05	8.4	—	0.15	8.4	—	0.15
Securities Sold Under Agreements to Repurchase	507.0	19.6	3.86	569.8	23.4	4.11	655.9	25.4	3.87
Other Debt	267.9	4.4	1.66	248.8	4.3	1.71	219.7	3.0	1.37
Total Interest-Bearing Liabilities	10,642.2	46.5	0.44	10,057.4	40.3	0.40	9,768.9	38.0	0.39
Net Interest Income		$ 469.1			$ 429.6			$ 406.0	
Interest Rate Spread			2.78 %			2.70 %			2.68 %
Net Interest Margin			2.93 %			2.83 %			2.81 %
Noninterest-Bearing Demand Deposits	4,655.8			4,389.1			4,040.3		
Other Liabilities	242.1			229.6			243.2		
Shareholders' Equity	1,209.1			1,149.3			1,084.1		
Total Liabilities and Shareholders' Equity	$ 16,749.2			$ 15,825.4			$ 15,136.5		

[1] Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.
[2] Comprised of other consumer revolving credit, installment, and consumer lease financing.
[3] Interest income includes taxable-equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $11.8 million for 2017, $12.0 million for 2016, and $11.9 million for 2015.

Analysis of Change in Net Interest Income – Taxable-Equivalent Basis **Table 2**

	Year Ended December 31, 2017 Compared to 2016			Year Ended December 31, 2016 Compared to 2015		
(dollars in millions)	Volume [1]	Rate [1]	Total	Volume [1]	Rate [1]	Total
Change in Interest Income:						
Funds Sold	$ (1.0)	$ 2.1	$ 1.1	$ 0.3	$ 1.4	$ 1.7
Investment Securities						
Available-for-Sale						
Taxable	1.4	4.0	5.4	0.4	0.7	1.1
Non-Taxable	(1.5)	0.6	(0.9)	(1.0)	—	(1.0)
Held-to-Maturity						
Taxable	0.7	2.1	2.8	(7.4)	(3.0)	(10.4)
Non-Taxable	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.3)
Total Investment Securities	0.5	6.6	7.1	(8.2)	(2.4)	(10.6)
Loans Held for Sale	(0.4)	0.1	(0.3)	0.9	—	0.9
Loans and Leases						
Commercial and Industrial	2.9	1.3	4.2	0.9	2.8	3.7
Commercial Mortgage	9.2	2.0	11.2	7.1	(1.1)	6.0
Construction	0.6	0.6	1.2	4.6	(0.5)	4.1
Commercial Lease Financing	0.2	(0.2)	—	(0.6)	(2.1)	(2.7)
Residential Mortgage	10.5	(4.7)	5.8	10.5	(3.8)	6.7
Home Equity	9.3	0.2	9.5	9.7	(0.2)	9.5
Automobile	3.4	(1.7)	1.7	3.3	(0.2)	3.1
Other [2]	3.3	0.8	4.1	3.3	0.7	4.0
Total Loans and Leases	39.4	(1.7)	37.7	38.8	(4.4)	34.4
Other	—	0.1	0.1	(0.2)	(0.3)	(0.5)
Total Change in Interest Income	38.5	7.2	45.7	31.6	(5.7)	25.9
Change in Interest Expense:						
Interest-Bearing Deposits						
Demand	0.1	0.7	0.8	—	0.1	0.1
Savings	0.2	1.9	2.1	0.2	—	0.2
Time	2.2	4.6	6.8	—	2.7	2.7
Total Interest-Bearing Deposits	2.5	7.2	9.7	0.2	2.8	3.0
Short-Term Borrowings	—	0.2	0.2	—	—	—
Securities Sold Under Agreements to Repurchase	(2.5)	(1.3)	(3.8)	(3.5)	1.5	(2.0)
Other Debt	0.3	(0.2)	0.1	0.5	0.8	1.3
Total Change in Interest Expense	0.3	5.9	6.2	(2.8)	5.1	2.3
Change in Net Interest Income	$ 38.2	$ 1.3	$ 39.5	$ 34.4	$ (10.8)	$ 23.6

[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 $457.2 million in 2017, an increase of $39.7 million or 9% compared to 2016. On a taxable-equivalent basis, net interest income was $469.1 million in 2017, an increase of $39.5 million or 9% compared to 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios, and higher net interest margin. The higher level of earning assets was primarily funded by higher deposit balances. Net interest margin was 2.93% in 2017, a 10 basis point increase from 2016, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans. This was partially offset by an increase in rates offered on our deposit products.

Yields on our earning assets increased by 12 basis points in 2017 compared to 2016 primarily due to the shift in the mix of our earning assets from funds sold to loans which generally have higher yields. Yields on our commercial and industrial and commercial mortgage portfolios increased by 10 basis points and 11 basis points, respectively, primarily due to higher yields on floating rate loans. In addition, yields on our investment securities portfolio increased by 10 basis points primarily due to the higher interest rate environment and lower premium amortization. These yield increases were partially offset by a 15 basis point yield decrease in our residential mortgage loan portfolio, primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio.

Interest rates paid on our interest-bearing liabilities increased four basis points in 2017 compared to 2016. Interest rates paid on our time deposits increased by 31 basis points due to new public time deposits at higher rates. Interest rates paid on our securities sold under agreements to repurchase decreased by 25 basis points from 2016 due to the restructuring of three repurchase agreements with private institutions with an aggregate total of $200.0 million during the second quarter of 2017. These repurchase agreements were to mature in 2018 and had a weighted-average interest rate of 3.94%. The restructuring of the agreements extended the maturity dates to June 2022 and lowered the weighted-average interest rate to 2.70% effective June 2017. The remaining balance in our repurchase agreements consists mainly of those with private entities which have relatively longer terms at higher interest rates. The increases to our funding costs were largely offset by growth in our demand and savings deposits, which generally have lower rates than other funding sources. The average balance of these core deposits increased by $284.7 million or 4% in 2017 compared to 2016.

Average balances of our earning assets increased by $865.6 million or 6% in 2017 compared to 2016 primarily due to loan growth as the average balances of our loans and leases portfolio increased by $984.6 million. The average balance of our commercial and industrial portfolio increased by $82.9 million due to increase in corporate demand for funding. The average balance of our commercial mortgage portfolio increased by $241.9 million as a result of continued demand from new and existing customers as the Hawaii economy continues to be strong coupled with the transfer of construction loans into this loan portfolio upon project completion. The average balance of our residential mortgage portfolio increased by $270.6 million 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 $255.8 million as a result of healthy loan demand in light of a strong Hawaii economy and improved real estate market conditions. Additionally, utilization on new and existing home equity lines remained steady during 2017. In addition to the increase in the average balances of our loan and lease portfolio, there was a $63.0 million increase in the average balance of our investment securities portfolio in 2017.

Average balances of our interest-bearing liabilities increased by $584.8 million or 6% in 2017 compared to 2016 primarily due to growth in our time deposits, along with continued growth in our relationship checking and savings products.

Net interest income was $417.6 million in 2016, an increase of $23.5 million or 6% compared to 2015. On a taxable-equivalent basis, net interest income was $429.6 million in 2016, an increase of $23.6 million or 6% compared to 2015. 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 due to higher deposit balances. In addition, we recorded an additional $1.3 million of interest income in the first quarter of 2016 due to the full recovery of a non-performing commercial and industrial loan. Net interest margin was 2.83% in 2016, a two basis points increase from 2015, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2015. The higher margin in 2016 was also due to the aforementioned interest income recovery.

Yields on our earning assets increased by three basis points in 2016 compared to 2015 primarily due to the aforementioned shift in the mix of our earning assets from investment securities to loans which generally have higher yields. Yields on our commercial and industrial portfolio increased by 24 basis points primarily due to higher year-over-year rates on floating rate loans and due to the aforementioned interest income recovered on a non-performing loan in the first quarter of 2016. Partially offsetting the overall yield increase in our earning assets were lower yields in our residential mortgage and commercial mortgage portfolios, and slightly higher funding costs. Yields on our residential mortgage portfolio decreased by 13 basis points primarily due to continued payoff activity of higher-rate mortgage loans and the addition of lower-rate mortgage loans to our portfolio. Yields on our commercial mortgage portfolio decreased by seven basis points, reflective of the low interest rate environment. In addition, yields on our investment securities portfolio decreased by four basis points primarily due to reinvestment of run-off into lower yielding securities, partially offset by lower premium amortization. Interest rates paid on our time deposits increased by 22 basis points due to new public time deposits at higher rates. Interest rates paid on our securities sold under agreements to repurchase increased by 24 basis points due to a decrease in repurchase agreements with local government entities which have relatively shorter terms at lower interest rates. The remaining balance in our repurchase agreements consists mainly of those with private entities which have relatively longer terms at higher interest rates. These increases to our funding costs were largely offset by growth in our demand and savings deposits, which generally have lower rates than other funding sources. The average balance of these core deposits increased by $343.5 million or 5% in 2016 compared to 2015.

Average balances of our earning assets increased by $690.0 million or 5% in 2016 compared to 2015 primarily due to an increase in the average balances of our loans and leases. Average balances of our loans and leases portfolio increased by $938.6 million primarily due to higher average balances in our commercial mortgage, residential mortgage, and home equity portfolios. The average balance of our commercial mortgage portfolio increased by $191.7 million primarily due to increased demand from new and existing customers as the real estate market in Hawaii continued to improve. The average balance of our residential mortgage portfolio increased by $262.3 million primarily due to an increase in loan origination and refinance activity. The average balance of our home equity portfolio increased by $267.9 million due in large part to strong new loan production and continued strength in the Hawaii economy. In addition, we experienced steady line utilization during 2016. Partially offsetting the increase in the average balances of our loans and leases portfolio was a $375.9 million decrease in the average balance of our total investment securities portfolio 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 $288.5 million or 3% in 2016 compared to 2015 primarily due to continued growth in our relationship checking and savings deposit products, partially offset by a decrease in our repurchase agreements.

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 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 our 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 our credit quality. We recorded a Provision of $16.9 million in 2017, $4.8 million in 2016, and $1.0 million in 2015. For further discussion on the Allowance, see the "Corporate Risk Profile – Credit Risk" section in MD&A.

Noninterest Income

Table 3 presents the major components of noninterest income for 2017, 2016, and 2015.

Noninterest Income **Table 3**

(dollars in thousands)	Year Ended December 31, 2017	2016	2015	Dollar Change 2017 to 2016	2016 to 2015	Percent Change 2017 to 2016	2016 to 2015
Trust and Asset Management	$ 45,430	$ 46,203	$ 47,685	$ (773)	$ (1,482)	(2)%	(3)%
Mortgage Banking	12,949	19,895	11,583	(6,946)	8,312	(35)	72
Service Charges on Deposit Accounts	32,575	33,654	34,072	(1,079)	(418)	(3)	(1)
Fees, Exchange, and Other Service Charges	54,845	55,176	53,353	(331)	1,823	(1)	3
Investment Securities Gains, Net	10,430	10,203	10,160	227	43	2	—
Annuity and Insurance	6,858	7,017	7,664	(159)	(647)	(2)	(8)
Bank-Owned Life Insurance	6,517	6,561	7,039	(44)	(478)	(1)	(7)
Other	15,813	18,634	14,663	(2,821)	3,971	(15)	27
Total Noninterest Income	$ 185,417	$ 197,343	$ 186,219	$ (11,926)	$ 11,124	(6)%	6 %

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 that we manage and the fee rate charged to customers. Total trust assets under administration were $9.3 billion, $8.8 billion, and $8.6 billion as of December 31, 2017, 2016, and 2015, respectively. Trust and asset management income decreased by $0.8 million or 2% in 2017 compared to 2016 primarily due to a $1.2 million decrease in special service fees mainly the result of a service fee received from the sale of real estate in second quarter of 2016. This increase was partially offset by a $0.7 million increase in agency fees primarily due to an increase in market value of accounts. Trust and asset management income decreased by $1.5 million or 3% in 2016 compared to 2015. This decrease was primarily due to a decrease in employee benefit trust fees ($0.8 million), agency fees ($0.5 million), common trust fund fees ($0.5 million), and other trust fees ($0.6 million) primarily due to a decline in the number of customer accounts under administration. This decrease was partially offset by a $1.0 million increase in special services fees mainly the result of the aforementioned $1.2 million service fee received from the sale of real estate in the second quarter of 2016.

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 $6.9 million or 35% in 2017 compared to 2016. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio. Mortgage banking income increased by $8.3 million or 72% in 2016 compared to 2015. This increase was primarily due to higher sales of conforming saleable loans from current production and from our mortgage loan portfolio, coupled with higher loan origination and refinancing activity.

Service charges on deposit accounts decreased by $1.1 million or 3% in 2017 compared to 2016. This decrease was primarily due to a $0.8 million decrease in overdraft fees due in part to higher customer deposit balances and a $0.7 decrease in account analysis fees. Service charges on deposit accounts decreased by $0.4 million or 1% in 2016 compared to 2015. This decrease was primarily due to a $0.7 million decrease in overdraft fees due in part to higher customer deposit balances and a decrease in customers opting in for debit card overdraft coverage. This decrease was partially offset by a $0.5 million increase in monthly service 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 special charges. Fees, exchange, and other service charges decreased $0.3 million or 1% in 2017 compared to 2016 primarily due to decreases in other loan fees ($0.8 million) and ATM fees ($0.5 million), largely offset by a $0.9 million increase in debit card fees primarily due to increased transaction volume. Fees, exchange, and other service charges increased by $1.8 million or 3% in 2016 compared to 2015. This increase was primarily due to a $1.3 million increase in debit card income due largely to increased transaction volume, and a $0.7 million increase in commissions and fees related to growth in our credit card business.

Net gains on sales of investment securities totaled $10.4 million in 2017 and $10.2 million in both 2016 and 2015. These gains were largely due to the sale of Visa Class B restricted shares (90,000, 100,000, and 95,000 shares sold in 2017, 2016, and 2015, respectively). We received these Class B shares in 2008 as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members such as the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. Concurrent with the sale of these Visa Class B shares, we entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the covered litigation, the remaining 86,614 Visa Class B shares (142,766 Class A equivalent shares) that we own are carried at a zero cost basis as of December 31, 2017. We also contributed to the Bank of Hawaii Foundation 4,300, 7,800, and 13,800 Visa Class B shares during 2017, 2016, and 2015, respectively.

Annuity and insurance income decreased by $0.2 million or 2% in 2017 compared to 2016. Annuity and insurance income decreased by $0.6 million or 8% in 2016 compared to 2015 primarily due to a $0.5 million decrease in income related to our annuity products.

Bank-owned life insurance remained relatively unchanged in 2017 compared to 2016. Bank-owned life insurance decreased by $0.5 million or 7% in 2016 compared to 2015 primarily due to higher death benefits received in 2015.

Other noninterest income decreased by $2.8 million or 15% in 2017 compared to 2016. This decrease was primarily due to a $2.3 million decrease in fees from our customer interest rate swap derivatives, and a $0.9 million decrease in net gain on sale of leased assets. Other noninterest income increased by $4.0 million or 27% in 2016 compared to 2015. This increase was primarily due to a $2.9 million increase in net gain on sale of leased assets, and a $1.9 million increase in fees for our customer interest rate swap derivatives. The increase was partially offset by a $1.0 million distribution received in 2015 from a low-income housing partnership.

Noninterest Expense

Table 4 presents the major components of noninterest expense for 2017, 2016, and 2015.

Noninterest Expense **Table 4**

	Year Ended December 31,			Dollar Change		Percent Change	
(dollars in thousands)	2017	2016	2015	2017 to 2016	2016 to 2015	2017 to 2016	2016 to 2015
Salaries and Benefits:							
Salaries	$ 122,334	$ 116,721	$ 114,389	$ 5,613	$ 2,332	5%	2%
Incentive Compensation	22,834	23,409	18,667	(575)	4,742	(2)	25
Share-Based Compensation	10,184	12,150	10,390	(1,966)	1,760	(16)	17
Commission Expense	6,493	7,514	6,533	(1,021)	981	(14)	15
Retirement and Other Benefits	18,154	17,262	16,968	892	294	5	2
Payroll Taxes	11,025	10,133	10,095	892	38	9	—
Medical, Dental, and Life Insurance	12,362	13,038	11,580	(676)	1,458	(5)	13
Separation Expense	2,150	923	3,341	1,227	(2,418)	133	(72)
Total Salaries and Benefits	205,536	201,150	191,963	4,386	9,187	2	5
Net Occupancy	32,536	30,252	30,217	2,284	35	8	—
Net Equipment	22,078	20,578	20,162	1,500	416	7	2
Data Processing	15,483	15,208	16,472	275	(1,264)	2	(8)
Professional Fees	11,681	10,072	9,660	1,609	412	16	4
FDIC Insurance	8,666	8,615	8,669	51	(54)	1	(1)
Other Expense:							
Delivery and Postage Services	8,963	9,909	9,025	(946)	884	(10)	10
Mileage Program Travel	4,822	4,712	4,753	110	(41)	2	(1)
Merchant Transaction and Card Processing Fees	4,052	4,344	4,608	(292)	(264)	(7)	(6)
Advertising	5,982	5,992	5,344	(10)	648	—	12
Amortization - Solar Energy Partnership Investments	3,311	4,072	2,370	(761)	1,702	(19)	72
Other	34,581	35,674	44,861	(1,093)	(9,187)	(3)	(20)
Total Other Expense	61,711	64,703	70,961	(2,992)	(6,258)	(5)	(9)
Total Noninterest Expense	$ 357,691	$ 350,578	$ 348,104	$ 7,113	$ 2,474	2%	1%

Total salaries and benefits increased by $4.4 million or 2% in 2017 compared to 2016 due in part to a $5.6 million increase in salaries expense primarily due to merit increases and a $2.2 million bonus, inclusive of payroll taxes, paid in the fourth quarter 2017, partly due to anticipated future tax expense reductions resulting from the Tax Cuts and Jobs Act. In addition, separation expense increased by $1.2 million. These increases were partially offset by a $2.0 million decrease in share-based compensation. Commission expense also decreased by $1.0 million primarily due to a decrease in loan origination and refinancing activity. Total salaries and benefits increased by $9.2 million or 5% in 2016 compared to 2015 due in part to a $4.7 million increase in incentive compensation. Salaries expense increased by $2.3 million primarily due to merit increases. Share-based compensation increased by $1.8 million due in part to the value of restricted stock units increasing as a result of the Company's share price increasing during 2016. Medical, dental, and life insurance increased by $1.5 million due to higher expenses related to our self-insured medical plans. Commission expense increased by $1.0 million primarily due to an increase in loan origination and refinancing activity. These increases were partially offset by a $2.4 million decrease in separation expense.

Net occupancy expense increased by $2.3 million or 8% in 2017 compared to 2016 primarily due to a $3.4 million decrease in net gain on sale of real estate from $3.7 million in 2016 to $0.3 million in 2017. This increase was offset by a $0.9 million decrease in net rental expense. Net occupancy expense remained relatively unchanged in 2016 compared to 2015.

Net equipment expense increased by $1.5 million or 7% in 2017 compared to 2016 primarily due to a $0.8 million increase in software license fees and maintenance and a $0.5 million increase in depreciation expense. Net equipment expense increased by $0.4 million or 2% in 2016 compared to 2015 primarily due to an increase in depreciation on information technology equipment.

Data processing expense remained relatively unchanged in 2017 compared to 2016. Data processing expense decreased by $1.3 million or 8% in 2016 compared to 2015 primarily due to the roll-out of EMV chip-enabled debit cards in 2015.

Professional fees increased by $1.6 million or 16% in 2017 compared to 2016 primarily due to a $0.9 million increase in legal fees and a $0.8 million increase in professional services primarily in our mortgage division. Professional fees remained relatively unchanged in 2016 compared to 2015.

Other noninterest expense decreased by $3.0 million or 5% in 2017 compared to 2016 due to a $0.9 million decrease in delivery and postage services and a $0.8 million decrease in solar energy tax credit partnership amortization expense. Other noninterest expense decreased by $6.3 million or 9% in 2016 compared to 2015. This decrease was primarily due to a $9.5 million impairment charge in the third quarter of 2015 on six aircraft which were previously on lease agreements. All aircraft were sold in the first quarter of 2016 resulting in a nominal loss on sale from the reduced carrying value. The decrease in noninterest expense was partially offset by our increased investment in solar energy tax credit partnerships, which caused the related amortization expense to increase by $1.7 million. However, the federal and state tax benefits related to these partnership investments resulted in a net benefit to overall net income. The tax benefits are recorded as a reduction to income tax expense. We also experienced an increase in temporary employment services ($1.0 million) and delivery and postage ($0.9 million).

Income Taxes

Table 5 presents our provision for income taxes and effective tax rates for 2017, 2016, and 2015:

Provision for Income Taxes and Effective Tax Rates		**Table 5**
(dollars in thousands)	**Provision for Income Taxes**	**Effective Tax Rates**
2017	$ 83,392	31.11%
2016	78,133	30.10%
2015	70,498	30.49%

The provision for income taxes was $83.4 million in 2017, an increase of $5.3 million or 7% compared to 2016. The effective tax rate was 31.11% in 2017 compared to 30.10% in 2016. The higher effective tax rate in 2017 compared to 2016 was primarily due to a $3.6 million charge for the write down of net deferred tax assets as a result of the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017. A $3.0 million state tax reserve release in 2016, as explained below, also favorably impacted the effective tax rate in 2016. These items were partially offset by a $2.5 million tax benefit from the exercise of stock options and the vesting of restricted stock in 2017 and a $2.1 million increase in the release of valuation allowances for low income housing investments in 2017 compared to 2016.

The provision for income taxes was $78.1 million in 2016, an increase of $7.6 million or 11% compared to 2015. The effective tax rate was 30.10% in 2016 compared to 30.49% in 2015. The lower effective tax rate in 2016 compared to 2015 was primarily due to a $3.0 million release of state tax reserves due to the lapse in the statute of limitations related to prior tax years and a $0.5 million release of federal tax reserves for a settlement with the IRS for prior tax years, partially offset by a $0.3 million increase to the valuation allowance for low income housing investments and higher pretax book income compared to a fixed amount of tax credits.

The Tax Cuts and Jobs Act changed the corporate tax rate from 35% to 21%, effective January 1, 2018. The impact on deferred tax assets and liabilities was recognized as an additional income tax expense of $3.6 million in the fourth quarter of 2017, when the Tax Cuts and Jobs Act was signed into law. While this change in tax rates unfavorably affected the company’s effective tax rate in 2017, we expect it to favorably affect our annual effective tax rate for 2018 and future years. For 2018, we expect our effective tax rate to be in the 20% to 22% range exclusive of nonrecurring transactions. The Company’s expected effective tax rate during 2018 is forward-looking and could differ from actual results.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, Investment Services and Private Banking, and Treasury and Other. Table 6 summarizes net income from our business segments for 2017, 2016, and 2015. Additional information about segment performance is presented in Note 13 to the Consolidated Financial Statements.

Business Segment Net Income **Table 6**

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Retail Banking	$ 80,723	$ 74,635	$ 49,715
Commercial Banking	76,862	77,297	58,425
Investment Services and Private Banking	15,842	14,081	12,298
Total	173,427	166,013	120,438
Treasury and Other	11,245	15,448	40,266
Consolidated Total	$ 184,672	$ 181,461	$ 160,704

Retail Banking

Net income increased by $6.1 million or 8% in 2017 compared to 2016 primarily due to an increase in net interest income, partially offset by a decrease in noninterest income and an increase in the Provision. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios as well as higher earnings credits on the segment's deposit portfolio. The decrease in noninterest income is primarily due to lower mortgage loan sales and reduced margins on those sales. The increase in the Provision was primarily due to higher net charge-offs in our installment loan, credit card, auto loan, and mortgage loan portfolios, partially offset by lower net charge-offs in our home equity loan and personal credit line portfolios.

Net income increased by $24.9 million or 50% in 2016 compared to 2015 primarily due to increases in net interest income and noninterest income, partially offset by increases in noninterest expense and the Provision. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios as well as higher earnings credits on the segment's deposit portfolio. The increase in noninterest income was primarily due to higher mortgage banking income as well as higher debit card and credit card income, partially offset by a decrease in overdraft fees. The increase in mortgage banking income was primarily due to higher sales of conforming saleable loans from current production and from our mortgage portfolio, coupled with higher loan origination and refinancing activity. The increase in debit card income was due largely to increased transaction volume and the increase in our credit card income was primarily due to higher commissions and fees related to growth in our credit card business. The increase in noninterest expense was primarily due to higher allocated expenses, higher salaries and benefits expense, and lower net gain on sale of real estate property. The increase in the Provision was primarily due to higher net charge-offs in our installment loan and credit card portfolios and lower net recoveries of home equity loans previously charged off.

Commercial Banking

Net income decreased by $0.4 million or 1% in 2017 compared to 2016 primarily due to a decrease in noninterest income, and increases to the Provision and noninterest expense. This was partially offset by an increase in net interest income. The decrease in noninterest income was primarily due to lower net gains on sale of leased equipment, lower fees related to our customer interest rate swap derivatives and lower non-recurring loan fees. The increase in the Provision was due to lower net recoveries of loans and leases in 2017. The increase in noninterest expense was primarily due to higher salaries and benefits expense and to higher allocated expenses. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios, and partially due to higher earnings credits on the segment's deposit portfolio.

Net income increased by $18.9 million or 32% in 2016 compared to 2015 primarily due to increases in net interest income and noninterest income, and to decreases in the Provision and noninterest expense. The increase in net interest income was primarily due to higher volume in both the lending and deposit portfolios. The increase in noninterest income was primarily due to higher net gains on sale of leased equipment and higher fees related to our customer interest rate swap derivatives. The decrease in the Provision was due to higher net recovery of loans and leases in 2016. The decrease in noninterest expense was due to a $9.5 million impairment charge taken in 2015 on six aircraft previously on lease agreements, partially offset by higher allocated expenses.

Investment Services and Private Banking

Net income increased by $1.8 million or 13% in 2017 compared to 2016 primarily due to an increase in net interest income, partially offset by an increase in noninterest expense. The increase in net interest income was primarily driven by the transfer of deposits 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 an operational recovery in the second quarter of 2016.

Net income increased by $1.8 million or 14% in 2016 compared to 2015 primarily due to increases in net interest income, partially offset by a decrease in noninterest income and an increase in noninterest expense. The increase in net interest income was due to higher volume resulting from the transfer of loans and deposits from the Retail Banking segment and higher earnings credit on the segment's deposit portfolio. The decrease in noninterest income was primarily due to lower trust and asset management market values and lower fees related to the transition of various services provided to some institutional 401k plans, partially offset by a one-time special service fee income resulting from sale of trust real estate and higher investment advisor fees. The increase in noninterest expense was primarily due to higher allocated expenses.

Treasury and Other

Net income decreased by $4.2 million or 27% in 2017 compared to 2016 primarily due to a decrease in net interest income, an increase in the Provision, and an increase in the provision for income taxes. The decrease in net interest income was primarily due to higher deposit funding costs, partially offset by an increase in interest income from investment securities and funds sold resulting from an increase in associated yields and an increase in funding income related to lending activities. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate increased to 31.11% in 2016 compared to 30.10% in 2016.

Net income decreased by $24.8 million or 62% in 2016 compared to 2015 primarily due to a decrease in net interest income and an increase in the Provision, partially offset by a reduction in the provision for income taxes. The decrease in net interest income was primarily due to higher deposit funding costs and lower interest income from the investment securities portfolio resulting from a reduction in volume and lower associated yields partially offset by an increase in funding income related to lending activities. The Provision in this business segment represents the residual provision for credit losses to arrive at the total Provision for the Company. The provision for income taxes in this business segment represents the residual amount to arrive at the total tax expense for the Company. The overall effective tax rate decreased to 30.10% in 2016 compared to 30.49% in 2015.

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.

Analysis of Statements of Condition

Investment Securities

Table 7 presents the maturity distribution at amortized cost, weighted-average yield to maturity, and fair value of our investment securities.

Maturities and Average Yield on Securities **Table 7**

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year-5 Years	Weighted Average Yield	After 5 Years-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Weighted Average Yield	Fair Value
As of December 31, 2017											
Available-for-Sale											
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$ 1.0	2.7%	$ 80.5	3.0%	$ 343.4	2.1%	$ —	—%	$ 424.9	2.3%	$ 425.9
Debt Securities Issued by States and Political Subdivisions [1]	46.0	3.2	399.1	3.0	150.0	5.1	23.1	6.2	618.2	3.6	627.0
Debt Securities Issued by Corporations	43.0	1.4	225.0	2.1	—	—	—	—	268.0	2.0	266.1
Mortgage-Backed Securities [2]											
Residential - Government Agencies	4.0	1.9	140.6	2.2	88.6	2.6	—	—	233.2	2.4	235.5
Residential - U.S. Government-Sponsored Enterprises	—	—	442.6	2.3	177.2	2.4	—	—	619.8	2.3	609.8
Commercial - Government Agencies	—	—	72.0	1.6	—	—	—	—	72.0	1.6	68.7
Total Mortgage-Backed Securities	4.0	1.9	655.2	2.2	265.8	2.5	—	—	925.0	2.3	914.0
Total	$ 94.0	2.3%	$ 1,359.8	2.4%	$ 759.2	2.8%	$ 23.1	6.2%	$ 2,236.1	2.3%	$ 2,233.0
Held-to-Maturity											
Debt Securities Issued by the U.S. Treasury and Government Agencies [2]	$ 260.0	1.3%	$ 115.1	1.4%	$ —	—%	$ —	—%	$ 375.1	1.3%	$ 373.6
Debt Securities Issued by States and Political Subdivisions [1]	—	—	88.5	3.8	122.5	5.7	27.5	6.5	238.5	5.1	247.6
Debt Securities Issued by Corporations	—	—	2.6	2.5	117.0	2.1	—	—	119.6	2.1	118.2
Mortgage-Backed Securities [2]											
Residential - Government Agencies	17.9	2.7	1,526.5	2.1	685.6	2.9	—	—	2,230.0	2.4	2,202.9
Residential - U.S. Government-Sponsored Enterprises	—	4.2	394.0	2.1	369.3	2.4	—	—	763.3	2.3	753.0
Commercial - Government Agencies	12.4	2.8	168.6	2.8	20.7	3.6	—	—	201.7	2.9	198.8
Total Mortgage-Backed Securities	30.3	2.7	2,089.1	2.2	1,075.6	2.8	—	—	3,195.0	2.4	3,154.7
Total	$ 290.3	1.4%	$ 2,295.3	2.2%	$ 1,315.1	3.0%	$ 27.5	6.5%	$ 3,928.2	2.3%	$ 3,894.1
Total Investment Securities											
As of December 31, 2017	$ 384.3		$ 3,655.1		$ 2,074.3		$ 50.6		$ 6,164.3		$ 6,127.1
As of December 31, 2016	$ 208.3		$ 3,600.7		$ 2,109.5		$ 98.4		$ 6,016.9		$ 6,013.5

[1] Weighted-average yields on obligations of states and political subdivisions are generally tax-exempt and are computed on a taxable-equivalent basis using a federal statutory tax rate of 35%.
[2] Maturities for Small Business Administration debt securities and mortgage-backed securities anticipate future prepayments.

The carrying value of our investment securities portfolio was $6.2 billion as of December 31, 2017, an increase of $142.1 million or 2% compared to December 31, 2016. As of December 31, 2017, our investment securities portfolio was comprised of securities with an average base duration of approximately 3.3 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.

In 2017, we primarily increased our holdings in mortgage-backed securities issued by Fannie Mae and Ginnie Mae. In addition, we also increased our holdings in Small Business Administration securities, while decreasing our holdings in U.S. Treasury securities. Ginnie Mae mortgage-backed securities continue to be our largest concentration in our portfolio. As of December 31, 2017, our portfolio of Ginnie Mae mortgage-backed securities was primarily comprised of securities issued in 2008 or later. As of December 31, 2017, these mortgage-backed securities were all AAA-rated, with a low probability of a change in their credit ratings in the near future. As of December 31, 2017, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.3 years.

Gross unrealized gains in our investment securities portfolio were $36.6 million as of December 31, 2017 and $53.8 million as of December 31, 2016. Gross unrealized losses on our temporarily impaired investment securities were $73.9 million as of December 31, 2017 and $57.2 million as of December 31, 2016. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac, and corporate debt securities. See Note 3 to the Consolidated Financial Statements for more information.

As of December 31, 2017, included in our investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $496.8 million, representing 57% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 95% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Also, approximately 78% of the Company's Hawaii municipal bond holdings were general obligation issuances. As of December 31, 2017, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

The Company's corporate bond holdings as of December 31, 2017 had a fair value of $384.3 million. Of this total, $118.2 million or 31% was fully guaranteed by the Export-Import Bank of the United States, an agency of the U.S. government. Of the remaining $266.1 million of corporate bonds, 76% were credit-rated A or better by Standard & Poor's while all of the remaining corporate bonds were credit-rated A- or better by at least one nationally recognized statistical rating organization.

Loans and Leases

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

Loans and Leases **Table 8**

	December 31,				
(dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Commercial					
Commercial and Industrial	$ 1,279,347	$ 1,249,791	$ 1,115,168	$ 1,055,243	$ 911,367
Commercial Mortgage	2,103,967	1,889,551	1,677,147	1,437,513	1,247,510
Construction	202,253	270,018	156,660	109,183	107,349
Lease Financing	180,931	208,332	204,877	226,189	262,207
Total Commercial	3,766,498	3,617,692	3,153,852	2,828,128	2,528,433
Consumer					
Residential Mortgage	3,466,773	3,163,073	2,925,605	2,571,090	2,282,894
Home Equity	1,585,455	1,334,163	1,069,400	866,688	773,385
Automobile	528,474	454,333	381,735	323,848	255,986
Other [1]	449,747	380,524	348,393	307,835	254,689
Total Consumer	6,030,449	5,332,093	4,725,133	4,069,461	3,566,954
Total Loans and Leases	$ 9,796,947	$ 8,949,785	$ 7,878,985	$ 6,897,589	$ 6,095,387

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

Total loans and leases were $9.8 billion as of December 31, 2017. This represents a $0.8 billion or 9% increase from December 31, 2016 primarily due to growth in our consumer lending portfolio.

The commercial loan and lease portfolio is comprised of commercial and industrial loans, commercial mortgages, construction loans, and lease financing. Commercial and industrial loans are made primarily to corporations, middle market, and small businesses for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in Hawaii. Commercial mortgages are secured by first mortgages on commercial real estate at loan-to-value ratios generally not exceeding 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties, and to a lesser extent, specialized properties such as hotels. The primary source of repayment for investor property is cash flow from the property and for owner-occupied property is the operating cash flow from the business. Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. We classify loans as construction until the completion of the construction phase. Following construction, if a loan is retained, the loan is reclassified to the commercial mortgage category. Lease financing consists of direct financing leases and leveraged leases and are used by commercial customers to finance capital purchases. Although our primary market is Hawaii, the commercial portfolio contains loans to some borrowers based on the U.S. Mainland, including some Shared National Credits.

Commercial loans and leases were $3.8 billion as of December 31, 2017, an increase of $148.8 million or 4% from December 31, 2016. Commercial and industrial loans increased by $29.6 million or 2% from December 31, 2016. Commercial mortgage loans increased by $214.4 million or 11% from December 31, 2016 primarily due to continued demand from new and existing customers as the Hawaii economy continues to be strong coupled with the transfer of construction loans into this loan portfolio upon project completion. Construction loans decreased by $67.8 million or 25% from December 31, 2016 primarily due to the aforementioned construction loans transferred to the commercial mortgage loan portfolio, as well as successful completion of construction projects such as condominiums and low-income housing, partially offset by increased activity in our portfolio. Lease financing decreased by $27.4 million or 13% from December 31, 2016 primarily due to a lessee exercising its early buy-out option on an equipment lease in the fourth quarter of 2017.

The consumer loan and lease portfolio is comprised of residential mortgage loans, home equity lines and loans, indirect auto loans and leases, and other consumer loans including personal credit lines, direct installment loans, and rewards-based consumer credit cards. These products are generally offered in the geographic markets we serve. Although we offer a variety of products, our residential mortgage loan portfolio is primarily comprised of fixed-rate loans concentrated in Hawaii. We also offer a variety of home equity lines and loans, usually secured by second mortgages on residential property of the borrower. Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships. Direct installment loans are generally unsecured and are often used for personal expenses or for debt consolidation.

Consumer loans and leases were $6.0 billion as of December 31, 2017, an increase of $698.4 million or 13% from December 31, 2016. Residential mortgage loans increased by $303.7 million or 10% from December 31, 2016 primarily due to a relatively constant level of loan originations combined with a slowdown in payoff activity. Home equity loans increased by $251.3 million or 19% from December 31, 2016 as a result of healthy loan demand in light of a strong Hawaii economy and improved real estate market conditions. Additionally, utilization on new and existing home equity lines remained steady during 2017. Automobile loans increased by $74.1 million or 16% from December 31, 2016 primarily driven by revised pricing and focus on improving dealer relationships. Other consumer loans increased by $69.2 million or 18% from December 31, 2016 primarily due to growth in our automobile leasing and installment loans.

See Note 4 to the Consolidated Financial Statements and the “Corporate Risk Profile – Credit Risk” section of MD&A for more information on our loan and lease portfolio.

Table 9 presents the geographic distribution of our loan and lease portfolio.

Geographic Distribution of Loan and Lease Portfolio **Table 9**

(dollars in thousands)	December 31, 2017 Hawaii	U.S. Mainland [1]	Guam	Other Pacific Islands	Foreign [2]	Total
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
Percentage of Total Loans and Leases	91%	3%	5%	1%	—%	100%

[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 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 $803.4 million or 10% from December 31, 2016, reflective of a healthy Hawaii economy.

Table 10 presents a maturity distribution for selected loan categories.

Maturities for Selected Loan Categories [1] **Table 10**

(dollars in thousands)	December 31, 2017 Due in One Year or Less	Due After One to Five Years [2]	Due After Five Years [2]	Total
Commercial and Industrial	$ 318,019	$ 467,220	$ 494,108	$ 1,279,347
Construction	45,444	52,554	104,255	202,253
Total	$ 363,463	$ 519,774	$ 598,363	$ 1,481,600

[1] Based on contractual maturities.
[2] As of December 31, 2017, loans maturing after one year consisted of $674.9 million in variable rate loans and $443.2 million in fixed rate loans.

Goodwill

Goodwill was $31.5 million as of December 31, 2017 and 2016. As of December 31, 2017, based on our qualitative assessment, there were no reporting units where we believed it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. As a result, we had no reporting units where there was a reasonable possibility of failing Step 1 of the goodwill impairment test. See Note 1 to the Consolidated Financial Statements for more information on our goodwill impairment policy.

Other Assets

Other assets were $252.6 million as of December 31, 2017, an increase of $57.9 million or 30% from December 31, 2016. This increase was primarily due to a $30.6 million increase in accounts receivable related to a $20.0 million matured security and a $16.4 million receivable related to an early buy-out on an equipment lease in the fourth quarter of 2017. Also contributing to the increase in other assets was higher balances in the executive deferred compensation program increase of ($6.9 million) and higher balances related to settlement timing of merchant services increase of ($4.8 million). See Note 7 to the Consolidated Financial Statements for more information on the composition of our other assets.

Deposits

Table 11 presents the components of our deposits by major customer categories as of December 31, 2017 and 2016.

Deposits **Table 11**

	December 31,	
(dollars in thousands)	**2017**	**2016**
Consumer	$ 7,478,228	$ 6,997,482
Commercial	5,973,763	6,110,189
Public and Other	1,431,977	1,212,569
Total Deposits	$ 14,883,968	$ 14,320,240

Total deposits were $14.9 billion as of December 31, 2017, a $563.7 million or 4% increase from December 31, 2016. This increase was primarily due to a $480.7 million increase in consumer deposits due to an increase in core deposits and time deposits of $342.7 million and $138.0 million respectively. In addition, public and other deposits increased by $219.4 million primarily due to a $263.7 million increase in time deposits offset by a $44.3 million decrease in core deposits. These increases were partially offset by a $136.4 million decrease in commercial deposits primarily due to a decrease in commercial core deposits.

Table 12 presents the components of our savings deposits as of December 31, 2017 and 2016.

Savings Deposits **Table 12**

	December 31,	
(dollars in thousands)	**2017**	**2016**
Money Market	$ 1,827,090	$ 1,947,775
Regular Savings	3,561,923	3,447,924
Total Savings Deposits	$ 5,389,013	$ 5,395,699

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**
	December 31,	
(dollars in thousands)	**2017**	**2016**
Private Institutions	$ 500,000	$ 500,000
Government Entities	5,293	23,378
Total Securities Sold Under Agreements to Repurchase	$ 505,293	$ 523,378

Securities sold under agreements to repurchase decreased by $18.1 million or 3% from December 31, 2016. This decrease was primarily due to repurchase agreements maturing in the first quarter of 2017. As of December 31, 2017, the weighted-average maturity was 148 days for our repurchase agreements with government entities and 3.6 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 2.6 years. As of December 31, 2017 and 2016, the weighted-average interest rate for repurchase agreements with government entities was 0.61% and 0.31%, respectively, while the weighted-average interest rate for repurchase agreements with private institutions as of December 31, 2017 and 2016 was 3.64% and 4.14%, respectively, with all rates being fixed. Each of our repurchase agreements is accounted for as collateralized financing arrangements (i.e., a secured borrowing) and not as a sale and subsequent repurchase of securities. See Note 9 and 19 to the Consolidated Financial Statements for more information.

Other Debt

Other debt was $260.7 million as of December 31, 2017, a decrease of $7.2 million or 3% from December 31, 2016. This decrease was due to an early payoff of $7.2 million of non-recourse debt during the fourth quarter of 2017. As of December 31, 2017, this balance was mainly comprised of $250.0 million in FHLB advances with a weighted-average interest rate of 1.28% and maturity dates ranging from 2018 to 2020. These advances were primarily for asset/liability management purposes. As of December 31, 2017, our remaining line of credit with the FHLB was $2.0 billion.

Pension and Postretirement Plan Obligations

Retirement benefits payable were $37.3 million as of December 31, 2017, an $11.1 million or 23% decrease from December 31, 2016. Our pension and postretirement benefit obligations and net periodic benefit cost are actuarially determined based on a number of key assumptions, including the discount rate, the expected return on plan assets, and the health-care cost trend rate. The accounting for pension and postretirement benefit plans reflect the long-term nature of the obligations and the investment horizon of the plan assets. The decrease in retirement benefits payable was primarily due to a $10.0 million contribution to the Company's defined benefit retirement plan.

The discount rate is used to determine the present value of future benefit obligations and the net periodic benefit cost. The discount rate used to value the present value of future benefit obligations as of each year-end is the rate used to estimate the net periodic benefit cost for the following year. Table 14 presents a sensitivity analysis of a 25 basis point change in discount rates to the pension and postretirement benefit plan's net periodic benefit cost and benefit obligations:

Discount Rate Sensitivity Analysis **Table 14**

	Base Discount Rate		Impact of Discount Rate 25 Basis Point Increase		Impact of Discount Rate 25 Basis Point Decrease	
(dollars in thousands)	Pension Benefit	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
2017 Net Periodic Benefit Cost	4.45%	4.57%	$ 26	$ (76)	$ (34)	$ 77
Benefit Plan Obligations as of December 31, 2017	3.90%	3.96%	(2,877)	(759)	2,954	783
Estimated 2018 Net Periodic Benefit Cost	3.90%	3.96%	41	(65)	(50)	66

See Note 14 to the Consolidated Financial Statements for more information on our pension and postretirement benefit plans.

Foreign Activities

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2017, 2016 and 2015, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total assets.

Corporate Risk Profile

Managing risk is an essential part of successfully operating our business. Management believes that the most prominent risk exposures for the Company are credit risk, market risk, liquidity risk management, capital management, and operational risk.

Credit Risk

Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms. We manage and control credit risk in the loan and lease portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Written credit policies document underwriting standards, approval levels, exposure limits, and other limits or standards deemed necessary and prudent. Portfolio diversification at the obligor, industry, product, and/or geographic location levels is actively managed to mitigate concentration risk. In addition, credit risk management also includes an independent credit review process that assesses compliance with commercial and consumer credit policies, risk ratings, and other critical credit information. In addition to implementing risk management practices that are based upon established and sound lending practices, we adhere to sound credit principles. We understand and evaluate our customers' borrowing needs and capacity to repay, in conjunction with their character and history.

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and leveraged leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant's ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant's financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant's credit history supplement the analysis of the applicant's creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, builders, and owner-occupants primarily domiciled in Hawaii. These loans are secured by first mortgages on real estate at loan-to-value ("LTV") ratios deemed appropriate based on the property type, location, overall quality, and sponsorship. Generally, these LTV ratios do not exceed 75%. The commercial properties are predominantly developments such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties such as hotels. Substantially our entire commercial mortgage loans are secured by properties located in our primary market area.

In the underwriting of our commercial mortgage loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic fundamentals of the property and the creditworthiness of the borrower. In evaluating a proposed commercial mortgage loan, we primarily emphasize the ratio of the property's projected net cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deducting for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is sometimes required from the principal(s) of the borrower. We typically require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required. Owner-occupant commercial mortgage loans are underwritten based upon the cash flow of the business provided that the real estate asset is utilized in the operation of the business. Real estate is evaluated independently as a secondary source of repayment. As noted above, LTV ratios generally do not exceed 75%.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

We offer a variety of first mortgage and junior lien loans to consumers within our markets with residential home mortgages comprising our largest loan category. These loans are generally secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks and financial capacity and repayment ability of the consumer. Decisions are primarily based on LTV ratios, debt-to-income ("DTI") ratios, liquidity, and credit scores. LTV ratios generally do not exceed 80%, although higher levels are permitted with mortgage insurance. We offer variable rate mortgage loans with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on the London Interbank Offered Rate ("LIBOR"). Variable rate mortgage loans are underwritten at fully-indexed interest rates. We do not offer payment-option facilities, sub-prime or Alt-A loans, or any product with negative amortization. We selectively offer interest-only mortgage loans to Private Banking clients."

Home equity loans are secured by both first and second liens on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 85% of the value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed interest rates. Our procedures for underwriting home equity loans include an assessment of an applicant's overall financial capacity and repayment ability. Decisions are primarily based on LTV ratios, DTI ratios, and credit scores. Maximum amount and LTVs are determined by collateral value and channel. We do not offer home equity loan products with reduced documentation.

Automobile lending activities include loans and leases secured by new or used automobiles. We originate automobile loans and leases on an indirect basis through selected dealerships in Hawaii, Guam and Saipan. Our procedures for underwriting automobile loans include an assessment of an applicant's overall financial capacity and repayment ability, credit history, and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount. We require borrowers to maintain full coverage automobile insurance on automobile loans and leases, with the Bank listed as either the loss payee or additional insured.

General economic conditions in Hawaii remained healthy during 2017, led by a strong tourism industry, relatively low unemployment, rising real estate prices, and an active construction industry. Our overall credit risk position reflects these positive economic trends and our loan portfolio growth and composition.

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

Table 15 presents a five-year history of non-performing assets 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 15**

	December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial					
Commercial and Industrial	$ 448	$ 151	$ 5,829	$ 9,088	$ 11,929
Commercial Mortgage	1,398	997	3,469	745	2,512
Total Commercial	1,846	1,148	9,298	9,833	14,441
Consumer					
Residential Mortgage	9,243	13,780	14,598	14,841	20,264
Home Equity	3,991	3,147	4,081	3,097	1,740
Total Consumer	13,234	16,927	18,679	17,938	22,004
Total Non-Accrual Loans and Leases	15,080	18,075	27,977	27,771	36,445
Foreclosed Real Estate	1,040	1,686	824	2,311	3,205
Total Non-Performing Assets	$ 16,120	$ 19,761	$ 28,801	$ 30,082	$ 39,650
Accruing Loans and Leases Past Due 90 Days or More					
Commercial					
Commercial and Industrial	$ —	$ —	$ —	$ 2	$ 1,173
Total Commercial	—	—	—	2	1,173
Consumer					
Residential Mortgage	2,703	3,127	4,453	4,506	4,564
Home Equity	1,624	1,457	1,710	2,596	3,009
Automobile	886	894	315	616	322
Other [1]	1,934	1,592	1,096	941	790
Total Consumer	7,147	7,070	7,574	8,659	8,685
Total Accruing Loans and Leases Past Due 90 Days or More	$ 7,147	$ 7,070	$ 7,574	$ 8,661	$ 9,858
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	$ 55,672	$ 52,208	$ 49,430	$ 45,474	$ 51,123
Total Loans and Leases	$ 9,796,947	$ 8,949,785	$ 7,878,985	$ 6,897,589	$ 6,095,387
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.15%	0.20%	0.36%	0.40%	0.60%
Ratio of Non-Performing Assets to Total Loans and Leases and Foreclosed Real Estate	0.16%	0.22%	0.37%	0.44%	0.65%
Ratio of Commercial Non-Performing Assets to Total Commercial Loans and Leases and Commercial Foreclosed Real Estate	0.05%	0.03%	0.29%	0.38%	0.61%
Ratio of Consumer Non-Performing Assets to Total Consumer Loans and Leases and Consumer Foreclosed Real Estate	0.24%	0.35%	0.41%	0.47%	0.68%
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	0.24%	0.30%	0.46%	0.56%	0.81%

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

Table 16 presents the activity in Non-Performing Assets ("NPAs") for 2017:

Non-Performing Assets (dollars in thousands)	**Table 16**
Balance at Beginning of Year	$ 19,761
Additions	7,114
Reductions	
Payments	(2,081)
Return to Accrual Status	(4,099)
Sales of Foreclosed Real Estate	(3,187)
Charge-offs/Write-downs	(1,388)
Total Reductions	(10,755)
Balance at End of Year	$ 16,120

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

Total NPAs were $16.1 million as of December 31, 2017, a decrease of $3.6 million or 18% from December 31, 2016. The decrease was experienced primarily in the consumer lending portfolio. The ratio of our NPAs to total loans and leases, and foreclosed real estate was 0.16% as of December 31, 2017 and 0.22% as of December 31, 2016.

Commercial and industrial non-accrual loans increased by $0.3 million or 197% from December 31, 2016 due to the addition of one loan. We have evaluated this borrower for impairment and have recorded a $0.7 million partial charge-off in 2017. As of December 31, 2017, the non-accrual balance in this category was comprised primarily of three commercial borrowers.

Commercial mortgage non-accrual loans increased by $0.4 million or 40% from December 31, 2016 primarily due to the addition of one loan. We have individually evaluated the four commercial mortgage non-accrual loans for impairment and have recorded no partial charge-offs.

The largest component of our NPAs continues to be residential mortgage loans. Residential mortgage non-accrual loans decreased by $4.5 million or 33% from December 31, 2016 primarily due to paydowns and payoffs. In addition, three loans modified in a troubled debt restructuring ("TDR") were returned 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 our borrowers wishing to remain in their residences despite having financial challenges. As of December 31, 2017, our residential mortgage non-accrual loans were comprised of 30 loans with a weighted average current LTV ratio of 60%.

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 decreased by $0.6 million or 38% from December 31, 2016 primarily due to the sale of one residential property as of December 31, 2017.

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

Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection. Loans and leases past due 90 days or more and still accruing interest were $7.1 million as of December 31, 2017, a $0.1 million or 1% increase from December 31, 2016. This increase was primarily in our credit card portfolio, which was offset by a decrease in the residential mortgage portfolio.

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 $61.2 million as of December 31, 2017 and $60.7 million as of

December 31, 2016, and had a related Allowance of $3.9 million as of December 31, 2017 and $3.6 million as of December 31, 2016. The change in impaired loans was primarily due to the increase in impaired Automobile loans, which was partially offset by the decrease in Residential Mortgage impaired loans and the decrease in Commercial and Industrial impaired loans. As of December 31, 2017, we recorded cumulative charge-offs of $15.9 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of December 31, 2017 had been accrued under the original terms, approximately $1.2 million in total interest income would have been recorded in 2017, compared to less than $0.1 million actually recorded as interest income on those loans.

Loans Modified in a Troubled Debt Restructuring

Table 17 presents information on loans whose terms have been modified in a TDR:

Loans Modified in a Troubled Debt Restructuring **Table 17**

	December 31,	
(dollars in thousands)	**2017**	**2016**
Commercial		
Commercial and Industrial	$ 8,486	$ 10,170
Commercial Mortgage	9,205	9,157
Construction	1,416	1,513
Total Commercial	19,107	20,840
Consumer		
Residential Mortgage	21,581	25,625
Home Equity	1,965	1,516
Automobile	14,811	9,660
Other [1]	2,645	2,326
Total Consumer	41,002	39,127
Total	$ 60,109	$ 59,967

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

Loans modified in a TDR increased by $0.1 million from December 31, 2016. Residential mortgage loans remain our largest TDR loan class. As of December 31, 2017, $55.7 million or 93% of loans modified in a TDR were performing in accordance with their modified contractual terms and were on accrual status.

Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated performance under the modified terms by making at least six consecutive payments. See Note 4 to the Consolidated Financial Statements for a description of the modification programs that we currently offer to our customers.

Reserve for Credit Losses

The Company’s reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the “Unfunded Reserve”). Table 18 presents the activity in the Company’s reserve for credit losses for the years ended December 31:

Reserve for Credit Losses **Table 18**

(dollars in thousands)	2017	2016	2015	2014	2013
Balance at Beginning of Period	$ 110,845	$ 108,952	$ 114,575	$ 121,521	$ 134,276
Loans and Leases Charged-Off					
Commercial					
Commercial and Industrial	(1,408)	(865)	(954)	(2,002)	(8,083)
Lease Financing	—	—	—	(66)	(16)
Consumer					
Residential Mortgage	(729)	(723)	(613)	(771)	(2,013)
Home Equity	(995)	(1,104)	(1,330)	(1,672)	(5,220)
Automobile	(7,737)	(6,355)	(5,860)	(3,961)	(2,131)
Other [1]	(12,386)	(9,462)	(7,682)	(6,967)	(7,657)
Total Loans and Leases Charged-Off	(23,255)	(18,509)	(16,439)	(15,439)	(25,120)
Recoveries on Loans and Leases Previously Charged-Off					
Commercial					
Commercial and Industrial	1,482	8,058	1,948	4,625	1,681
Commercial Mortgage	—	53	61	57	557
Construction	—	23	32	29	365
Lease Financing	3	3	132	10	41
Consumer					
Residential Mortgage	639	1,151	1,297	3,448	3,540
Home Equity	2,681	1,776	2,489	1,637	1,943
Automobile	2,495	2,207	1,917	1,577	1,628
Other [1]	2,128	1,881	1,755	2,154	1,962
Total Recoveries on Loans and Leases Previously Charged-Off	9,428	15,152	9,631	13,537	11,717
Net Loans and Leases Charged-Off	(13,827)	(3,357)	(6,808)	(1,902)	(13,403)
Provision for Credit Losses	16,900	4,750	1,000	(4,864)	—
Provision for Unfunded Commitments	250	500	185	(180)	648
Balance at End of Period [2]	$ 114,168	$ 110,845	$ 108,952	$ 114,575	$ 121,521
Components					
Allowance for Loan and Lease Losses	$ 107,346	$ 104,273	$ 102,880	$ 108,688	$ 115,454
Reserve for Unfunded Commitments	6,822	6,572	6,072	5,887	6,067
Total Reserve for Credit Losses	$ 114,168	$ 110,845	$ 108,952	$ 114,575	$ 121,521
Average Loans and Leases Outstanding	$ 9,346,828	$ 8,362,210	$ 7,423,572	$ 6,405,431	$ 5,883,686
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding	0.15%	0.04%	0.09%	0.03%	0.23%
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	1.10%	1.17%	1.31%	1.58%	1.89%

[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.

Allowance for Loan and Lease Losses

Table 19 presents the allocation of the Allowance by loan and lease category.

Allocation of Allowance for Loan and Lease Losses **Table 19**

(dollars in thousands)	December 31, 2017	2016	2015	2014	2013
Commercial					
Commercial and Industrial	$ 24,750	$ 22,797	$ 22,052	$ 26,822	$ 31,942
Commercial Mortgage	34,890	33,893	31,889	31,118	29,495
Construction	5,109	7,771	5,541	4,927	5,588
Lease Financing	1,073	1,219	1,232	1,684	4,421
Total Commercial	65,822	65,680	60,714	64,551	71,446
Consumer					
Residential Mortgage	6,515	6,435	11,151	14,069	14,631
Home Equity	12,520	13,442	13,118	14,798	13,072
Automobile	10,940	9,763	8,516	4,251	4,016
Other [1]	11,549	8,953	9,381	11,019	12,289
Total Consumer	41,524	38,593	42,166	44,137	44,008
Total Allocation of Allowance for Loan and Lease Losses	$ 107,346	$ 104,273	$ 102,880	$ 108,688	$ 115,454

	December 31, 2017		2016		2015		2014		2013	
	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases	Alloc. Allow. as % of loan or lease category	Loan category as % of total loans and leases
Commercial										
Commercial and Industrial	1.93%	13.06%	1.82%	13.96%	1.98%	14.15%	2.54%	15.30%	3.50%	14.95%
Commercial Mortgage	1.66	21.48	1.79	21.11	1.90	21.29	2.16	20.84	2.36	20.47
Construction	2.53	2.06	2.88	3.02	3.54	1.99	4.51	1.58	5.20	1.76
Lease Financing	0.59	1.85	0.59	2.33	0.60	2.60	0.74	3.28	1.69	4.30
Total Commercial	1.75	38.45	1.82	40.42	1.93	40.03	2.28	41.00	2.83	41.48
Consumer										
Residential Mortgage	0.19	35.39	0.20	35.34	0.38	37.13	0.55	37.28	0.64	37.45
Home Equity	0.79	16.18	1.01	14.91	1.23	13.57	1.71	12.56	1.69	12.69
Automobile	2.07	5.39	2.15	5.08	2.23	4.85	1.31	4.70	1.57	4.20
Other [1]	2.57	4.59	2.35	4.25	2.69	4.42	3.58	4.46	4.83	4.18
Total Consumer	0.69	61.55	0.72	59.58	0.89	59.97	1.08	59.00	1.23	58.52
Total	1.10%	100.00%	1.17%	100.00%	1.31%	100.00%	1.58%	100.00%	1.89%	100.00%

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

As of December 31, 2017, the Allowance was $107.3 million or 1.10% of total loans and leases outstanding, compared with an Allowance of $104.3 million or 1.17% of total loans and leases outstanding as of December 31, 2016. The level of the Allowance was commensurate with the Company's stable credit risk profile, loan portfolio growth and composition, and a healthy Hawaii economy.

Net charge-offs of loans and leases were $13.8 million or 0.15% of total average loans and leases in 2017 compared to $3.4 million or 0.04% of total average loans and leases in 2016. Net charge-offs in our consumer portfolios were $13.9 million in 2017 compared to $10.6 million in 2016. This increase was primarily reflected in our automobile and other consumer portfolios, reflective of the growth and seasoning in these portfolios. Net recoveries in our commercial portfolios were $0.1 million in 2017 compared to net recoveries of $7.3 million in 2016. This decrease is primarily due to the large recovery of one commercial and industrial loan in 2016.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of December 31, 2017 based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios, and other relevant factors.

The allocation of the Allowance to our commercial portfolio segment increased by $0.1 million or less than 1% from December 31, 2016. This increase was primarily due to a $3.0 million increase in the Allowance allocated to the commercial and industrial and commercial mortgage portfolios due to loan growth. The increase was offset by a $2.7 million decrease in the Allowance allocated to the construction portfolio due to the completion of major construction projects and the resultant decline in construction outstandings.

The allocation of the Allowance to our consumer portfolio segment increased by $2.9 million or 8% from December 31, 2016 and is consistent with current asset quality metrics and economic conditions.

See Note 4 to the Consolidated Financial Statements for more information on the Allowance and credit quality indicators.

Reserve for Unfunded Commitments

The Unfunded Reserve was $6.8 million as of December 31, 2017, an increase of $0.3 million or 4% from December 31, 2016. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities.

Other Credit Risks

In the normal course of business, we serve the needs of state and political subdivisions in multiple capacities, including traditional banking products such as deposit services, and by investing in municipal debt securities. The carrying value of our municipal debt securities was $865.5 million as of December 31, 2017 and $914.1 million as of December 31, 2016. We also maintained investments in corporate bonds with a carrying value of $385.7 million as of December 31, 2017 and $404.8 million as of December 31, 2016. We are exposed to credit risk in these investments should the issuer of a security be unable to meet its financial obligations. This may result in the issuer failing to make scheduled interest payments and/or being unable to repay the principal upon maturity. See the “Analysis of Statements of Condition - Investment Securities” section in MD&A for more information.

Our use of derivative financial instruments has been very limited in recent years. However, these financial instruments do expose the Company to counterparty credit risk. See Note 17 to the Consolidated Financial Statements for more information.

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 statement of condition 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 17 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 20 presents, for the twelve months subsequent to December 31, 2017 and 2016, an estimate of the change in net interest income that would result from a gradual and immediate change in interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes the statement of condition and interest rates are generally unchanged. Based on our net interest income simulation as of December 31, 2017, net interest income is expected to increase as interest rates rise. This is due in part to our strategy to maintain a relatively short investment portfolio duration. In addition, rising interest rates would drive higher rates on loans and investment securities, as well as induce a slower pace of premium amortization on certain securities within our investment portfolio. However, lower interest rates would likely cause a decline in net interest income as lower rates would lead to lower yields on loans and investment securities, as well as drive higher premium amortization on existing investment securities. Since deposit costs are already at low levels, we believe that lower interest rates are unlikely to significantly impact our funding costs. Based on our net interest income simulation as of December 31, 2017, net interest income sensitivity to changes in interest rates for the twelve months subsequent to December 31, 2017 was less sensitive in comparison to the sensitivity profile for the twelve months subsequent to December 31, 2016.

Net Interest Income Sensitivity Profile **Table 20**

	Impact on Future Annual Net Interest Income			
(dollars in thousands)	December 31, 2017		December 31, 2016	
Gradual Change in Interest Rates (basis points)				
+200	$ 12,420	2.6%	$ 17,752	4.1%
+100	6,622	1.4	8,524	1.9
-100	(6,789)	(1.4)	(10,810)	(2.5)
Immediate Change in Interest Rates (basis points)				
+200	$ 29,876	6.2%	$ 45,372	10.4%
+100	16,328	3.4	22,090	5.0
-100	(21,653)	(4.5)	(27,888)	(6.4)

To analyze the impact of changes in interest rates in a more realistic manner, non-parallel interest rate scenarios are also simulated. These non-parallel interest rate scenarios indicate that net interest income may decrease from the base case scenario should the yield curve flatten or become inverted for a period of time. Conversely, if the yield curve 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 is 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 December 31, 2017, we could have borrowed an additional $2.0 billion from the FHLB and an additional $529.8 million from the FRB based on the amount of collateral pledged.

We continued our focus on maintaining a strong liquidity position throughout 2017. As of December 31, 2017, cash and cash equivalents were $447.9 million, the carrying value of our available-for-sale investment securities was $2.2 billion, and total deposits were $14.9 billion. As of December 31, 2017, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 2.3 years.

Capital Management

We actively manage capital, commensurate with our risk profile, in our efforts 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 December 31, 2017, the Company's capital levels remained characterized as "well-capitalized." The Company's regulatory capital ratios are presented in Table 21 below. There have been no conditions or events since December 31, 2017 that management believes have changed either the Company's or the Bank's capital classifications.

As of December 31, 2017, shareholders' equity was $1.2 billion, an increase of $70.3 million or 6% from December 31, 2016. Earnings for 2017 of $184.7 million, common stock issuances of $13.2 million, and share-based compensation of $7.4 million were offset by cash dividends paid of $87.1 million, common stock repurchases of $47.1 million, and other comprehensive loss of

$0.8 million. In 2017, included in the amount of common stock repurchased were 549,199 shares repurchased under our share repurchase program. These shares were repurchased at an average cost per share of $81.91 and a total cost of $45.0 million. From the beginning of our share repurchase program in July 2001 through December 31, 2017, we repurchased a total of 54.2 million shares of common stock and returned total over $2.0 billion to our shareholders at an average cost of $38.29 per share.

From January 1, 2018 through February 16, 2018, the Parent repurchased an additional 80,000 shares of common stock at an average cost of $84.27 per share and a total cost of $6.7 million. Remaining buyback authority was $113.3 million as of February 16, 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 January 2018, the Parent's Board of Directors declared a quarterly cash dividend of $0.52 per share on the Parent's outstanding shares. The dividend will be payable on March 14, 2018 to shareholders of record at the close of business on February 28, 2018.

Table 21 presents a five-year history of activities and balances in our capital accounts, along with key capital ratios.

Shareholders' Equity and Regulatory Capital **Table 21**

	December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Change in Shareholders' Equity					
Net Income	$ 184,672	$ 181,461	$ 160,704	$ 163,042	$ 150,502
Cash Dividends Paid	(87,066)	(81,157)	(78,367)	(79,660)	(80,534)
Dividend Reinvestment Program	4,360	4,271	4,316	4,479	4,656
Common Stock Repurchased	(47,076)	(61,807)	(52,981)	(64,046)	(39,655)
Other[1]	15,441	2,509	27,502	19,295	(44,658)
Increase (Decrease) in Shareholders' Equity	$ 70,331	$ 45,277	$ 61,174	$ 43,110	$ (9,689)
Regulatory Capital[2]					
Shareholders' Equity	$ 1,231,868	$1,161,537	$ 1,116,260	$ 1,055,086	$ 1,011,976
Less: Goodwill[3]	28,718	27,413	27,416	31,517	31,517
Postretirement Benefit Liability Adjustments	(27,715)	(28,892)	(28,860)	(34,115)	(22,394)
Net Unrealized Gains (Losses) on Investment Securities[4]	(7,000)	(5,014)	5,304	15,984	(1,300)
Other	(198)	(198)	(198)	2,069	(137)
Common Equity Tier 1 Capital	1,238,063	1,168,228	1,112,598	N/A	N/A
Tier 1 Capital	1,238,063	1,168,228	1,112,598	1,039,631	1,004,290
Allowable Reserve for Credit Losses	114,168	110,300	99,647	88,785	78,761
Total Regulatory Capital	$ 1,352,231	$1,278,528	$ 1,212,245	$ 1,128,416	$ 1,083,051
Risk-Weighted Assets[2]	$ 9,348,296	$8,823,485	$ 7,962,484	$ 7,077,035	$ 6,258,143
Key Regulatory Capital Ratios[2]					
Common Equity Tier 1 Capital Ratio	13.24%	13.24%	13.97%	N/A%	N/A%
Tier 1 Capital Ratio	13.24	13.24	13.97	14.69	16.05
Total Capital Ratio	14.46	14.49	15.22	15.94	17.31
Tier 1 Leverage Ratio	7.26	7.21	7.26	7.13	7.24

[1] Includes unrealized gains and losses on available-for-sale investment securities, minimum pension liability adjustments, and common stock issuances under share-based compensation and related tax benefits.
[2] December 31, 2017, 2016, and 2015 calculated under Basel III rules, which became effective January 1, 2015.
[3] December 31, 2017, 2016, and 2015 calculated net of deferred tax liabilities.
[4] December 31, 2017, 2016, and 2015 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 Basel Committee on Banking Supervision's ("BCBS") capital guidelines for U.S. banks. Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Company. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer began phasing in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. The final rules also revised the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules' requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. As of December 31, 2017, the Company's capital levels remained characterized as "well-capitalized" under the new rules.

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

Stress Testing

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

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

We submitted our latest stress testing results to the FRB on July 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.

Deposit Insurance Fund ("DIF") Assessment

In March 2016, the FDIC approved a final rule that imposes on banks with at least $10 billion in assets, such as the Company, a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The surcharge became effective for the third quarter of 2016 and the FDIC estimates the surcharge will be imposed for approximately two years. The surcharge takes effect at the same time that the regular FDIC insurance assessment rates for all banks decline under a rule adopted by the FDIC in 2011. We estimate that the net effect of the FDIC assessment changes noted above will reduce our annual FDIC insurance expense by approximately $1.0 million.

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 and Guarantees

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 tax credit partnership investments. 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. See discussion of our accounting policy related to VIEs in Note 1 to the Consolidated Financial Statements.

Guarantees

We pool Federal Housing Administration ("FHA") insured and U.S. Department of Veterans Affairs ("VA") guaranteed residential mortgage loans for sale to Ginnie Mae. We also sell residential mortgage loans in the secondary market to Fannie Mae. The agreements under which we sell residential mortgage loans to Ginnie Mae or Fannie Mae and the insurance or guaranty agreements with the FHA and VA contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse the respective investor if it is found that required documents were not delivered or were defective.

We also service substantially all of the loans we sell to investors in the secondary market. Each agreement under which we act as servicer generally specifies a standard of responsibility for our actions and provides protection against expenses and liabilities incurred by us when acting in compliance with the respective servicing agreements. However, if we commit a material breach of obligations as servicer, we may be subject to various penalties which may include the repurchase of an affected loan or a reimbursement to the respective investor.

See discussion of our risks related to representation and warranty provisions as well as our risks related to residential mortgage loan servicing activities in Note 20 to the Consolidated Financial Statements.

Contractual Obligations

Our contractual obligations as of December 31, 2017 were as follows:

Contractual Obligations [1]					**Table 22**
(dollars in thousands)	**Less Than One Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Contractual Obligations					
Deposits with No Stated Maturity	$ 13,195,876	$ —	$ —	$ —	$ 13,195,876
Time Deposits	1,398,406	146,087	134,840	8,759	1,688,092
Securities Sold Under Agreements to Repurchase	5,293	150,000	350,000	0	505,293
Other Debt	175,000	75,000	—	—	250,000
Banker's Acceptances Outstanding	106	—	—	—	106
Capital Lease Obligations	825	1,650	1,650	24,755	28,880
Non-Cancelable Operating Leases	12,521	20,867	18,259	97,836	149,483
Purchase Obligations	15,583	21,792	11,248	4,657	53,280
Affordable Housing Commitments	13,647	2,944	60	802	17,453
Pension and Postretirement Benefit Contributions [2]	1,335	2,734	2,957	8,967	15,993
Total Contractual Obligations	$ 14,818,592	$ 421,074	$ 519,014	$ 145,776	$ 15,904,456

1 Our liability for unrecognized tax benefits ("UTBs") as of December 31, 2017 was $5.3 million. We were unable to reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not included in this disclosure.
2 Amounts only include obligations related to the unfunded non-qualified pension plan and postretirement benefit plan.

Commitments to extend credit, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon; therefore, these items are not included in the above table (see Note 20 to the Consolidated Financial Statements for more information). Our non-cancelable operating leases and capital lease obligations are primarily related to branch premises, equipment, and a portion of the Company's headquarters' building with lease terms extending through 2052. Purchase obligations arise from agreements to purchase goods or services that are enforceable and legally binding. Other contracts included in purchase obligations primarily consist of service agreements for various systems and applications supporting bank operations. Pension and postretirement benefit contributions represent the minimum expected contribution to the unfunded non-qualified pension plan and postretirement benefit plan. Actual contributions may differ from these estimates.

See discussion of credit, lease, and other contractual commitments in Note 20 to the Consolidated Financial Statements.

Future Application of Accounting Pronouncements

See discussion of the expected impact of accounting pronouncements recently issued but that we have not adopted as of December 31, 2017 in Note 1 to the Consolidated Financial Statements.

Selected Quarterly Consolidated Financial Data

Table 23 presents our selected quarterly financial data for 2017 and 2016.

Condensed Statements of Income **Table 23**

	Three Months Ended 2017				Three Months Ended 2016			
(dollars in thousands, except per share amounts)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest Income	$ 131,613	$ 128,761	$ 123,568	$ 119,852	$ 117,067	$ 113,979	$ 113,785	$ 113,069
Interest Expense	12,843	12,444	11,289	9,980	9,974	10,067	10,235	10,045
Net Interest Income	118,770	116,317	112,279	109,872	107,093	103,912	103,550	103,024
Provision for Credit Losses	4,250	4,000	4,250	4,400	3,250	2,500	1,000	(2,000)
Investment Securities Gains (Losses), Net	(617)	(566)	(520)	12,133	(337)	(328)	(312)	11,180
Noninterest Income	42,472	42,976	45,756	43,783	46,840	48,442	46,831	45,027
Noninterest Expense	92,336	88,598	88,189	88,568	89,589	87,532	86,071	87,386
Income Before Provision for Income Taxes	64,039	66,129	65,076	72,820	60,757	61,994	62,998	73,845
Provision for Income Taxes	21,086	20,248	20,414	21,644	17,244	18,501	18,753	23,635
Net Income	$ 42,953	$ 45,881	$ 44,662	$ 51,176	$ 43,513	$ 43,493	$ 44,245	$ 50,210
Per Common Share								
Basic Earnings Per Share	$ 1.02	$ 1.09	$ 1.05	$ 1.21	$ 1.03	$ 1.02	$ 1.04	$ 1.17
Diluted Earnings Per Share	$ 1.01	$ 1.08	$ 1.05	$ 1.20	$ 1.02	$ 1.02	$ 1.03	$ 1.16
Dividends Declared Per Share	$ 0.52	$ 0.52	$ 0.50	$ 0.50	$ 0.48	$ 0.48	$ 0.48	$ 0.45
Performance Ratios								
Net Income to Average Total Assets (ROA)	1.00 %	1.07 %	1.09 %	1.26 %	1.07 %	1.09 %	1.14 %	1.30 %
Net Income to Average Shareholders’ Equity (ROE)	13.85	14.89	14.87	17.63	14.90	14.89	15.56	17.88
Efficiency Ratio [1]	57.49	55.82	55.99	53.42	58.33	57.58	57.35	54.88
Net Interest Margin [2]	2.98	2.92	2.92	2.89	2.83	2.80	2.85	2.86

1 The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

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

Fourth Quarter Results and Other Matters

Net Income

Net income for the fourth quarter of 2017 was $43.0 million, a decrease of $0.6 million or 1% compared to the fourth quarter of 2016. Diluted earnings per share were $1.01 for the fourth quarter of 2017, a decrease of $0.01 or 1% compared to the fourth quarter of 2016.

Net Interest Income

Net interest income, on a taxable-equivalent basis, for the fourth quarter of 2017 was $121.6 million, an increase of $11.5 million or 10% compared to the fourth quarter of 2016. This increase was primarily due to a higher level of earning assets, including growth in both our commercial and consumer lending portfolios. The higher level of earning assets was primarily due to higher deposit balances. Net interest margin was 2.98% for the fourth quarter of 2017, an increase of 15 basis point compared to the fourth quarter of 2016, primarily due to our loans, which generally have higher yields than our investment securities, comprising a larger percentage of our earning assets compared to 2016. In addition, yields increased for our commercial loans and investment portfolio. Yields on our loan portfolios increased primarily due to higher yields on floating rate loans.

Provision for Credit Losses

We recorded a Provision of $4.3 million in the fourth quarter of 2017 compared to a Provision of $3.3 million recorded in the fourth quarter of 2016, while recording net charge-offs of loans and leases of $3.8 million and $3.0 million in the fourth quarters of 2017 and 2016, respectively. The Provision recorded was based on our determination that the allowance for loan and lease losses should be $107.3 million as of December 31, 2017.

Noninterest Income

Noninterest income, other than net gains on sales of investment securities, was $42.5 million in the fourth quarter of 2017, a decrease of $4.4 million or 9% compared to the fourth quarter of 2016. This decrease was primarily due to a $3.7 million decrease in mortgage banking income. This decrease was primarily due to reduced sales and margins on sales of conforming saleable loans from current production and from our mortgage loan portfolio.

Noninterest Expense

Noninterest expense was $92.3 million in the fourth quarter of 2017, an increase of $2.7 million or 3% compared to the fourth quarter of 2016. Salaries and benefit expense increased by $1.6 million primarily due to merit increases and a $2.2 million holiday bonus, inclusive of payroll taxes, paid in fourth quarter 2017. Net occupancy increased by $0.9 million primarily due to a $1.0 million decrease in net gain on sale of real property compared to 2016 and a $0.6 increase in data processing expense. These increases were partially offset by a $0.6 million decrease in solar energy tax credit partnership amortization expense.

Provision for Income Taxes

The provision for income taxes was $21.1 million in the fourth quarter of 2017, an increase of $3.8 million or 22% compared to the fourth quarter of 2016. The effective tax rate for the fourth quarter of 2017 was 32.93% compared with an effective tax rate of 28.38% for the fourth quarter of 2016. The higher effective rate in the fourth quarter of 2017 compared to the same period of 2016 was primarily due to a $3.6 million charge for the write down of net deferred tax assets as a result of the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017. The fourth quarter of 2016 was favorably impacted by a $1.5 million credit to the provision for income taxes resulting from the release of state tax reserves due to the lapse in the statute of limitations related to prior tax years. These items were partially offset by a $2.7 million increase in the release of valuation allowance for low income housing investments in the fourth quarter of 2017 compared to the same period of 2016.

Common Stock Repurchase Program

In the fourth quarter of 2017, we repurchased 128,633 shares of our common stock under our share repurchase program at an average cost per share of $82.59 and a total cost of $10.6 million. See Note 11 to the Consolidated Financial Statements for more information related to our common stock repurchase program.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See the Market Risk section in Management's Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this report.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Bank of Hawaii Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bank of Hawaii Corporation and subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1971.
Honolulu, Hawaii
February 28, 2018

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31,		
(dollars in thousands, except per share amounts)	**2017**	**2016**	**2015**
Interest Income			
Interest and Fees on Loans and Leases	$ 370,441	$ 333,239	$ 298,522
Income on Investment Securities			
Available-for-Sale	46,772	41,892	41,492
Held-to-Maturity	81,740	79,087	89,650
Deposits	15	9	8
Funds Sold	3,882	2,861	1,133
Other	944	812	1,305
Total Interest Income	503,794	457,900	432,110
Interest Expense			
Deposits	22,332	12,647	9,626
Securities Sold Under Agreements to Repurchase	19,592	23,406	25,364
Funds Purchased	123	12	12
Short-Term Borrowings	64	—	—
Other Debt	4,445	4,256	3,021
Total Interest Expense	46,556	40,321	38,023
Net Interest Income	457,238	417,579	394,087
Provision for Credit Losses	16,900	4,750	1,000
Net Interest Income After Provision for Credit Losses	440,338	412,829	393,087
Noninterest Income			
Trust and Asset Management	45,430	46,203	47,685
Mortgage Banking	12,949	19,895	11,583
Service Charges on Deposit Accounts	32,575	33,654	34,072
Fees, Exchange, and Other Service Charges	54,845	55,176	53,353
Investment Securities Gains, Net	10,430	10,203	10,160
Annuity and Insurance	6,858	7,017	7,664
Bank-Owned Life Insurance	6,517	6,561	7,039
Other	15,813	18,634	14,663
Total Noninterest Income	185,417	197,343	186,219
Noninterest Expense			
Salaries and Benefits	205,536	201,150	191,963
Net Occupancy	32,536	30,252	30,217
Net Equipment	22,078	20,578	20,162
Data Processing	15,483	15,208	16,472
Professional Fees	11,681	10,072	9,660
FDIC Insurance	8,666	8,615	8,669
Other	61,711	64,703	70,961
Total Noninterest Expense	357,691	350,578	348,104
Income Before Provision for Income Taxes	268,064	259,594	231,202
Provision for Income Taxes	83,392	78,133	70,498
Net Income	$ 184,672	$ 181,461	$ 160,704
Basic Earnings Per Share	$ 4.37	$ 4.26	$ 3.72
Diluted Earnings Per Share	$ 4.33	$ 4.23	$ 3.70
Dividends Declared Per Share	$ 2.04	$ 1.89	$ 1.80
Basic Weighted Average Shares	42,280,931	42,644,100	43,217,818
Diluted Weighted Average Shares	42,607,057	42,879,783	43,454,877

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

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Net Income	$ 184,672	$ 181,461	$ 160,704
Other Comprehensive Income (Loss), Net of Tax:			
Net Unrealized Gains (Losses) on Investment Securities	(1,986)	(10,318)	(2,125)
Defined Benefit Plans	1,177	(31)	5,254
Other Comprehensive Income (Loss)	(809)	(10,349)	3,129
Comprehensive Income	$ 183,863	$ 171,112	$ 163,833

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

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Condition

(dollars in thousands)		December 31, 2017		December 31, 2016
Assets				
Interest-Bearing Deposits in Other Banks	$	3,421	$	3,187
Funds Sold		181,413		707,343
Investment Securities				
Available-for-Sale		2,232,979		2,186,041
Held-to-Maturity (Fair Value of $3,894,121 and $3,827,527)		3,928,170		3,832,997
Loans Held for Sale		19,231		62,499
Loans and Leases		9,796,947		8,949,785
Allowance for Loan and Lease Losses		(107,346)		(104,273)
Net Loans and Leases		9,689,601		8,845,512
Total Earning Assets		16,054,815		15,637,579
Cash and Due From Banks		263,017		169,077
Premises and Equipment, Net		130,926		113,505
Accrued Interest Receivable		50,485		46,444
Foreclosed Real Estate		1,040		1,686
Mortgage Servicing Rights		24,622		23,663
Goodwill		31,517		31,517
Bank-Owned Life Insurance		280,034		274,188
Other Assets		252,596		194,708
Total Assets	$	17,089,052	$	16,492,367
Liabilities				
Deposits				
Noninterest-Bearing Demand	$	4,724,300	$	4,772,727
Interest-Bearing Demand		3,082,563		2,934,107
Savings		5,389,013		5,395,699
Time		1,688,092		1,217,707
Total Deposits		14,883,968		14,320,240
Funds Purchased		—		9,616
Securities Sold Under Agreements to Repurchase		505,293		523,378
Other Debt		260,716		267,938
Retirement Benefits Payable		37,312		48,451
Accrued Interest Payable		6,946		5,334
Taxes Payable and Deferred Taxes		24,009		21,674
Other Liabilities		138,940		134,199
Total Liabilities		15,857,184		15,330,830
Commitments, Contingencies, and Guarantees (Note 20)				
Shareholders' Equity				
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: December 31, 2017 - 57,959,074 / 42,401,443 and December 31, 2016 - 57,856,672 / 42,635,978)		576		576
Capital Surplus		561,161		551,628
Accumulated Other Comprehensive Loss		(34,715)		(33,906)
Retained Earnings		1,512,218		1,415,440
Treasury Stock, at Cost (Shares: December 31, 2017 - 15,557,631 and December 31, 2016 - 15,220,694)		(807,372)		(772,201)
Total Shareholders' Equity		1,231,868		1,161,537
Total Liabilities and Shareholders' Equity	$	17,089,052	$	16,492,367

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

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

(dollars in thousands except share amounts)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2014	43,724,208	$ 574	$ 531,932	$ (26,686)	$1,234,801	$(685,535)	$1,055,086
Net Income	—	—	—	—	160,704	—	160,704
Other Comprehensive Income	—	—	—	3,129	—	—	3,129
Share-Based Compensation	—	—	7,689	—	—	—	7,689
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	401,904	1	2,420	—	(878)	19,457	21,000
Common Stock Repurchased	(843,959)	—	—	—	—	(52,981)	(52,981)
Cash Dividends Declared ($1.80 per share)	—	—	—	—	(78,367)	—	(78,367)
Balance as of December 31, 2015	43,282,153	$ 575	$ 542,041	$ (23,557)	$1,316,260	$(719,059)	$1,116,260
Net Income	—	—	—	—	181,461	—	181,461
Other Comprehensive Loss	—	—	—	(10,349)	—	—	(10,349)
Share-Based Compensation	—	—	6,786	—	—	—	6,786
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	259,985	1	2,801	—	(1,124)	8,665	10,343
Common Stock Repurchased	(906,160)	—	—	—	—	(61,807)	(61,807)
Cash Dividends Declared ($1.89 per share)	—	—	—	—	(81,157)	—	(81,157)
Balance as of December 31, 2016	42,635,978	$ 576	$ 551,628	$ (33,906)	$1,415,440	$(772,201)	$1,161,537
Net Income	—	—	—	—	184,672	—	184,672
Other Comprehensive Loss	—	—	—	(809)	—	—	(809)
Share-Based Compensation	—	—	7,369	—	—	—	7,369
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	337,091	—	2,164	—	(828)	11,905	13,241
Common Stock Repurchased	(571,626)	—	—	—	—	(47,076)	(47,076)
Cash Dividends Declared ($2.04 per share)	—	—	—	—	(87,066)	—	(87,066)
Balance as of December 31, 2017	42,401,443	$ 576	$ 561,161	$ (34,715)	$1,512,218	$(807,372)	$1,231,868

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

Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Operating Activities			
Net Income	$ 184,672	$ 181,461	$ 160,704
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Credit Losses	16,900	4,750	1,000
Impairment of Equipment Held for Sale	—	—	9,453
Depreciation and Amortization	13,048	12,871	12,785
Amortization of Deferred Loan and Lease Fees	(1,031)	(1,467)	(1,896)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	39,186	43,728	49,698
Share-Based Compensation	7,369	6,786	7,689
Benefit Plan Contributions	(11,454)	(1,284)	(1,974)
Deferred Income Taxes	4,177	7,187	(6,517)
Net Gains on Sales of Loans and Leases	(6,780)	(11,113)	(4,139)
Net Gains on Investment Securities	(10,430)	(10,203)	(10,160)
Proceeds from Sales of Loans Held for Sale	323,784	273,597	86,338
Originations of Loans Held for Sale	(326,195)	(280,391)	(81,224)
Net Tax Benefits from Share-Based Compensation	2,521	—	—
Excess Tax Benefits from Share-Based Compensation	—	(1,153)	(1,076)
Net Change in Other Assets and Other Liabilities	(60,622)	1,760	13,331
Net Cash Provided by Operating Activities	175,145	226,529	234,012
Investing Activities			
Investment Securities Available-for-Sale:			
Proceeds from Prepayments and Maturities	354,804	398,405	413,587
Proceeds from Sales	10,435	10,430	67,985
Purchases	(427,061)	(367,346)	(468,573)
Investment Securities Held-to-Maturity:			
Proceeds from Prepayments and Maturities	882,748	806,339	979,007
Purchases	(995,076)	(677,652)	(518,664)
Net Change in Loans and Leases	(954,984)	(1,263,749)	(1,092,118)
Proceeds from Sales of Loans	137,717	147,898	101,803
Premises and Equipment, Net	(30,470)	(15,177)	(14,130)
Net Cash Used in Investing Activities	(1,021,887)	(960,852)	(531,103)
Financing Activities			
Net Change in Deposits	563,728	1,069,137	618,014
Net Change in Short-Term Borrowings	(27,701)	(103,196)	(60,870)
Proceeds from Other Debt	—	75,000	175,000
Repayments of Other Debt	—	(50,000)	(100,000)
Excess Tax Benefits from Share-Based Compensation	—	1,153	1,076
Proceeds from Issuance of Common Stock	13,101	9,079	15,364
Repurchase of Common Stock	(47,076)	(61,807)	(52,981)
Cash Dividends Paid	(87,066)	(81,157)	(78,367)
Net Cash Provided by Financing Activities	414,986	858,209	517,236
Net Change in Cash and Cash Equivalents	(431,756)	123,886	220,145
Cash and Cash Equivalents at Beginning of Period	879,607	755,721	535,576
Cash and Cash Equivalents at End of Period	$ 447,851	$ 879,607	$ 755,721
Supplemental Information			
Cash Paid for Interest	$ 44,945	$ 39,482	$ 37,419
Cash Paid for Income Taxes	67,883	57,005	72,740
Non-Cash Investing and Financing Activities:			
Transfer from Loans to Foreclosed Real Estate	2,559	1,058	676
Transfers from Loans to Loans Held for Sale	86,625	189,972	101,803

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

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 majority of the Company's operations consist of customary commercial and consumer banking services including, but not limited to, lending, leasing, deposit services, trust and investment activities, brokerage services, and trade financing.

The accounting and reporting principles of the Company conform to U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the financial services industry. 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.

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

The following is a summary of the Company's significant accounting policies:

Consolidation

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"). All significant intercompany accounts and transactions have been eliminated in consolidation.

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 $17.5 million and $16.2 million as of December 31, 2017 and 2016, respectively. These unfunded commitments are unconditional and legally binding and are recorded in other liabilities in the consolidated statements of condition. See Note 18 *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 6 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 $87.6 million and $78.9 million as of December 31, 2017 and 2016, respectively, and is included in other assets in the consolidated statements of condition.

Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Company held no trading securities as of December 31, 2017 and 2016. Available-for-sale investment securities, comprised of debt and mortgage-backed securities, are those that may be sold before maturity due to changes in the Company's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held-to-maturity investment securities, comprised of debt and mortgage-backed securities, are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost.

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

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

Other-Than-Temporary-Impairments of Investment Securities

The Company conducts an other-than-temporary-impairment ("OTTI") analysis of investment securities on a quarterly basis or more often if a potential loss-triggering event occurs. A write-down of a debt security is recorded when fair value is below amortized cost in circumstances where: (1) the Company has the intent to sell a security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell a security or if it is more likely than not that the Company will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. To determine the amount related to credit loss on a debt security, the Company applies a methodology similar to that used for evaluating the impairment of loans. As of December 31, 2017, management determined that the Company did not own any investment securities that were other-than-temporarily-impaired.

Loans Held for Sale

Residential mortgage loans with the intent to be sold in the secondary market are accounted for on an aggregate basis under the fair value option. Fair value is primarily determined based on quoted prices for similar loans in active markets. Non-refundable fees and direct loan origination costs related to residential mortgage loans held for sale are recognized as part of the cost basis of the loan at the time of sale. Gains and losses on sales of residential mortgage loans (sales proceeds minus carrying value) are recorded in the mortgage banking component of noninterest income.

Commercial loans that management has an active plan to sell are valued on an individual basis at the lower-of-cost-or fair value. Fair value is primarily determined based on quoted prices for similar loans in active markets or agreed upon sales prices. Any reduction in the loan's value, prior to being transferred to the held-for-sale category, is reflected as a charge-off of the recorded investment in the loan resulting in a new cost basis, with a corresponding reduction in the allowance for loan and lease losses. Further decreases in the fair value of the loan are recognized in noninterest expense.

Loans and Leases

Loans are reported at the principal amount outstanding, net of unearned income including unamortized deferred loan fees and costs, and cumulative net charge-offs. Interest income is recognized on an accrual basis. Loan origination fees, certain direct costs, and unearned discounts and premiums, if any, are deferred and are generally amortized into interest income as yield adjustments using the interest method over the contractual life of the loan. Loan commitment fees are generally recognized into noninterest income. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Direct financing leases are carried at the aggregate of lease payments receivable plus the estimated residual value of leased property, less unearned income. Leveraged leases, which are a form of direct financing leases, are carried net of non-recourse debt. Unearned income on direct financing and leveraged leases is amortized over the lease term by methods that approximate the interest method. Residual values on leased assets are periodically reviewed for impairment.

Portfolio segments are defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan and lease losses (the "Allowance"). Management has determined that the Company has two portfolio segments of loans and leases (commercial and consumer) in determining the Allowance. Both quantitative and qualitative factors are used by management at the portfolio segment level in determining the adequacy of the Allowance for the Company. Classes of loans and leases are a disaggregation of a Company's portfolio segments. Classes are defined as a group of loans and leases which share similar initial measurement attributes, risk characteristics, and methods for monitoring and assessing credit risk. Management has determined that the Company has eight classes of loans and leases (commercial and industrial, commercial mortgage, construction, lease financing, residential mortgage, home equity, automobile, and other). The "other" class of loans and leases is comprised of revolving credit, credit cards, installment, and lease financing arrangements.

Non-Performing Loans and Leases

Generally, all classes of commercial loans and leases are placed on non-accrual status upon becoming contractually past due 90 days as to principal or interest (unless loans and leases are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), when terms are renegotiated below market levels, or where substantial doubt about full repayment of principal or interest is evident. For residential mortgage and home equity loan classes, loans past due 120 days as to principal or interest may be placed on non-accrual status, and a partial charge-off may be recorded, depending on the collateral value and/or the collectability of the loan. For automobile and other consumer loan classes, the entire outstanding balance of the loan is charged off when the loan becomes 120 days past due (180 days past due for credit cards) as to principal or interest.

When a loan or lease is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. A loan or lease may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan or lease agreement and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral.

For the pooled segment of the Company's commercial and industrial loan class, which consists of small business loans, the entire outstanding balance of the loan remains on accrual status until it is charged off during the month that the loan becomes 120 days past due as to principal or interest. As previously mentioned, for residential mortgage and home equity loan classes, a partial charge-off may be recorded at 120 days past due as to principal or interest depending on the collateral value and/or the collectability of the loan. In the event that a loan or line in the home equity loan class is behind another financial institution's first mortgage, the entire outstanding balance of the loan is charged off when the loan becomes 120 days past due as to principal or interest, unless the combined loan-to-value ratio is 60% or less. As noted above, loans in the automobile and other consumer loan classes are charged off in its entirety upon the loan becoming 120 days past due (180 days past due for credit cards) as to principal or interest.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans include all classes of commercial non-accruing loans (except lease financing and small business loans), and all loans modified in a troubled debt restructuring. Impaired loans exclude lease financing and smaller balance homogeneous loans (consumer and small business non-accruing loans) that are collectively evaluated for impairment.

For all classes of commercial loans, a quarterly evaluation of individual commercial borrowers is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk.

When a loan has been identified as being impaired, the amount of impairment 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. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), impairment is recognized by establishing or adjusting an existing allocation of the Allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified in a Troubled Debt Restructuring

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Company makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a troubled debt restructuring remains on non-accrual status for a period of at least 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the Allowance and the reserve for unfunded commitments (the "Unfunded Reserve").

Allowance for Loan and Lease Losses

The Company maintains an Allowance adequate to cover management's estimate of probable credit losses as of the balance sheet date. Loans and leases that are charged off reduce the Allowance while recoveries of loans and leases previously charged off increase the Allowance. Other changes to the level of the Allowance are recognized through charges or credits to the provision for credit losses (the "Provision"). The Allowance considers both unimpaired and impaired loans and is developed and documented at the portfolio segment level (commercial and consumer).

The level of the Allowance related to the Company's commercial portfolio segment is generally based on the credit risk ratings and historical loss experience of individual borrowers. This is supplemented as necessary by credit judgment to address observed changes in trends and conditions, and other relevant environmental and economic factors that may affect the collectability of loans and leases. Excluding those loans and leases evaluated individually for impairment, the Company's remaining commercial loans and leases are pooled and collectively evaluated for impairment based on business unit and internal risk rating segmentation.

The level of the Allowance related to the Company's consumer portfolio segment is generally based on analyses of homogeneous pools of loans and leases. Loans and leases are pooled based on similar loan and lease risk characteristics for collective evaluation of impairment. Loss estimates are calculated based on historical rolling average loss rates and average delinquency flows to loss. Consumer loans that have been individually evaluated for impairment or modified in a troubled debt restructuring are excluded from the homogeneous pools. Impairment related to such loans is generally determined based on the present value of expected future cash flows discounted at the loan's original effective interest rate.

The Allowance also includes an estimate for inherent losses not reflected in the historical analyses. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of net charge-offs. In addition, the Company uses a variety of other tools to estimate probable credit losses including, but not limited to, a rolling quarterly forecast of asset quality metrics; stress testing; and performance indicators based on the Company's own experience, peers, or other industry sources.

Reserve for Unfunded Commitments

The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include banker's acceptances, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance, as adjusted for estimated funding probabilities or loan and lease equivalency factors. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization.

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives generally range up to 30 years for buildings and up to 10 years for equipment. Capitalized leased assets and leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Repairs and maintenance are charged to expense as incurred, while improvements which extend the estimated useful life of the asset are capitalized and depreciated over the estimated remaining life of the asset.

Premises and equipment are periodically evaluated for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of premises and equipment are less than its carrying amount. In that event, the Company records a loss for the difference between the carrying amount and the fair value of the asset based on quoted market prices, if applicable, or a discounted cash flow analysis.

Foreclosed Real Estate

Foreclosed real estate consists of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure. These properties are recorded at fair value less estimated costs to sell the property. If the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the Allowance. If the fair value of the property at the time of acquisition exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the Allowance if a charge-off had previously been recorded, or as a gain on initial transfer in other noninterest income. Subsequent decreases in the property's fair value and operating expenses of the property are recognized through charges to other noninterest expense. The fair value of the property acquired is based on third party appraisals, broker price opinions, recent sales activity, or a combination thereof, subject to management judgment.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as assets when mortgage loans are sold and the rights to service those loans are retained. Mortgage servicing rights are initially recorded at fair value by using a discounted cash flow model to calculate the present value of estimated future net servicing income.

The Company's mortgage servicing rights accounted for under the fair value method are carried on the statements of condition at fair value with changes in fair value recorded in mortgage banking income in the period in which the change occurs. Changes in the fair value of mortgage servicing rights are primarily due to changes in valuation inputs, assumptions, and the collection and realization of expected cash flows.

The Company's mortgage servicing rights accounted for under the amortization method are initially recorded at fair value. However, these mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the mortgage servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these mortgage servicing rights exceeds fair value.

Goodwill

Goodwill is initially recorded as the excess of the purchase price over the fair value of the net assets acquired in a business combination and is subsequently evaluated at least annually for impairment. Goodwill impairment testing is performed at the reporting unit level, equivalent to a business segment or one level below. The Company has goodwill assigned to the following reporting units: Investment Services and Retail Banking.

The Company performs its annual evaluation of goodwill impairment in the fourth quarter of each year and on an interim basis if events or changes in circumstances indicate that there may be impairment. The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors considered include, but are not limited to, macroeconomic and State of Hawaii economic conditions, industry and market conditions and trends, the Company's financial performance, market capitalization, stock price, and any Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that an impairment exists, no further testing is performed; otherwise an impairment test is performed. Prior to 2017, the goodwill impairment test was a two-step test. The first step compared the estimated fair value of identified reporting units with their carrying amount, including goodwill. If the estimated fair value of a reporting unit was less than the carrying value, the second step was required to determine the implied fair value of the reporting unit's goodwill and the amount of goodwill impairment, if any. In 2017, the Company elected to early adopt ASU No. 2017-04, *"Simplifying the Test for Goodwill Impairment."* The guidance removed Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance remained largely unchanged. Subsequent reversals of goodwill impairment are prohibited. For the year ended December 31, 2017, the Company's goodwill impairment evaluation, based on its qualitative assessment, indicated there was no impairment.

Non-Marketable Equity Securities

The Company is required to own Federal Home Loan Bank ("FHLB") of Des Moines and Federal Reserve Bank ("FRB") stock as a condition of membership. These non-marketable equity securities are accounted for at cost which equals par or redemption value. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. These securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. The Company records these non-marketable equity securities as a component of other assets and are periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts. See Note 19 *Balance Sheet Offsetting* for more information.

Pension and Postretirement Benefit Plans

The Company incurs certain employment-related expenses associated with its two frozen pension plans and a postretirement benefit plan (the "Plans"). In order to measure the expense associated with the Plans, various assumptions are made including the discount rate, expected return on plan assets, anticipated mortality rates, and expected future healthcare costs. The assumptions are based on historical experience as well as current facts and circumstances. The Company uses a December 31 measurement date for its Plans. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The projected benefit obligation is primarily determined based on the present value of projected benefit distributions at an assumed discount rate.

Net periodic pension benefit costs include interest costs based on an assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and the amortization of net actuarial gains or losses. Net periodic postretirement benefit costs include service costs, interest costs based on an assumed discount rate, and the amortization of prior service credits and net actuarial gains or losses. Differences between expected and actual results in each year are included in the net actuarial gain or loss amount, which is recognized in other comprehensive income. The net actuarial gain or loss in excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining expected lives of the pension plan participants and over the average remaining future service years of the postretirement benefit plan participants. The prior service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits.

The Company recognizes in its consolidated statements of condition an asset for a plan's overfunded status or a liability for a plan's underfunded status. The Company also measures the Plans' assets and obligations that determine its funded status as of the end of the year and recognizes those changes in other comprehensive income, net of tax.

Income Taxes

The Parent files a consolidated federal income tax return with the Bank and its subsidiaries. Calculation of the Company's provision for income taxes requires the interpretation of income tax laws and regulations and the use of estimates and judgments in its determination. The Company is subject to examination by governmental authorities that may give rise to income tax issues due to differing interpretations. Changes to the liability for income taxes also occur due to changes in income tax rates, implementation of new business strategies, resolution of issues with taxing authorities, and newly enacted statutory, judicial, and regulatory guidance.

Deferred income taxes are provided to reflect the tax effect of temporary differences between financial statement carrying amounts and the corresponding tax basis of assets and liabilities. Deferred income taxes are calculated by applying enacted statutory tax rates and tax laws to future years in which temporary differences are expected to reverse. The impact on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that the tax rate change is enacted. A deferred tax valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized.

The Company's tax sharing policy provides for the settlement of income taxes between each relevant subsidiary as if the subsidiary had filed a separate return. Payments are made to the Parent by subsidiaries with tax liabilities and subsidiaries that generate tax benefits receive payments for those benefits as used.

The Company maintains reserves for certain tax positions that arise in the normal course of business. As of December 31, 2017, these positions were evaluated based on an assessment of probabilities as to the likelihood of whether a liability had been incurred. Such assessments are reviewed as events occur and adjustments to the reserves are made as appropriate. In evaluating a tax position for recognition, the Company evaluates whether it is more likely than not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, the tax position is measured and recognized in the Company's

Consolidated Financial Statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

Public law No. 115-97, known as the Tax Cuts and Jobs Act (the "Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21%. 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 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 has made estimates of the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded related to the remeasurement of the Company's deferred tax balance was $3.6 million. The final impact of the 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 (IRS). Such estimates include but are not limited to the impact of the Act on certain low income housing investments and certain employment contracts. See Note 16 *Income Taxes* for more information.

Treasury Stock

Shares of the Parent's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on a first-in, first-out basis.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of all potentially dilutive common stock equivalents.

Derivative Financial Instruments

In the ordinary course of business, the Company enters into derivative financial instruments as an end-user in connection with its risk management activities and to accommodate the needs of its customers. The Company has elected not to qualify for hedge accounting methods addressed under current provisions of GAAP. Derivative financial instruments are stated at fair value on the consolidated statements of condition with changes in fair value reported in current period earnings.

Share-Based Compensation

The Company may grant share-based compensation to employees and non-employee directors in the form of restricted stock, restricted stock units and stock options. The fair value of restricted stock is determined based on the closing price of the Parent's common stock on the date of grant. The Company recognizes compensation expense related to restricted stock on a straight-line basis over the vesting period for service-based awards, plus additional recognition of costs associated with accelerated vesting based on the projected attainment of Company performance measures. Restricted stock units ("RSUs") are payable solely in cash which are accounted for as other liabilities in the consolidated statements of condition. The fair value of RSUs is initially valued based on the closing price of the Parent's common stock on the date of grant and is amortized in the statement of income over the vesting period. The RSUs are subsequently remeasured in the same manner described above at the end of each reporting period until settlement. The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model and related assumptions. The Company uses historical data to predict option exercise and employee termination behavior. Expected volatilities are based on the historical volatility of the Parent's common stock. The expected term of options granted is derived from actual historical exercise activity and represents the period of time that options granted are expected to be outstanding. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant based on the expected life of the option. The dividend yield is equal to the dividend yield of the Parent's common stock at the time of grant. The amortization of the expense related to stock options reflects estimated forfeitures, adjusted for actual forfeiture experience. Amortization expense related to stock options is recorded in the statements of income as a component of salaries and benefits for employees and as a component of other noninterest expense for non-employee directors, with a corresponding increase to capital surplus in shareholders' equity. As the expense related to stock options is recognized, a deferred tax asset is established that represents an estimate of future income tax deductions from the release of restrictions or the exercise of stock options.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $6.0 million for the years ended December 31, 2017 and 2016, and $5.3 million for the year ended December 31, 2015.

International Operations

The Bank has operations that are conducted in certain Pacific Islands that are denominated in U.S. dollars. These operations are classified as domestic.

Fair Value Measurements

Fair value measurements apply whenever GAAP requires or permits assets or liabilities to be measured at fair value either on a recurring or nonrecurring basis. 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. Fair value is based on the assumptions that management believes market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance established a three-level fair value hierarchy that prioritizes the use of inputs used in valuation methodologies. 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. The three-level fair value hierarchy is as follows:

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 shall be 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 requires significant management judgment or estimation, some of which may be internally developed.

In determining fair value measurements, management assesses whether the volume and level of activity for an asset or liability have significantly decreased. In such instances, management determines whether recent quoted prices are associated with illiquid or inactive markets. If management concludes that quoted prices are associated with illiquid or inactive markets, adjustments to quoted prices may be necessary or management may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an asset or liability's fair value. See Note 14 *Employee Benefits* and Note 21 *Fair Value of Assets and Liabilities* for the required fair value measurement disclosures.

Accounting Standards Adopted in 2017

In March 2016, the FASB issued ASU No. 2016-09, *"Improvements to Employee Share-Based Payment Accounting."* This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. The Company adopted ASU No. 2016-09 on January 1, 2017 and elected to recognize forfeitures as they occur. As allowed by the ASU, the Company's adoption was prospective; therefore, prior periods have not been adjusted. The adoption of ASU No. 2016-09 could result in increased volatility to reported income tax expense related to excess tax benefits and tax deficiencies for employee share-based transactions. However, the actual amounts recognized in income tax expense will be dependent on the amount of employee share-based transactions and the stock price at the time of vesting or exercise. In 2017, the adoption of ASU No. 2016-09 resulted in a decrease to the provision for income taxes primarily due to the tax benefit from the exercise of stock options and the vesting of restricted stock.

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

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

In March 2017, the FASB issued ASU No. 2017-08, *"Premium Amortization on Purchased Callable Debt Securities."* This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company elected to early adopt ASU No. 2017-08 in the fourth quarter of 2017. Since the adoption of ASU 2017-08 did not result in a material change to current accounting practice, a cumulative-effect adjustment to beginning retained earnings was deemed not necessary.

Accounting Standards Pending Adoption

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 Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company has substantially 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 does 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 will be recorded as contra-revenue, and vice versa). These classification changes are expected to result in an immaterial net reduction of 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 is not expected to have a material effect to noninterest income or expense. The Company adopted ASU 2014-09 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 noted above. The Company is completing its evaluation of the ASU's expanded disclosure requirement effective for the March 31, 2018 Form 10-Q. The Company expects the expanded disclosures to be primarily qualitative in nature (e.g., providing greater detail on our revenue streams and related performance obligations). The Company does not expect material additions or revisions to our quantitative disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities."* This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. The adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. The Company is currently evaluating methods of measuring fair value of its loan portfolio using an exit price notion as noted in (5) above.

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 our 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 in the process of developing an inventory of all leases and accumulating the lease data necessary to apply the amended guidance. In addition, the Company has obtained new software to aid in the transition to the new leasing guidance.

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 implementation 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. Currently the team has substantially validated historical credit data and is continuing its evaluation of different loss methodologies. The Company's preliminary evaluation indicates the provisions of ASU No. 2016-13 are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

In August 2016, the FASB issued ASU No. 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Entities will be 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. As this guidance only affects the classification within the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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

In 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.

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 to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Company expects to early adopt ASU No. 2018-02 for the March 31, 2018 Form 10-Q. Upon adoption the reclassifiaiton will result in a $7.5 million credit to retained earnings.

Note 2. Restrictions on Cash

The Company is required to maintain cash on hand or on deposit with the Federal Reserve Bank based on the amount of certain customer deposits, mainly checking accounts. The Bank's average required reserve balances were $73.2 million and $153.4 million as of December 31, 2017 and 2016, respectively.

Note 3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities as of December 31, 2017, 2016, and 2015 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
December 31, 2016				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 407,478	$ 2,531	$ (1,294)	$ 408,715
Debt Securities Issued by States and Political Subdivisions	662,231	11,455	(1,887)	671,799
Debt Securities Issued by Corporations	273,044	5	(3,870)	269,179
Mortgage-Backed Securities:				
Residential - Government Agencies	240,412	4,577	(1,145)	243,844
Residential - U.S. Government-Sponsored Enterprises	511,234	971	(5,218)	506,987
Commercial - Government Agencies	89,544	—	(4,027)	85,517
Total Mortgage-Backed Securities	841,190	5,548	(10,390)	836,348
Total	$ 2,183,943	$ 19,539	$ (17,441)	$ 2,186,041
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 530,149	$ 1,562	$ (771)	$ 530,940
Debt Securities Issued by States and Political Subdivisions	242,295	9,991	—	252,286
Debt Securities Issued by Corporations	135,620	416	(1,528)	134,508
Mortgage-Backed Securities:				
Residential - Government Agencies	1,940,076	20,567	(23,861)	1,936,782
Residential - U.S. Government-Sponsored Enterprises	752,768	798	(10,919)	742,647
Commercial - Government Agencies	232,089	940	(2,665)	230,364
Total Mortgage-Backed Securities	2,924,933	22,305	(37,445)	2,909,793
Total	$ 3,832,997	$ 34,274	$ (39,744)	$ 3,827,527
December 31, 2015				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 356,260	$ 3,472	$ (838)	$ 358,894
Debt Securities Issued by States and Political Subdivisions	709,724	22,498	(304)	731,918
Debt Securities Issued by Corporations	313,136	236	(4,502)	308,870
Mortgage-Backed Securities:				
Residential - Government Agencies	310,966	6,546	(1,267)	316,245
Residential - U.S. Government-Sponsored Enterprises	442,760	1,368	(2,264)	441,864
Commercial - Government Agencies	103,227	—	(4,200)	99,027
Total Mortgage-Backed Securities	856,953	7,914	(7,731)	857,136
Total	$ 2,236,073	$ 34,120	$ (13,375)	$ 2,256,818
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 489,747	$ 1,359	$ (1,139)	$ 489,967
Debt Securities Issued by States and Political Subdivisions	245,980	17,114	—	263,094
Debt Securities Issued by Corporations	151,301	368	(2,041)	149,628
Mortgage-Backed Securities:				
Residential - Government Agencies	2,191,138	27,893	(19,067)	2,199,964
Residential - U.S. Government-Sponsored Enterprises	647,762	1,656	(2,616)	646,802
Commercial - Government Agencies	256,808	2,381	(2,232)	256,957
Total Mortgage-Backed Securities	3,095,708	31,930	(23,915)	3,103,723
Total	$ 3,982,736	$ 50,771	$ (27,095)	$ 4,006,412

The table below presents an analysis of the contractual maturities of the Company's investment securities as of December 31, 2017. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)		Amortized Cost		Fair Value
Available-for-Sale:				
Due in One Year or Less	$	88,977	$	89,096
Due After One Year Through Five Years		624,650		625,547
Due After Five Years Through Ten Years		149,994		154,890
Due After Ten Years		23,100		24,134
		886,721		893,667
Debt Securities Issued by Government Agencies		424,361		425,393
Mortgage-Backed Securities:				
Residential - Government Agencies		233,268		235,360
Residential - U.S. Government-Sponsored Enterprises		619,795		609,812
Commercial - Government Agencies		71,999		68,747
Total Mortgage-Backed Securities		925,062		913,919
Total	$	2,236,144	$	2,232,979
Held-to-Maturity:				
Due in One Year or Less	$	259,939	$	259,478
Due After One Year Through Five Years		206,180		207,551
Due After Five Years Through Ten Years		239,550		243,623
Due After Ten Years		27,544		28,785
		733,213		739,437
Mortgage-Backed Securities:				
Residential - Government Agencies		2,229,985		2,202,913
Residential - U.S. Government-Sponsored Enterprises		763,312		752,968
Commercial - Government Agencies		201,660		198,803
Total Mortgage-Backed Securities		3,194,957		3,154,684
Total	$	3,928,170	$	3,894,121

Investment securities with carrying values of $2.4 billion, $2.4 billion, and $2.5 billion as of December 31, 2017, 2016, and 2015, 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 years ended December 31, 2017, 2016, and 2015.

(dollars in thousands)		2017		2016		2015
Gross Gains on Sales of Investment Securities	$	12,467	$	11,180	$	11,640
Gross Losses on Sales of Investment Securities		(2,037)		(977)		(1,480)
Net Gains on Sales of Investment Securities	$	10,430	$	10,203	$	10,160

The losses during the year ended December 31, 2017 and December 31, 2016 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions which are expensed as incurred. The securities sold for losses in 2015 were government agency commercial mortgage-backed securities categorized as available-for-sale. These securities were sold to reduce our allocation to the sector and did not represent an overall change in strategy.

The income tax expense related to the Company's net realized gains on the sales of investment securities was $4.1 million in 2017 and $4.0 million in 2016 and 2015.

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

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
Available-for-Sales:						
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)
December 31, 2016						
Available-for-Sales:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 143,715	$ (562)	$ 89,211	$ (732)	$ 232,926	$ (1,294)
Debt Securities Issued by States and Political Subdivisions	211,188	(1,873)	6,725	(14)	217,913	(1,887)
Debt Securities Issued by Corporations	67,332	(714)	196,838	(3,156)	264,170	(3,870)
Mortgage-Backed Securities:						
Residential - Government Agencies	38,355	(89)	11,185	(1,056)	49,540	(1,145)
Residential - U.S. Government-Sponsored Enterprises	397,385	(5,218)	—	—	397,385	(5,218)
Commercial - Government Agencies	5,097	(164)	80,420	(3,863)	85,517	(4,027)
Total Mortgage-Backed Securities	440,837	(5,471)	91,605	(4,919)	532,442	(10,390)
Total	$ 863,072	$ (8,620)	$ 384,379	$ (8,821)	$ 1,247,451	$ (17,441)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 169,926	$ (771)	$ —	$ —	$ 169,926	$ (771)
Debt Securities Issued by Corporations	69,601	(971)	15,933	(557)	85,534	(1,528)
Mortgage-Backed Securities:						
Residential - Government Agencies	835,227	(15,313)	231,377	(8,548)	1,066,604	(23,861)
Residential - U.S. Government-Sponsored Enterprises	693,047	(10,919)	—	—	693,047	(10,919)
Commercial - Government Agencies	87,586	(2,597)	18,653	(68)	106,239	(2,665)
Total Mortgage-Backed Securities	1,615,860	(28,829)	250,030	(8,616)	1,865,890	(37,445)
Total	$ 1,855,387	$ (30,571)	$ 265,963	$ (9,173)	$ 2,121,350	$ (39,744)

The Company does not believe that the investment securities that were in an unrealized loss position as of December 31, 2017, which were comprised of 410 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 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 bases, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the years ended December 31, 2017, 2016, and 2015 were as follows:

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Taxable	$ 108,787	$ 100,541	$ 109,912
Non-Taxable	19,725	20,438	21,230
Total Interest Income from Investment Securities	$ 128,512	$ 120,979	$ 131,142

As of December 31, 2017, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $496.8 million, representing 57% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 95% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A2 or better by at least one nationally recognized statistical rating organization. Of the Company's total Hawaii municipal bond holdings, 78% were general obligation issuances. As of December 31, 2017, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

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

	December 31,	
(dollars in thousands)	2017	2016
Federal Home Loan Bank Stock	$ 20,000	$ 20,000
Federal Reserve Bank Stock	20,645	20,063
Total	$ 40,645	$ 40,063

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

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims. Should this escrow account not be sufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of December 31, 2017, the conversion ratio was 1.6483.

During the first quarter of 2017, the Company recorded an $12.1 million net gain on the sale of 90,000 Visa Class B shares. Concurrent with this sale, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 86,614 Class B shares (142,766 Class A equivalents) that the Company owns as of December 31, 2017 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 December 31, 2017 and 2016:

	December 31,	
(dollars in thousands)	2017	2016
Commercial		
Commercial and Industrial	$ 1,279,347	$ 1,249,791
Commercial Mortgage	2,103,967	1,889,551
Construction	202,253	270,018
Lease Financing	180,931	208,332
Total Commercial	3,766,498	3,617,692
Consumer		
Residential Mortgage	3,466,773	3,163,073
Home Equity	1,585,455	1,334,163
Automobile	528,474	454,333
Other [1]	449,747	380,524
Total Consumer	6,030,449	5,332,093
Total Loans and Leases	$ 9,796,947	$ 8,949,785

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

Total loans and leases were reported net of unearned income of $20.2 million and $36.3 million as of December 31, 2017 and 2016, respectively.

Commercial loans and residential mortgage loans of $1.0 billion and $1.1 billion were pledged to secure an undrawn FRB line of credit as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, residential mortgage loans of $2.9 billion and $2.3 billion, respectively, were pledged under a blanket pledge arrangement to secure FHLB advances. See Note 10 *Other Debt* for FHLB advances outstanding as of December 31, 2017 and 2016.

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income, were $4.9 million, $11.8 million, and $5.9 million for the years ended December 31, 2017, 2016, and 2015, respectively. Net gains on sales of commercial loans were not material for the years ended December 31, 2017, 2016, and 2015.

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

Allowance for Loan and Lease Losses

The following presents by portfolio segment, the activity in the Allowance for the years ended December 31, 2017, 2016, and 2015. 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 December 31, 2017, 2016, and 2015.

(dollars in thousands)	Commercial	Consumer	Total
For the Year Ended December 31, 2017			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 65,680	$ 38,593	$ 104,273
Loans and Leases Charged-Off	(1,408)	(21,847)	(23,255)
Recoveries on Loans and Leases Previously Charged-Off	1,485	7,943	9,428
Net Loans and Leases Recovered (Charged-Off)	77	(13,904)	(13,827)
Provision for Credit Losses	65	16,835	16,900
Balance at End of Period	$ 65,822	$ 41,524	$ 107,346
As of December 31, 2017			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ 141	$ 3,775	$ 3,916
Collectively Evaluated for Impairment	65,681	37,749	103,430
Total	$ 65,822	$ 41,524	$ 107,346
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 20,216	$ 41,002	$ 61,218
Collectively Evaluated for Impairment	3,746,282	5,989,447	9,735,729
Total	$ 3,766,498	$ 6,030,449	$ 9,796,947
For the Year Ended December 31, 2016			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 60,714	$ 42,166	$ 102,880
Loans and Leases Charged-Off	(865)	(17,644)	(18,509)
Recoveries on Loans and Leases Previously Charged-Off	8,137	7,015	15,152
Net Loans and Leases Recovered (Charged-Off)	7,272	(10,629)	(3,357)
Provision for Credit Losses	(2,306)	7,056	4,750
Balance at End of Period	$ 65,680	$ 38,593	$ 104,273
As of December 31, 2016			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ 45	$ 3,510	$ 3,555
Collectively Evaluated for Impairment	65,635	35,083	100,718
Total	$ 65,680	$ 38,593	$ 104,273
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 21,572	$ 39,126	$ 60,698
Collectively Evaluated for Impairment	3,596,120	5,292,967	8,889,087
Total	$ 3,617,692	$ 5,332,093	$ 8,949,785
For the Year Ended December 31, 2015			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$ 64,551	$ 44,137	$ 108,688
Loans and Leases Charged-Off	(954)	(15,485)	(16,439)
Recoveries on Loans and Leases Previously Charged-Off	2,173	7,458	9,631
Net Loans and Leases Recovered (Charged-Off)	1,219	(8,027)	(6,808)
Provision for Credit Losses	(5,056)	6,056	1,000
Balance at End of Period	$ 60,714	$ 42,166	$ 102,880
As of December 31, 2015			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$ 205	$ 3,373	$ 3,578
Collectively Evaluated for Impairment	60,509	38,793	99,302
Total	$ 60,714	$ 42,166	$ 102,880
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$ 27,950	$ 38,747	$ 66,697
Collectively Evaluated for Impairment	3,125,902	4,686,386	7,812,288
Total	$ 3,153,852	$ 4,725,133	$ 7,878,985

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 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 December 31, 2017 and 2016.

	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

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

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

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

Aging Analysis

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

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current [2]
As of 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
As of December 31, 2016								
Commercial								
Commercial and Industrial	$ 10,698	$ 1,016	$ —	$ 151	$ 11,865	$ 1,237,926	$ 1,249,791	$ —
Commercial Mortgage	128	17	—	997	1,142	1,888,409	1,889,551	416
Construction	—	—	—	—	—	270,018	270,018	—
Lease Financing	—	—	—	—	—	208,332	208,332	—
Total Commercial	10,826	1,033	—	1,148	13,007	3,604,685	3,617,692	416
Consumer								
Residential Mortgage	6,491	106	3,127	13,780	23,504	3,139,569	3,163,073	1,628
Home Equity	3,063	2,244	1,457	3,147	9,911	1,324,252	1,334,163	1,015
Automobile	11,692	2,162	894	—	14,748	439,585	454,333	—
Other [1]	3,200	1,532	1,592	—	6,324	374,200	380,524	—
Total Consumer	24,446	6,044	7,070	16,927	54,487	5,277,606	5,332,093	2,643
Total	$ 35,272	$ 7,077	$ 7,070	$ 18,075	$ 67,494	$ 8,882,291	$ 8,949,785	$ 3,059

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

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

Impaired Loans

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

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
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
December 31, 2016			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 9,556	$ 16,518	$ —
Commercial Mortgage	9,373	12,873	—
Construction	1,513	1,513	—
Total Commercial	20,442	30,904	—
Total Impaired Loans with No Related Allowance Recorded	$ 20,442	$ 30,904	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 765	$ 765	$ 24
Commercial Mortgage	365	365	21
Total Commercial	1,130	1,130	45
Consumer			
Residential Mortgage	25,625	30,615	3,224
Home Equity	1,516	1,516	15
Automobile	9,660	9,660	206
Other [1]	2,325	2,325	65
Total Consumer	39,126	44,116	3,510
Total Impaired Loans with an Allowance Recorded	$ 40,256	$ 45,246	$ 3,555
Impaired Loans:			
Commercial	$ 21,572	$ 32,034	$ 45
Consumer	39,126	44,116	3,510
Total Impaired Loans	$ 60,698	$ 76,150	$ 3,555

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

The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2017 and 2016.

	Year Ended December 31, 2017		Year Ended December 31, 2016	
(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	$ 8,810	$ 351	$ 10,760	$ 463
Commercial Mortgage	9,251	299	9,906	339
Construction	1,464	94	1,559	101
Total Commercial	19,525	744	22,225	903
Total Impaired Loans with No Related Allowance Recorded	$ 19,525	$ 744	$ 22,225	$ 903
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 709	$ 42	$ 939	$ 72
Commercial Mortgage	690	54	151	9
Total Commercial	1,399	96	1,090	81
Consumer				
Residential Mortgage	22,981	845	27,436	962
Home Equity	1,707	82	1,395	66
Automobile	12,235	825	7,974	522
Other [1]	2,571	215	2,003	174
Total Consumer	39,494	1,967	38,808	1,724
Total Impaired Loans with an Allowance Recorded	$ 40,893	$ 2,063	$ 39,898	$ 1,805
Impaired Loans:				
Commercial	$ 20,924	$ 840	$ 23,315	$ 984
Consumer	39,494	1,967	38,808	1,724
Total Impaired Loans	$ 60,418	$ 2,807	$ 62,123	$ 2,708

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

For the year ended December 31, 2015, the average recorded investment in impaired loans was $66.4 million and the interest income recognized on impaired loans was $2.6 million. For the years ended December 31, 2017, 2016, and 2015, the amount of interest income recognized by the Company within the period that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that were on accrual status. For the years ended December 31, 2017, 2016, and 2015, the amount of interest income recognized using a cash-basis method of accounting during the time within that period 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 $60.1 million and $60.0 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017, there were $1.5 million commitments to lend additional funds on loans modified in a TDR. As of December 31, 2016, there were $0.4 million commitments to lend additional funds on loans modified in a TDR.

The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor 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 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 years ended December 31, 2017 and 2016.

	Loans Modified as a TDR for the Year Ended December 31, 2017			Loans Modified as a TDR for the Year Ended December 31, 2016		
Troubled Debt Restructurings (dollars in thousands)	**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	13	$ 7,299	$ 11	6	$ 3,525	$ 21
Commercial Mortgage	4	2,336	93	1	204	20
Total Commercial	17	9,635	104	7	3,729	41
Consumer						
Residential Mortgage	2	368	1	10	3,146	522
Home Equity	4	604	13	2	651	7
Automobile	424	8,623	177	267	5,451	116
Other [2]	171	1,395	35	199	1,404	37
Total Consumer	601	10,990	226	478	10,652	682
Total	618	$ 20,625	$ 330	485	$ 14,381	$ 723

[1] The period end balances reflect all partial 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, loans modified in a TDR that defaulted during the year ended December 31, 2017 and 2016, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	**Year Ended December 31, 2017** Number of Contracts	Recorded Investment (as of period end) [1]	**Year Ended December 31, 2016** Number of Contracts	Recorded Investment (as of period end) [1]
Commercial				
Commercial and Industrial	1	$ 48	—	$ —
Commercial Mortgage	1	341	—	—
Total Commercial	2	389	—	—
Consumer				
Residential Mortgage	1	94	4	1,445
Home Equity	1	237	1	157
Automobile	28	515	19	373
Other [2]	36	208	40	278
Total Consumer	66	1,054	64	2,253
Total	68	$ 1,443	64	$ 2,253

[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.

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

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled $6.2 million as of December 31, 2017.

Note 5. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was $2.9 billion as of December 31, 2017, and $2.7 billion as of December 31, 2016 and 2015. 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 21 *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 $7.1 million, $6.9 million, and $7.2 million for the years ended December 31, 2017, 2016, and 2015, 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 years ended December 31, 2017, 2016, and 2015, the change in the fair value of the Company's mortgage servicing rights accounted for under the fair value measurement method was as follows:

(dollars in thousands)	2017	2016	2015
Balance at Beginning of Year	$ 1,655	$ 1,970	$ 2,604
Changes in Fair Value:			
Due to Change in Valuation Assumptions [1]	—	—	(251)
Due to Payoffs	(201)	(315)	(383)
Total Changes in Fair Value of Mortgage Servicing Rights	(201)	(315)	(634)
Balance at End of Year	$ 1,454	$ 1,655	$ 1,970

[1] Primarily represents changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.

For the years ended December 31, 2017, 2016, and 2015, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method, net of valuation allowance was as follows:

(dollars in thousands)	2017	2016	2015
Balance at Beginning of Year	$ 22,008	$ 21,032	$ 22,091
Servicing Rights that Resulted From Asset Transfers	3,976	3,847	1,737
Amortization	(2,816)	(2,892)	(2,832)
Valuation Allowance Recovery (Provision)	—	21	36
Balance at End of Year	$ 23,168	$ 22,008	$ 21,032
Valuation Allowance:			
Balance at Beginning of Year	$ —	$ (21)	$ (57)
Valuation Allowance Recovery (Provision)	—	21	36
Balance at End of Year	$ —	$ —	$ (21)
Fair Value:			
Balance at Beginning of Year	$ 25,148	$ 24,804	$ 22,837
Balance at End of Year	$ 26,716	$ 25,148	$ 24,804

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

	December 31,	
	2017	2016
Weighted-Average Constant Prepayment Rate [1]	8.50 %	8.13 %
Weighted-Average Life (in years)	7.09	7.43
Weighted-Average Note Rate	4.04 %	4.10 %
Weighted-Average Discount Rate [2]	8.87 %	9.33 %

[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 December 31, 2017 and 2016 is presented in the following table.

	December 31,	
(dollars in thousands)	2017	2016
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	$ (332)	$ (321)
Decrease in fair value from 50 bps adverse change	(657)	(636)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(289)	(288)
Decrease in fair value from 50 bps adverse change	(572)	(570)

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. Premises and Equipment

The components of the Company's premises and equipment as of December 31, 2017 and 2016 were as follows:

(dollars in thousands)	Cost	Accumulated Depreciation and Amortization	Net Book Value
December 31, 2017			
Premises	$ 331,566	$ (243,069)	$ 88,497
Equipment	130,228	(90,319)	39,909
Capital Leases	6,593	(4,073)	2,520
Total	$ 468,387	$ (337,461)	$ 130,926
December 31, 2016			
Premises	$ 321,144	$ (240,567)	$ 80,577
Equipment	117,356	(87,021)	30,335
Capital Leases	6,594	(4,001)	2,593
Total	$ 445,094	$ (331,589)	$ 113,505

Depreciation and amortization (including capital lease amortization) included in noninterest expense was $13.0 million, $12.9 million, and $12.8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

There was no impairment of the Company's premises and equipment for the years ended December 31, 2017, 2016 and 2015.

Note 7. Other Assets

The components of the Company's other assets as of December 31, 2017 and 2016 were as follows:

	December 31,	
(dollars in thousands)	**2017**	**2016**
Federal Home Loan Bank and Federal Reserve Bank Stock	$ 40,645	$ 40,063
Derivative Financial Instruments	10,518	13,731
Low-Income Housing and Other Equity Investments	87,632	78,900
Deferred Compensation Plan Assets	29,230	21,952
Prepaid Expenses	7,944	7,355
Accounts Receivable	43,195	12,584
Other	33,432	20,123
Total Other Assets	$ 252,596	$ 194,708

Note 8. Deposits

Time Deposits

As of December 31, 2017 and 2016, the Company's total time deposits were $1.7 billion and $1.2 billion respectively. As of December 31, 2017, the contractual maturities of these time deposits were as follows:

(dollars in thousands)	Amount
2018	$ 1,398,406
2019	89,687
2020	56,400
2021	99,993
2022	34,847
Thereafter	8,759
Total	$ 1,688,092

The amount of time deposits with balances of $100,000 or more was $1.4 billion and $1.0 billion as of December 31, 2017 and 2016, respectively. As of December 31, 2017, the contractual maturities of these time deposits were as follows:

(dollars in thousands)	Amount
Three Months or Less	$ 589,189
Over Three Months through Six Months	366,737
Over Six Months through Twelve Months	318,193
Over Twelve Months	167,306
Total	$ 1,441,425

Public Deposits

As of December 31, 2017 and 2016, deposits of governmental entities of $1.3 billion and $1.1 billion, respectively, required collateralization by acceptable investment securities of the Company.

Note 9. Borrowings

Details of the Company's short-term borrowings (original term of one year or less) as of December 31, 2017 and 2016 were as follows:

	December 31,	
(dollars in thousands)	2017	2016
Funds Purchased [1]		
Amounts Outstanding	$ —	$ 9,616
Weighted-Average Interest Rate	—%	0.15%
Securities Sold Under Agreements to Repurchase (short-term) [2]		
Amounts Outstanding	$ 1,603	$ 23,278
Weighted-Average Interest Rate	0.14%	0.31%

[1] Federal funds purchased generally mature on the next business day following the date of purchase.
[2] Consists entirely of repurchase agreements with government entities. Excludes long-term repurchase agreements with government entities of $3.7 million and $0.1 million as of December 31, 2017, and 2016, respectively, and long-term repurchase agreements with private institutions of $500.0 million as of December 31, 2017 and 2016.

The Company's total securities sold under agreements to repurchase were $505.3 million and $523.4 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017, all of our repurchase agreements were at fixed interest rates.

As of December 31, 2017, long-term repurchase agreements (original term over one year) placed with government entities were $3.7 million with a weighted-average interest rate of 0.82% and a weighted-average maturity of 181 days.

As of December 31, 2017, long-term repurchase agreements placed with private institutions were $500.0 million with a weighted-average interest rate of 3.64%. Remaining terms ranged from 2020 to 2022 with a weighted-average maturity of 3.6 years. 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 2.6 years.

Note 10. Other Debt

The Company's other debt as of December 31, 2017 and 2016 were as follows:

	December 31,	
(dollars in thousands)	2017	2016
Federal Home Loan Bank Advances	$ 250,000	$ 250,000
Non-Recourse Debt	—	7,153
Capital Lease Obligations	10,716	10,785
Total	$ 260,716	$ 267,938

As a member of the FHLB, the Bank may borrow funds from the FHLB in amounts up to 35% of the Bank's total assets, provided the Bank is able to pledge an adequate amount of qualified assets to secure the borrowings. As of December 31, 2017, FHLB advances totaled $250.0 million with a weighted-average interest rate of 1.28% and maturity dates ranging from 2018 to 2020. As of December 31, 2017, the Company had a remaining line of credit with the FHLB of $2.0 billion. See Note 4 *Loans and Leases and the Allowance for Loan and Lease Losses* for loans pledged to the FHLB as of December 31, 2017 and 2016.

Capital lease obligations relate to office space at the Company's headquarters. The lease began in 1993 and has a 60 year term. Lease payments are fixed at $0.8 million per year through December 2022 (one-time inflation adjustment on January 1, 2018) and are negotiable thereafter.

As of December 31, 2017, the Company had an undrawn line of credit with the FRB of $529.8 million. See Note 4 *Loans and Leases and the Allowance for Loan and Lease Losses* for loans pledged to the FRB as of December 31, 2017 and 2016.

As of December 31, 2017, the annual maturities of the Company's other debt, exclusive of capital lease obligations, were expected to be as follows:

(dollars in thousands)	Amount
2018	$ 175,000
2019	50,000
2020	25,000
2021	—
2022	—
Thereafter	—
Total	$ 250,000

Note 11. Shareholders' Equity

Regulatory Capital

The table below sets forth the minimum required capital amounts and ratios for well capitalized institutions and the actual capital amounts and ratios for the Company and the Bank as of December 31, 2017 and 2016:

(dollars in thousands)	Well Capitalized Minimum Ratio	Company	Bank
As of December 31, 2017			
Shareholders' Equity		$ 1,231,868	$ 1,161,037
Common Equity Tier 1 Capital		1,238,063	1,178,804
Tier 1 Capital		1,238,063	1,178,804
Total Capital		1,352,231	1,292,972
Common Equity Tier 1 Capital Ratio	6.5%	13.24%	12.62%
Tier 1 Capital Ratio	8.0%	13.24%	12.62%
Total Capital Ratio	10.0%	14.46%	13.85%
Tier 1 Leverage Ratio	5.0%	7.26%	6.92%
As of December 31, 2016			
Shareholders' Equity		$ 1,161,537	$ 1,094,461
Common Equity Tier 1 Capital		1,168,228	1,111,525
Tier 1 Capital		1,168,228	1,111,525
Total Capital		1,278,528	1,221,683
Common Equity Tier 1 Capital Ratio	6.5%	13.24%	12.61%
Tier 1 Capital Ratio	8.0%	13.24%	12.61%
Total Capital Ratio	10.0%	14.49%	13.86%
Tier 1 Leverage Ratio	5.0%	7.21%	6.86%

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's 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 measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by regulators about the components of regulatory capital, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Tier 1 and Total Capital. Both Common Equity Tier 1 Capital and Tier 1 Capital are common shareholders' equity, reduced by certain intangible assets, postretirement benefit liability adjustments, and unrealized gains and losses on investment securities. Total Capital is Tier 1 Capital plus an allowable amount of the reserve for credit losses. Risk-weighted assets are calculated by taking assets and credit equivalent amounts of off-balance-sheet items and assigning them to one of several broad risk categories. Four capital ratios are used to measure capital adequacy: Common Equity Tier 1 Capital divided by risk-weighted assets, as defined; Tier 1 Capital divided by risk-weighted assets; Total Capital divided by risk-weighted assets; and the Tier 1 Leverage ratio, which is Tier 1 Capital divided by quarterly adjusted average total assets.

As of December 31, 2017, the Company and the Bank were well capitalized as defined in the regulatory framework for prompt corrective action. There were no conditions or events since December 31, 2017 that management believes have changed the Company or the Bank's capital classifications.

Dividends

Dividends paid by the Parent are substantially funded from dividends received from the Bank. The Bank is subject to federal and state regulatory restrictions that limit cash dividends and loans to the Parent. These restrictions generally require advanced approval from the Bank's regulator for payment of dividends in excess of the sum of net income for the current calendar year and the retained net income of the prior two calendar years.

Common Stock Repurchase Program

The Parent has a common stock repurchase program in which shares repurchased are held in treasury stock for reissuance in connection with share-based compensation plans and for general corporate purposes. For the year ended December 31, 2017, the Parent repurchased 549,199 shares of common stock under its share repurchase program at an average cost per share of $81.91 and total cost of $45.0 million. From the beginning of the stock repurchase program in July 2001 through December 31, 2017, the Parent repurchased a total of 54.2 million shares of common stock at an average cost of $38.29 per share and total cost over $2.0 billion. From January 1, 2018 through February 16, 2018, the Parent repurchased an additional 80,000 shares of common stock at an average cost of $84.27 per share for a total of $6.7 million. The actual amount and timing of future share repurchases, if any, will depend on market conditions, applicable SEC rules and various other factors.

Accumulated Other Comprehensive Income

The following table presents the components of other comprehensive income (loss), net of tax:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Year Ended December 31, 2017			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (5,263)	$ (2,078)	$ (3,185)
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]	1,982	783	1,199
Net Unrealized Gains (Losses) on Investment Securities	(3,281)	(1,295)	(1,986)
Defined Benefit Plans:			
Net Actuarial Gains (Losses) Arising During the Period	884	349	535
Amortization of Net Actuarial Losses (Gains)	1,382	545	837
Amortization of Prior Service Credit	(322)	(127)	(195)
Defined Benefit Plans, Net	1,944	767	1,177
Other Comprehensive Income (Loss)	$ (1,337)	$ (528)	$ (809)
Year Ended December 31, 2016			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (18,647)	$ (7,358)	$ (11,289)
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]	1,605	634	971
Net Unrealized Gains (Losses) on Investment Securities	(17,042)	(6,724)	(10,318)
Defined Benefit Plans:			
Net Actuarial Gains (Losses) Arising During the Period	(954)	(377)	(577)
Amortization of Net Actuarial Losses (Gains)	1,224	483	741
Amortization of Prior Service Credit	(322)	(127)	(195)
Defined Benefit Plans, Net	(52)	(21)	(31)
Other Comprehensive Income (Loss)	$ (17,094)	$ (6,745)	$ (10,349)
Year Ended December 31, 2015			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (5,448)	$ (2,138)	$ (3,310)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
(Gain) Loss on Sale	(190)	(75)	(115)
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	2,136	836	1,300
Net Unrealized Gains (Losses) on Investment Securities	(3,502)	(1,377)	(2,125)
Defined Benefit Plans:			
Net Actuarial Gains (Losses) Arising During the Period	7,335	2,869	4,466
Amortization of Net Actuarial Losses (Gains)	1,624	641	983
Amortization of Prior Service Credit	(322)	(127)	(195)
Defined Benefit Plans, Net	8,637	3,383	5,254
Other Comprehensive Income (Loss)	$ 5,135	$ 2,006	$ 3,129

[1] The amount relates to the amortization/accretion of unrealized 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:

(dollars in thousands)	Investment Securities-Available-For-Sale	Investment Securities-Held-To-Maturities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Year Ended December 31, 2017				
Balance at Beginning of Period	$ 1,270	$ (6,284)	$ (28,892)	$ (33,906)
Other Comprehensive Income (Loss) Before Reclassifications	(3,185)	—	535	(2,650)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	1,199	642	1,841
Total Other Comprehensive Income (Loss)	(3,185)	1,199	1,177	(809)
Balance at End of Period	$ (1,915)	$ (5,085)	$ (27,715)	$ (34,715)
Year Ended December 31, 2016				
Balance at Beginning Period	$ 12,559	$ (7,255)	$ (28,861)	$ (23,557)
Other Comprehensive Income (Loss) Before Reclassifications	(11,289)	—	(577)	(11,866)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	971	546	1,517
Total Other Comprehensive Income (Loss)	(11,289)	971	(31)	(10,349)
Balance at End of Period	$ 1,270	$ (6,284)	$ (28,892)	$ (33,906)
Year Ended December 31, 2015				
Balance at Beginning Period	$ 15,984	$ (8,555)	$ (34,115)	$ (26,686)
Other Comprehensive Income (Loss) Before Reclassifications	(3,310)	—	4,466	1,156
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(115)	1,300	788	1,973
Total Other Comprehensive Income (Loss)	(3,425)	1,300	5,254	3,129
Balance at End of Period	$ 12,559	$ (7,255)	$ (28,861)	$ (23,557)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss):

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
(dollars in thousands)	Year Ended December 31,			
	2017	2016	2015	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (1,982)	$ (1,605)	$ (2,136)	Interest Income
	783	634	836	Provision for Income Tax
	(1,199)	(971)	(1,300)	Net of Tax
Sales of Investment Securities Available-for-Sale	—	—	190	Investment Securities Gains (Losses), Net
	—	—	(75)	Provision for Income Tax
	—	—	115	Net of Tax
Amortization of Defined Benefit Plans Items				
Prior Service Credit [2]	322	322	322	
Net Actuarial Losses [2]	(1,382)	(1,224)	(1,624)	
	(1,060)	(902)	(1,302)	Total Before Tax
	418	356	514	Provision for Income Tax
	(642)	(546)	(788)	Net of Tax
Total Reclassifications for the Period	$ (1,841)	$ (1,517)	$ (1,973)	Net of Tax

[1] Amounts in parentheses indicate reductions to net income.
[2] These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost and are included in Salaries and Benefits on the consolidated statements of income. See Note 14 *Employee Benefits* for additional details.

Note 12. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing basic 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 years ended December 31, 2017, 2016, and 2015:

	Weighted Average Shares		
	2017	2016	2015
Denominator for Basic Earnings Per Share	42,280,931	42,644,100	43,217,818
Dilutive Effect of Equity Based Awards	326,126	235,683	237,059
Denominator for Diluted Earnings Per Share	42,607,057	42,879,783	43,454,877
Antidilutive Stock Options and Restricted Stock Outstanding	—	—	—

Note 13. 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 for any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the provision for credit losses, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive authoritative guidance for management accounting that is equivalent to GAAP. Previously reported results have been reclassified to conform to the current reporting structure.

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

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

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

The provision for income taxes is allocated to business segments using a 37% effective income tax rate. However, the provision for income taxes for our Leasing business unit (included in the Commercial Banking segment) and Auto Leasing portfolio and Pacific Century Life Insurance business unit (both included in the Retail Banking segment) are assigned their actual effective income tax rates due to the unique relationship that income taxes have with their products. The residual income tax expense or benefit to arrive at the consolidated effective 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 retail insurance products. Products and services from Retail Banking are delivered to customers through 69 branch locations and 387 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.

Selected business segment financial information as of and for the years ended December 31, 2017, 2016, and 2015 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services and Private Banking	Treasury and Other	Consolidated Total
Year Ended December 31, 2017					
Net Interest Income	$ 264,041	$ 171,038	$ 29,693	$ (7,534)	$ 457,238
Provision for Credit Losses	14,008	(160)	(21)	3,073	16,900
Net Interest Income After Provision for Credit Losses	250,033	171,198	29,714	(10,607)	440,338
Noninterest Income	85,042	21,670	57,105	21,600	185,417
Noninterest Expense	(209,807)	(74,209)	(61,674)	(12,001)	(357,691)
Income Before Provision for Income Taxes	125,268	118,659	25,145	(1,008)	268,064
Provision for Income Taxes	(44,545)	(41,797)	(9,303)	12,253	(83,392)
Net Income	$ 80,723	$ 76,862	$ 15,842	$ 11,245	$ 184,672
Total Assets as of December 31, 2017	$ 5,936,568	$ 3,742,991	$ 336,455	$ 7,073,038	$ 17,089,052
Year Ended December 31, 2016					
Net Interest Income	$ 242,967	$ 156,080	$ 24,714	$ (6,182)	$ 417,579
Provision for Credit Losses	10,700	(7,322)	(23)	1,395	4,750
Net Interest Income After Provision for Credit Losses	232,267	163,402	24,737	(7,577)	412,829
Noninterest Income	91,824	26,967	57,396	21,156	197,343
Noninterest Expense	(208,389)	(70,405)	(59,782)	(12,002)	(350,578)
Income Before Provision for Income Taxes	115,702	119,964	22,351	1,577	259,594
Provision for Income Taxes	(41,067)	(42,667)	(8,270)	13,871	(78,133)
Net Income	$ 74,635	$ 77,297	$ 14,081	$ 15,448	$ 181,461
Total Assets as of December 31, 2016	$ 5,342,078	$ 3,565,912	$ 280,410	$ 7,303,967	$ 16,492,367
Year Ended December 31, 2015					
Net Interest Income	$ 202,259	$ 143,944	$ 18,494	$ 29,390	$ 394,087
Provision for Credit Losses	8,033	(1,165)	(43)	(5,825)	1,000
Net Interest Income After Provision for Credit Losses	194,226	145,109	18,537	35,215	393,087
Noninterest Income	82,391	22,191	58,835	22,802	186,219
Noninterest Expense	(199,572)	(77,500)	(57,852)	(13,180)	(348,104)
Income Before Provision for Income Taxes	77,045	89,800	19,520	44,837	231,202
Provision for Income Taxes	(27,330)	(31,375)	(7,222)	(4,571)	(70,498)
Net Income	$ 49,715	$ 58,425	$ 12,298	$ 40,266	$ 160,704
Total Assets as of December 31, 2015	$ 4,680,888	$ 3,099,175	$ 274,469	$ 7,400,484	$ 15,455,016

Note 14. Employee Benefits

The Company has defined contribution plans, defined benefit plans, and a postretirement benefit plan.

Defined Contribution Plans

The Bank of Hawaii Retirement Savings Plan (the "Savings Plan") has three Company contribution components in addition to employee contributions: 1) 401(k) matching, as described below; 2) a 3% fixed amount based on eligible compensation; and 3) a discretionary value-sharing contribution.

Under the 401(k) matching component, participating employees may contribute up to 50% of their eligible compensation (within federal limits) to the Savings Plan. The Company makes matching contributions on behalf of participants equal to $1.25 for each $1.00 contributed by participants, up to 2% of the participants' eligible compensation, and $0.50 for every $1.00 contributed by participants over 2%, up to 5% of the participants' eligible compensation. A 3% fixed contribution and a discretionary value-sharing contribution, that is linked to the Company's financial goals, are made regardless of whether the participating employee contributes to the Savings Plan and are invested in accordance with the participant's selection of investment options available under the Savings Plan. The Company also has a non-qualified savings plan which covers certain employees with compensation exceeding Internal Revenue Service ("IRS") limits on pay amounts in the allocation of the Savings Plan's benefits. Total expense for all components of the Company's defined contribution plans was $13.5 million, $12.8 million, and $12.0 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Defined Benefit Plans

The Company has two defined benefit plans (the "Pension Plans"). In 1995, the Company froze its non-contributory, qualified defined benefit retirement plan (the "Retirement Plan") and the excess retirement plan (the "Excess Plan"), which covered employees of the Company and participating subsidiaries who met certain eligibility requirements. Beginning January 1, 2001, the Pension Plans no longer provided for compensation increases in the determination of benefits. The projected benefit obligation is equal to the accumulated benefit obligation due to the frozen status of the Pension Plans.

The assets of the Retirement Plan primarily consist of equity and fixed income mutual funds.

The Excess Plan is a non-qualified excess retirement benefit plan which covers certain employees of the Company and participating subsidiaries with compensation exceeding IRS limits on pay amounts applicable to the Pension Plan's benefit formula. The Excess Plan has no plan assets. The Excess Plan's projected benefit obligation and accumulated benefit obligation were $3.9 million and $4.0 million as of December 31, 2017 and 2016, respectively.

Postretirement Benefit Plan

The Company's postretirement benefit plan provides retirees hired before January 1, 2012 with medical and dental insurance coverage. For eligible participants that retired before 2008 and met certain age requirements, the Company and retiree share in the cost of providing postretirement benefits where both the employer and retiree pay a portion of the insurance premiums. Eligible participants who retired before 2008 who did not meet certain age requirements continued on the Company's benefit plans, but pay for their full insurance premiums. Participants who retired on or after January 1, 2008, who had medical or dental coverage under the Company's plans immediately before retirement and meet certain age and years of service requirements as of December 31, 2008 are also eligible to participate in the Company's benefit plans, but must pay for their full insurance premiums. Retirees age 65 and older are provided with a Medicare supplemental plan subsidy. Most employees of the Company who have met certain eligibility requirements are covered by this plan. Participants who retired on or after January 1, 2008 who met certain age and/or years of service requirements are eligible for the Health Reimbursement Account ("HRA") program. The HRA program provides retirees with an initial credit based on years of service. Thereafter, an annual credit up to a maximum of $1,200 is provided into the HRA. The retiree may use the HRA for medical, vision, prescription drug and dental premiums, co-payments, and medically necessary health care expenses that are not covered by any medical or dental insurance program or flexible health spending account. The plan was amended to provide access-only coverage for employees hired on or after January 1, 2012, and lowered eligibility for access from age 55 to age 50. These retirees continue on the medical and dental plan until age 65 paying the full premium. As of December 31, 2017 and 2016, the Company had no segregated assets to provide for postretirement benefits.

The following table provides a reconciliation of changes in benefit obligation and fair value of plan assets, as well as the funded status recognized in the Company's consolidated statements of condition for the Pension Plans and postretirement benefit plan for the years ended December 31, 2017 and 2016.

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2017	2016	2017	2016
Benefit Obligation at Beginning of Year	$ 107,593	$ 105,993	$ 24,308	$ 25,307
Service Cost	—	—	453	513
Interest Cost	4,665	4,882	1,093	1,134
Plan Amendment [3]	—	—	(2,730)	—
Actuarial Losses (Gains)	6,828	2,708	2,052	(1,846)
Employer Benefits Paid [1]	(9,006)	(5,990)	(970)	(800)
Benefit Obligation at End of Year	$ 110,080	$ 107,593	$ 24,206	$ 24,308
Fair Value of Plan Assets at Beginning of Year	$ 83,383	$ 83,858	$ —	$ —
Actual Return on Plan Assets	12,047	5,031	—	—
Employer Contributions	10,484	484	970	800
Employer Benefits Paid [1]	(9,006)	(5,990)	(970)	(800)
Fair Value of Plan Assets at End of Year	$ 96,908	$ 83,383	$ —	$ —
Funded Status at End of Year [2]	$ (13,172)	$ (24,210)	$ (24,206)	$ (24,308)

[1] Participants' contributions relative to the postretirement benefit plan were offset against employer benefits paid in the table above. Participants' contributions for postretirement benefits were $0.5 million and $0.8 million for the years ended December 31, 2017 and 2016, respectively.

[2] Amounts are recognized in Retirement Benefits Payable in the consolidated statements of condition.

[3] For certain retirees, medical premiums were changed to a full retiree rate instead of a blended rate.

The following presents the amounts recognized in the Company's accumulated other comprehensive income for the Pension Plans and postretirement benefit plan as of December 31, 2017 and 2016.

	Pension Benefits		Postretirement Benefits	
(dollars in thousands)	2017	2016	2017	2016
Amounts Recognized in Accumulated Other Comprehensive Income (Loss), Net of Tax				
Net Actuarial Gains (Losses)	$ (32,730)	$ (33,954)	$ 3,143	$ 4,647
Net Prior Service Credit	—	—	1,872	415
Total Amounts Recognized in Accumulated Other Comprehensive Income (Loss), Net of Tax	$ (32,730)	$ (33,954)	$ 5,015	$ 5,062

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 years ended December 31, 2017, 2016, and 2015.

	Pension Benefits			Postretirement Benefits		
(dollars in thousands)	2017	2016	2015	2017	2016	2015
Service Cost	$ —	$ —	$ —	$ 453	$ 513	$ 621
Interest Cost	4,665	4,882	4,655	1,093	1,134	1,155
Expected Return on Plan Assets	(5,011)	(5,121)	(5,222)	—	—	—
Amortization of:						
Prior Service Credit [1]	—	—	—	(322)	(322)	(322)
Net Actuarial Losses (Gains) [1]	1,817	1,617	1,713	(435)	(393)	(89)
Net Periodic Benefit Cost	$ 1,471	$ 1,378	$ 1,146	$ 789	$ 932	$ 1,365

[1] Represents reclassification adjustments from accumulated other comprehensive income during the period.

The estimated net actuarial loss related to the Company's Pension Plans that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending December 31, 2018 is approximately $2.0 million. The estimated net actuarial gain and prior service credit related to the Company's postretirement benefit plan that is expected to be amortized from accumulated other comprehensive income into net periodic benefit cost for the year ending December 31, 2018 is approximately $0.8 million.

Assumptions used to determine the benefit obligations as of December 31, 2017 and 2016 for the Company's Pension Plans and postretirement benefit plan were as follows:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Weighted Average Assumptions as of December 31:				
Discount Rate	3.90%	4.45%	3.96%	4.57%
Health Care Cost Trend Rate Assumed For Next Year	—	—	6.30%	6.50%

The health care cost trend rate is assumed to decrease annually, until reaching the ultimate trend rate of 4.5% in 2036.

Assumptions used to determine the net periodic benefit cost for the Company's Pension Plans and postretirement benefit plan for the years ended December 31, 2017, 2016, and 2015 were as follows:

	Pension Benefits			Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Weighted Average Assumptions as of December 31:						
Discount Rate	4.45%	4.70%	4.25%	4.57%	4.74%	4.28%
Expected Long-Term Rate of Return on Plan Assets	5.75%	6.00%	6.00%	—	—	—
Health Care Cost Trend Rate	—	—	—	6.50%	6.70%	7.00%

A combination of factors is used by management in determining the expected long-term rate of return on plan assets. Historical return experience for major asset categories are evaluated and current market factors, such as inflation and interest rates, are considered in determining the expected long-term rate of return assumption.

A one percent change in the health care cost trend rate assumption (with all other assumptions remaining constant) would have impacted the service and interest cost components of the net periodic postretirement benefit cost and the postretirement benefit obligation as of and for the year ended December 31, 2017 as follows:

(dollars in thousands)	One Percent Increase	One Percent Decrease
Effect on the Total of Service and Interest Cost Component of Net Periodic Postretirement Benefit Cost	$ 99	$ (88)
Effect on the Postretirement Benefit Obligation	1,020	(1,022)

The Company expects to contribute $0.5 million to the Pension Plans and $0.9 million to the postretirement benefit plan for the year ending December 31, 2018.

As of December 31, 2017, expected benefits to be paid in each of the next five years and in the aggregate for the five years thereafter were as follows:

(dollars in thousands)	Pension Benefits	Postretirement Benefits
2018	$ 6,629	$ 886
2019	6,812	926
2020	6,944	995
2021	7,070	1,074
2022	7,095	1,181
Years 2023-2027	35,416	7,619

Retirement Plan Assets

The Company's overall investment strategy is to maintain the purchasing power of the current assets and all future contributions by producing positive rates of return on plan assets; achieve capital growth towards the attainment of full funding of the Retirement Plan's termination liability; maximize returns within reasonable and prudent levels of risk; and control costs of administering the plan and managing the investments. The long-term investment objective is to achieve an overall annualized total return, gross of fees, above the blended benchmark index comprised of 36% MSCI USA IMI Index, 24% MSCI ACWI ex-US Index, and 40% Barclays Capital Aggregate Bond Index.

Subject to liquidity requirements, the asset allocation targets are 60% for equity securities, 40% for fixed income securities with a 10% to 20% range permitted from the strategic targets, and zero to 20% for cash. Within the equity securities portfolio, the range for domestic securities is from 50% to 100% and the range for international securities is from 0% to 50%. All assets selected for the Retirement Plan must have a readily ascertainable market value and must be readily marketable.

Due to market fluctuations or cash flows, the allocation for each asset class may be breached by as much as 5% on a temporary basis. However, asset allocations are expected to conform to target ranges within 90 days of such an occurrence.

The fair values of the Retirement Plan assets as of December 31, 2017 and 2016 by asset category were as follows:

	Fair Value Measurements				
Asset Category (dollars in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total as of Dec. 31, 2017**	**Total as of Dec. 31, 2016**
Cash	$ 2,156	$ —	$ —	$ 2,156	$ 1,898
Equity Securities – Mutual Funds:					
Large-Cap	1,748	—	—	1,748	—
Mixed-Cap	29,459	—	—	29,459	29,593
International	24,539	—	—	24,539	18,040
Emerging Market	2,305	—	—	2,305	2,043
Fixed Income Securities – Mutual Funds	36,701	—	—	36,701	31,809
Total	$ 96,908	$ —	$ —	$ 96,908	$ 83,383

Quoted prices for these investments were available in active markets, and therefore were classified as Level 1 measurements in the fair value hierarchy.

Note 15. Share-Based Compensation

The Company has share-based compensation plans which allow grants of stock options, restricted stock, stock appreciation rights, and restricted stock units to its employees and non-employee directors. The Company's employee stock option plans are shareholder approved and administered by the Human Resources and Compensation Committee of the Board of Directors. Stock options provide grantees the option to purchase shares of the Parent's common stock at a specified exercise price and, generally, expire 10 years from the date of grant. Stock option grants include incentive and non-qualified stock options whose vesting may be subject to one or more criteria, including employment or achievement of Company performance measures. Stock option exercise prices were equal to the quoted market price of the Parent's common stock on the date of grant. Restricted stock provides grantees with rights to shares of common stock upon completion of one or more criteria, including service period, performance or other conditions as established by the Compensation Committee, such as vesting tied to the Company's financial performances relative to the peer group or achievement of an absolute financial performance target. During the restriction period, all shares are considered outstanding and dividends are paid on the restricted stock. Generally, restricted stock vests over periods ranging from one to four years from the date of grant. Restricted stock and dividends may be forfeited if an employee terminates prior to vesting.

As of December 31, 2017, total shares authorized under the plans were 2.1 million shares, of which 1.9 million shares were available for future grants.

The Company recognizes compensation expense, measured as the fair value of the share-based award on the date of grant, on a straight-line basis over the requisite service period. Share-based compensation is recorded in the statements of income as a component of salaries and benefits for employees and as a component of other noninterest expense for non-employee directors, with a corresponding increase to capital surplus in shareholders' equity. For the years ended December 31, 2017, 2016, and 2015, compensation expense and the related income tax benefit recognized for stock options and restricted stock were as follows:

(dollars in thousands)	2017	2016	2015
Compensation Expense	$ 7,369	$ 6,787	$ 7,689
Income Tax Benefit	2,910	2,680	3,036

Restricted Stock

As of December 31, 2017, unrecognized compensation expense related to unvested restricted stock was $9.8 million. The unrecognized compensation expense is expected to be recognized over a weighted average period of 1.83 years.

The following table presents the activity for restricted stock:

	Number of Shares	Weighted Average Grant Date Fair Value	Grant Date Fair Value of Restricted Stock that Vested During the Year (in thousands)
Unvested as of December 31, 2014	263,446	$ 53.04	
Granted	116,331	57.31	
Vested	(108,949)	52.47	$ 5,759
Forfeited	(2,015)	54.17	
Unvested as of December 31, 2015	268,813	$ 55.92	
Granted	121,495	64.40	
Vested	(105,891)	53.46	$ 5,661
Forfeited	(13,894)	58.14	
Unvested as of December 31, 2016	270,523	$ 60.58	
Granted	124,460	84.53	
Vested	(52,822)	60.06	$ 4,493
Forfeited	(22,058)	69.46	
Unvested as of December 31, 2017 [1]	320,103	$ 69.36	

[1] As of December 31, 2017, 31,397 shares were unvested from service-based grants.

Restricted Stock Units

There were no RSUs granted during 2017. During 2016, and 2015, the Company granted RSUs payable solely in cash. The RSUs vest over periods ranging from three to four years from the date of grant and are subject to forfeiture until performance and employment targets are achieved. Upon vesting, the RSUs are converted to cash based on the closing stock price on the vesting date. Total recognized compensation expense related to the RSUs was $3.4 million, $5.9 million, and $3.3 million for the years ended December 31, 2017, 2016, and 2015, respectively.

The following table presents the activity for RSU:

	Number of Units	Weighted Average Grant Date Fair Value	Fair Value of Restricted Stock Unit that Vested During the Year (in thousands)
Balance as of December 31, 2014	105,405	$ 55.17	
Granted	61,751	56.68	
Vested	(31,651)	55.17	$ 1,940
Balance as of December 31, 2015	135,505	$ 55.86	
Granted	58,541	63.92	
Vested	(31,660)	55.17	$ 1,897
Forfeited	(7,554)	56.08	
Balance as of December 31, 2016	154,832	$ 59.04	
Vested	(29,281)	58.74	$ 2,516
Forfeited	(9,062)	60.17	
Balance as of December 31, 2017	116,489	$ 60.22	

Stock Options

There were no stock options granted for the years ended December 31, 2017, 2016, and 2015. All stock options granted were fully vested prior to December 31, 2015. The Company reissues treasury stock to satisfy stock option exercises.

The following table presents the activity related to stock options under all plans for the year ended December 31, 2017:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Stock Options Outstanding as of January 1, 2017	478,889	$ 45.14		
Exercised	(166,838)	44.96		
Forfeited	(8,499)	44.38		
Stock Options Outstanding as of December 31, 2017	303,552	45.26	4.0	$ 12,277
Stock Options Vested and Exercisable as of December 31, 2017	303,552	45.26	4.0	12,277

The following summarizes certain stock option activity of the Company for the years ended December 31, 2017, 2016, and 2015:

(dollars in thousands)	2017	2016	2015
Intrinsic Value of Stock Options Exercised	$ 5,991	$ 1,990	$ 2,754
Cash Received from Stock Options Exercised	7,502	3,546	9,704
Tax Benefits Realized from Stock Options Exercised	2,003	384	330

Note 16. Income Taxes

Provision for Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2017, 2016, and 2015 were as follows:

(dollars in thousands)	2017	2016	2015
Current:			
Federal	$ 73,176	$ 69,061	$ 73,278
State	6,039	1,885	3,737
Total Current	79,215	70,946	77,015
Deferred:			
Federal	5,042	6,947	(6,801)
State	(865)	240	284
Total Deferred	4,177	7,187	(6,517)
Provision for Income Taxes	$ 83,392	$ 78,133	$ 70,498

The tax effects of fair value adjustments on available-for-sale investment securities, the amortization of unrealized gains and losses related to investment securities transferred to held-to-maturity, the minimum pension liability adjustment, and tax benefits related to stock options are recorded directly to consolidated shareholders' equity. The net tax benefit recorded directly to consolidated shareholders' equity was $0.5 million and $7.9 million for the year ended December 31, 2017 and December 31, 2016, respectively. The net tax charge recorded directly to consolidated shareholders' equity was $1.0 million for the year ended December 31, 2015.

Deferred Tax Liabilities and Assets

As of December 31, 2017 and 2016, significant components of the Company's deferred tax liabilities and assets were as follows:

	December 31,	
(dollars in thousands)	2017	2016
Deferred Tax Liabilities:		
Accrued Pension Cost	$ (11,245)	$ (13,292)
Federal Home Loan Bank Stock	(3,408)	(5,088)
Lease Transactions	(57,458)	(87,454)
Energy Tax Credits	(8,821)	(10,476)
Investment in Variable Interest Entities	(3,407)	(1,883)
Deferred Loan Fees	(6,903)	(9,088)
Originated Mortgage Servicing Rights	(6,646)	(9,588)
Other	(1,883)	(691)
Gross Deferred Tax Liabilities	(99,771)	(137,560)
Deferred Tax Assets:		
Accelerated Depreciation	1,844	6,027
Allowance for Loan Losses	30,148	43,705
Minimum Pension Liability	12,114	18,852
Accrued Expenses	9,937	18,693
Postretirement Benefit Obligations	8,595	12,900
Capital Lease Expenses	2,168	3,235
Restricted Stock	6,223	7,955
Net Unrealized Losses on Investments Securities	3,059	3,271
Deductible State and Local Taxes	2,461	3,956
Other	5,183	7,596
Gross Deferred Tax Assets Before Valuation Allowance	81,732	126,190
Valuation Allowance	(955)	(3,655)
Gross Deferred Tax Assets After Valuation Allowance	80,777	122,535
Net Deferred Tax Liabilities	$ (18,994)	$ (15,025)

Accounting Standards Codification (ASC) 740, Income Taxes, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted. Since the Tax Cuts and Jobs Act was enacted on December, 22 2017, the Company revalued and adjusted its deferred taxes by recording an additional $3.6 million tax expense in December 2017. The Company's deferred tax balances as of December 31, 2017 are based on the 21% federal tax rate which is expected to be in effect during the periods in which the temporary differences reverse, while deferred tax balances as of December 31, 2016 are based on the 35% federal tax rate.

Both positive and negative evidence was considered by management in determining the need for a valuation allowance. Negative evidence included the uncertainty regarding the generation of capital gains in future years and restrictions on the ability to sell low-income housing investments during periods when carrybacks of capital losses are allowed. Positive evidence included capital gains in the current year and carryback years. After considering all available evidence, management determined that a valuation allowance to offset deferred tax assets related to low-income housing investments that can only be used to offset capital gains was appropriate. Management determined that a valuation allowance was not required for the remaining deferred tax assets because it is more likely than not these assets will be realized through future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences, and taxable income in prior carryback years.

Certain events covered by Internal Revenue Code Section 593(e) will trigger a recapture of base year reserves of acquired thrift institutions. The base year reserves of acquired thrift institutions would be recaptured if an entity ceases to qualify as a bank for federal income tax purposes. The base year reserves of thrift institutions also remain subject to income tax penalty provisions that, in general, require recapture upon certain stock redemptions of, and excess distributions to, shareholders. As of December 31, 2017, retained earnings included $18.2 million of base year reserves for which the deferred federal income tax liability of $4.8 million has not been recognized.

Effective Tax Rate

The following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2017, 2016, and 2015:

	2017	2016	2015
Statutory Federal Income Tax Rate	35.00%	35.00%	35.00%
Increase (Decrease) in Income Tax Rate Resulting From:			
State Taxes, Net of Federal Income Tax	1.50	0.60	1.23
Tax Reserve Adjustments	0.09	(0.18)	0.38
Low-Income Housing Investments	(1.18)	(0.69)	(0.78)
Investment Tax Credits	(1.03)	(0.85)	(0.89)
Bank-Owned Life Insurance	(0.85)	(0.88)	(1.06)
Tax-Exempt Income	(2.57)	(2.71)	(3.03)
Excess Tax Benefits - Stock Compensation	(0.83)	—	—
Deferred Tax Adjustment for Tax Rate Change	1.25	—	—
Other	(0.27)	(0.19)	(0.36)
Effective Tax Rate	31.11%	30.10%	30.49%

The Tax Cuts and Jobs Act changed the corporate tax rate from 35% to 21%, effective January 1, 2018. The impact on deferred tax assets and liabilities was recognized as an additional income tax expense of $3.6 million in the fourth quarter of 2017, when the act was signed into law.

Unrecognized Tax Benefits

The Company is required to record a liability, referred to as an unrecognized tax benefit ("UTB"), for the entire amount of benefit taken in a prior or future income tax return when the Company determines that a tax position has a less than 50% likelihood of being accepted by the taxing authority. The following presents a reconciliation of the Company's liability for UTBs for the years ended December 31, 2017, 2016, and 2015:

(dollars in thousands)	2017	2016	2015
Unrecognized Tax Benefits at Beginning of Year	$ 6,574	$ 11,602	$ 12,229
Gross Increases, Related to Tax Positions Taken in a Prior Period	273	145	398
Gross Decreases, Related to Tax Positions Taken in a Prior Period	—	(230)	(98)
Gross Increases, Related to Current Period Tax Positions	1,124	395	573
Settlement with Taxing Authority	—	(1,002)	—
Lapse of Statute of Limitations	(2,679)	(4,336)	(1,500)
Unrecognized Tax Benefits at End of Year	$ 5,292	$ 6,574	$ 11,602

As of December 31, 2017 and 2016, $5.3 million and $5.8 million, respectively, in liabilities for UTBs was related to UTBs that if reversed would have an impact on the Company's effective tax rate.

Management believes that it is reasonably possible that the Company's liability for UTBs could further decrease as a result of the expiration of statutes of limitations within the next 12 months. However, management is currently not able to estimate a range of possible change in the amount of the liability for UTBs recorded as of December 31, 2017.

The Company classifies interest and penalties, if any, related to the liability for UTBs as a component of the provision for income taxes. For the years ended December 31, 2017, 2016, and 2015, the Company recorded a net tax benefit of $0.1 million, and $1.1 million, and a net tax provision of less than $0.1 million, respectively, for interest and penalties. As of December 31, 2017 and 2016, the Company had accrued $0.9 million and $1.0 million, respectively, for the payment of possible interest and penalties.

The federal tax returns for 2014 through 2016 remain subject to examination. The Company's State of Hawaii income tax returns for 2014 through 2016 remain subject to examination by the taxing authorities.

Note 17. Derivative Financial Instruments

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

	December 31, 2017		December 31, 2016	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Lock Commitments	$ 35,422	$ 789	$ 55,223	$ 1,067
Forward Commitments	45,143	(56)	104,962	847
Interest Rate Swap Agreements				
Receive Fixed/Pay Variable Swaps	374,670	(1,331)	357,441	1,381
Pay Fixed/Receive Variable Swaps	374,670	1,436	357,441	(1,395)
Foreign Exchange Contracts	54,332	(13)	38,172	(757)

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

	December 31, 2017		December 31, 2016	
Derivative Financial Instruments Not Designated as Hedging Instruments [1] (dollars in thousands)	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Interest Rate Lock Commitments	$ 789	$ —	$ 1,236	$ 169
Forward Commitments	14	70	873	26
Interest Rate Swap Agreements	9,583	9,478	11,569	11,583
Foreign Exchange Contracts	132	145	53	810
Total	$ 10,518	$ 9,693	$ 13,731	$ 12,588

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

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 years ended December 31, 2017, 2016, and 2015:

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of Net Gains (Losses)Recognized in the Statements of Income	Year Ended December 31, 2017	2016	2015
Interest Rate Lock Commitments	Mortgage Banking	$ 5,643	$ 7,834	$ 2,779
Forward Commitments	Mortgage Banking	(1,275)	1,741	27
Interest Rate Swap Agreements	Other Noninterest Income	698	2,987	1,085
Foreign Exchange Contracts	Other Noninterest Income	3,296	2,962	2,783
Total		$ 8,362	$ 15,524	$ 6,674

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

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

The Company enters into interest rate swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the interest rate risk of entering into these agreements by entering into equal and offsetting interest rate swap agreements with highly rated third party financial institutions. The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition. Fair value changes are recorded in other noninterest income in the Company's consolidated statements of income. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. Collateral, usually in the form of cash or marketable securities, is posted by the counterparty with net liability positions in accordance with contract thresholds. See Note 19 *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, new regulations require collateral to be posted by the party with a net liability position (i.e., the threshold for posting collateral was reduced to zero, subject to certain minimum transfer amounts). The requirements generally apply to new derivative contracts entered into after the applicable compliance date of the regulation (March 1, 2017 for the Company), although certain counterparties may elect to apply lower thresholds to existing contracts.

Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. These payments are commonly referred to as variation margin. Historically, variation margin payments have typically been treated as collateral against the derivative position. Effective 2017, the Chicago Mercantile Exchange and LCH.Clearnet Limited (collectively, the “clearinghouses”) amended their rulebooks to legally characterize variation margin payments for over-the-counter derivatives they clear as settlements of the derivatives’ mark-to-market exposure rather than collateral against the exposures. This rule change effectively results in any derivative cleared through the clearinghouses to have a fair value that approximates zero on a daily basis. During the second quarter of 2017, the Company executed its first swap agreements cleared through the clearinghouses. As of December 31, 2017, the application of the rule change reduced the swap agreement liability by $0.1 million, as reflected in the table above. Going forward, the Company expects most of the swap agreements executed with third party financial institutions will be required to be cleared through the clearinghouses. The uncleared swap agreements executed with third party financial institutions will remain subject to the collateral requirements and credit-risk-related contingent features described in the previous paragraphs, and therefore, are not subject to the variation margin rule change. Likewise, the swap agreements executed with the Company’s commercial banking customers will remain uncleared and will also not be subject to the variation margin rule change.

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

As each sale of Visa Class B restricted shares was completed, the Company entered into a conversion rate swap agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio of Class B into Class A unrestricted common shares. In the event of Visa increasing the conversion ratio, the buyer would be required to make payment to the Company. As of December 31, 2017, the conversion rate swap agreement was valued at zero (i.e., no contingent liability recorded) as further reductions to the conversion ratio were deemed neither probable nor reasonably estimable by management. See Note 3 *Investment Securities* for more information.

Note 18. 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 full 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 $71.7 million and $66.6 million as of December 31, 2017 and 2016, respectively, and are included in other assets in the consolidated statements of condition.

Unfunded Commitments

As of December 31, 2017, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)		**Amount**
2018	$	13,647
2019		2,893
2020		51
2021		27
2022		33
Thereafter		802
Total Unfunded Commitments	**$**	**17,453**

The following table presents tax credits and other tax benefits recognized and amortization expense related to affordable housing for the years ended December 31, 2017, 2016, and 2015.

(dollars in thousands)		**2017**		**2016**		**2015**
Effective Yield Method						
Tax credits and other tax benefits recognized	$	13,569	$	13,996	$	13,448
Amortization Expense in Provision for Income Taxes		8,373		7,886		7,735
Proportional Amortization Method						
Tax credits and other tax benefits recognized	$	1,040	$	—	$	—
Amortization Expense in Provision for Income Taxes		800		—		—

There were no impairment losses related to LIHTC investments for the years ended December 31, 2017, 2016, and 2015.

Note 19. 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 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 a net liability positions with its financial institution counterparties totaling $3.2 million and $5.5 million as of December 31, 2017 and 2016, respectively. See Note 17 *Derivative Financial Instruments* for more information.

Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. Effective 2017, these payments, commonly referred to as variation margin, will be recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures. During the second quarter of 2017, the

Company executed its first centrally cleared swap agreements. This rule change effectively results in any centrally cleared derivative having a fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table at the end of this section. See Note 17 *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 December 31, 2017 and 2016, disaggregated by the class of collateral pledged.

	Remaining Contractual Maturity of Repurchase Agreements				
(dollars in thousands)	**Up to 90 days**	**91-365 days**	**1-3 Years**	**After 3 Years**	**Total**
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
December 31, 2016					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ —	$ —	$ 200,000	$ 104,681	$ 304,681
Debt Securities Issued by States and Political Subdivisions	22,050	590	—	—	22,640
Mortgage-Backed Securities:					
Residential - Government Agencies	738	—	—	97,281	98,019
Residential - U.S. Government-Sponsored Enterprises	—	—	—	98,038	98,038
Total	$ 22,788	$ 590	$ 200,000	$ 300,000	$ 523,378

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

	(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 [1]	Net Amount
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	—
Total Repurchase Agreements	$ 505,293	$ —	$ 505,293	$ —	$ 505,293	$ —
December 31, 2016						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 5,094	$ —	$ 5,094	$ 5,094	$ —	$ —
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	6,489	—	6,489	5,094	500	895
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	23,378	—	23,378	—	23,378	—
Total Repurchase Agreements	$ 523,378	$ —	$ 523,378	$ —	$ 523,378	$ —

[1] The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For swap agreements with institutional counterparties, the fair value of investment securities pledged was $3.5 million as of December 31, 2017. For repurchase agreements with private institutions, the fair value of investment securities pledged was $563.3 million and $559.3 million as of December 31, 2017 and 2016, respectively. For repurchase agreements with government entities, the fair value of investment securities pledged was $6.9 million and $28.9 million as of December 31, 2017 and 2016, respectively.

Note 20. Commitments, Contingencies, and Guarantees

The Company's credit commitments as of December 31, 2017 were as follows:

(dollars in thousands)	December 31, 2017
Unfunded Commitments to Extend Credit	$ 2,780,724
Standby Letters of Credit	60,519
Commercial Letters of Credit	18,036
Total	$ 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. Assets valued at $39.8 million secured certain specifically identified standby letters of credit as of December 31, 2017. As of December 31, 2017, the standby and commercial letters of credit had remaining terms ranging from 1 to 24 months.

Lease Commitments

A portion of the Company's headquarters' building is leased with a lease term through 2052. The Company leases certain other branch premises and equipment with lease terms extending through 2048. Most of the leases for premises provide for a base rent over a specified period with renewal options thereafter. Portions of certain properties are subleased for periods expiring in various years through 2033. Lease terms generally specify that the Company is to pay for taxes, maintenance, and other operating costs. Rental expense for all operating leases for the years ended December 31, 2017, 2016, and 2015 were as follows:

(dollars in thousands)	2017	2016	2015
Minimum Rentals	$ 18,331	$ 18,377	$ 18,826
Sublease Rental Income	(7,056)	(6,551)	(6,212)
Total	$ 11,275	$ 11,826	$ 12,614

Future minimum payments for capital leases and non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following as of December 31, 2017:

(dollars in thousands)	Capital Leases	Operating Leases
2018	$ 825	$ 12,521
2019	825	10,756
2020	825	10,111
2021	825	9,300
2022	825	8,959
Thereafter	24,755	97,836
Total Future Minimum Lease Payments	28,880	$ 149,483
Amounts Representing Interest	(18,164)	
Present Value of Net Future Minimum Lease Payments	$ 10,716	

Minimum future rental income receivable under non-cancelable subleases was $13.2 million as of December 31, 2017.

Contingencies

The Company, along with other members of Visa, are parties to Loss and Judgment Sharing Agreements (the "Agreements"), which provide that the Company along with other member banks of Visa, will share, based on its proportionate interest in Visa, in any losses from certain litigation specified in the Agreements. In March 2008, Visa funded an escrow account from its initial public offering to settle claims covered under the Agreements. In connection with the initial public offering, the Company received restricted Class B common stock in Visa. Should the escrow account established by Visa not be sufficient to cover litigation claims specified in the Agreements, 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 December 31, 2017, management believes that the Company's indemnification of Visa, related to the costs of these lawsuits, will be sufficiently funded from the escrow account or through future reductions in the conversion ratio. See Note 3 *Investment Securities* and Note 17 *Derivative Financial Instruments* for more information.

On September 9, 2016, a purported class action lawsuit was filed by a Bank customer primarily alleging Bank of Hawaii's practice of determining whether consumer deposit accounts were overdrawn based on "available balance" (which deducts debit card transactions that have taken place but which have not yet been posted) was not properly applied or disclosed to customers. Additionally, on January 20, 2017, another purported class action lawsuit was filed by a Bank customer alleging Bank of Hawaii's practice of assessing a continuous negative balance overdraft fee on accounts remaining in a negative balance for extended periods of time beyond the date of the initial overdraft constituted a usurious interest charge and a breach of contract with the customer.

These lawsuits are similar to lawsuits filed against other financial institutions pertaining to available balance overdraft fee disclosures and continuing negative balance overdraft fees. Because of the many questions of fact and law that may arise in the future, the outcome of these legal proceedings are uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for these actions because, among other things, our potential liability depends on whether a class is certified and, if so, the composition and size of any such class, the applicable time period at issue, as well as an assessment of the appropriate measure of damages if we were to be found liable. Accordingly, we have not recognized any liability associated with these actions. Management disputes any wrongdoing and the cases are being vigorously defended.

In addition to the litigation noted above, the Company is subject to various other pending and threatened legal proceedings arising out of 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 December 31, 2017, 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. For the year ended December 31, 2017, the Company repurchased one residential mortgage loan with an aggregate unpaid principal balance totaling $0.2 million as a result of the representation and warranty provisions contained in these contracts. This loan was delinquent as to principal and interest at the time of repurchase, however, no losses were incurred related to this repurchase. As of December 31, 2017, there were no pending repurchase requests related to representation and warranty provisions.

Risks Relating to Residential Mortgage Loan Servicing Activities

In addition to servicing loans in the Company's portfolio, substantially all of the loans the Company sells to investors are sold with servicing rights retained. The Company also services loans originated by other mortgage loan originators. As servicer, the Company's primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or, to the extent consistent with the documents governing a securitization, consider alternatives to foreclosure, such as loan modifications or short sales. Each agreement under which the Company acts as servicer generally specifies a standard of responsibility for actions taken by the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective 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 year ended December 31, 2017, the Company had no repurchase requests related to loan servicing activities. As of December 31, 2017, there were no pending repurchase requests related to loan servicing activities.

Although to date repurchase requests related to representation and warranty provisions, and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of December 31, 2017, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of December 31, 2017, 99% of the Company's residential mortgage loans serviced for investors were current. The Company maintains ongoing communications with investors and continues to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in the loans sold to investors.

Note 21. Fair Value of Assets and Liabilities

The following is a description of the valuation methodologies and key inputs used to measure assets and liabilities recorded at fair value on a recurring 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 December 31, 2017 and 2016, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review the significant assumptions and valuation methodologies used by the service. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. The Company's third-party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going-forward basis.

Loans Held for Sale

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

Mortgage Servicing Rights

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

Other Assets

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

Derivative Financial Instruments

Derivative financial instruments recorded at fair value on a recurring basis are comprised of interest rate lock commitments ("IRLCs"), forward commitments, interest rate swap agreements, foreign exchange contracts, and Visa Class B to Class A shares conversion rate swap agreements. The fair values of IRLCs are calculated based on the value of the underlying loan held for sale, which in turn is based on quoted prices for similar loans in the secondary market. However, this value is adjusted by a factor which considers the likelihood that the loan in a locked position will ultimately close. This factor, the closing ratio, is derived from the Bank's internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements. Forward commitments are classified as Level 2 measurements as they are primarily based on quoted prices from the secondary market based on the settlement date of the contracts, interpolated or extrapolated, if necessary, to estimate a fair value as of the end of the reporting period. The fair values of interest rate swap agreements are calculated using a discounted cash flow approach and utilize Level 2 observable inputs such as a market yield curve, effective date, maturity date, notional amount, and stated interest rate. In addition, the Company includes in its fair value calculation a credit factor adjustment which is based primarily on management judgment. Thus, interest rate swap agreements are classified as a Level 3 measurement. The fair values of foreign exchange contracts are calculated using the Bank's multi-currency accounting system which utilizes contract specific information such as currency, maturity date, contractual amount, and strike price, along with 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 December 31, 2017 and 2016, the conversion rate swap agreements were valued at zero as reductions to the conversion ratio were neither probable nor reasonably estimable by management. See Note 17 *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 December 31, 2017 and 2016:

(dollars in thousands)	Quoted Prices In Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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
December 31, 2016				
Assets:				
Investment Securities Available-for-Sale				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$ 539	$ 408,176	$ —	$ 408,715
Debt Securities Issued by States and Political Subdivisions	—	671,799	—	671,799
Debt Securities Issued by Corporations	—	269,179	—	269,179
Mortgage-Backed Securities:				
Residential - Government Agencies	—	243,844	—	243,844
Residential - U.S. Government-Sponsored Enterprises	—	506,987	—	506,987
Commercial - Government Agencies	—	85,517	—	85,517
Total Mortgage-Backed Securities	—	836,348	—	836,348
Total Investment Securities Available-for-Sale	539	2,185,502	—	2,186,041
Loans Held for Sale	—	62,499	—	62,499
Mortgage Servicing Rights	—	—	1,655	1,655
Other Assets	21,952	—	—	21,952
Derivatives [1]	—	926	12,805	13,731
Total Assets Measured at Fair Value on a Recurring Basis as of December 31, 2016	$ 22,491	$ 2,248,927	$ 14,460	$ 2,285,878
Liabilities:				
Derivatives [1]	$ —	$ 836	$ 11,752	$ 12,588
Total Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2016	$ —	$ 836	$ 11,752	$ 12,588

[1] The fair value of each class of derivatives is shown in Note 17 *Derivative Financial Instruments*.

For the years ended December 31, 2017 and 2016, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(dollars in thousands)	Mortgage Servicing Rights [1]	Net Derivative Assets and Liabilities [2]
Year Ended December 31, 2017		
Balance as of January 1, 2017	$ 1,655	$ 1,053
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(201)	5,648
Transfers to Loans Held for Sale	—	(5,921)
Variation Margin Payments	—	114
Balance as of December 31, 2017	$ 1,454	$ 894
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of December 31, 2017	$ —	$ 894
Year Ended December 31, 2016		
Balance as of January 1, 2016	$ 1,970	$ 240
Realized and Unrealized Net Gains (Losses):		
Included in Net Income	(315)	7,850
Transfers to Loans Held for Sale	—	(7,037)
Balance as of December 31, 2016	$ 1,655	$ 1,053
Total Unrealized Net Gains (Losses) Included in Net Income Related to Assets Still Held as of December 31, 2016	$ —	$ 1,053

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 December 31, 2017 and 2016, the significant unobservable inputs used in the fair value measurements were as follows:

		Significant Unobservable Inputs (weighted-average)			Fair Value	
			December 31,		December 31,	
(dollars in thousands)	Valuation Technique	Description	2017	2016	2017	2016
Mortgage Servicing Rights	Discounted Cash Flow	Constant Prepayment Rate [1]	8.50%	8.13%	$ 28,170	$ 26,803
		Discount Rate [2]	8.87%	9.33%		
Net Derivative Assets and Liabilities:						
Interest Rate Lock Commitments	Pricing Model	Closing Ratio	93.25%	92.26%	$ 789	$ 1,067
Interest Rate Swap Agreements	Discounted Cash Flow	Credit Factor	0.10%	0.13%	$ 105	$ (14)

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.

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 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 our secondary marketing system using historical data and the ratio is periodically reviewed by the Company’s Secondary Marketing Department of the Mortgage Banking Division for reasonableness.

The unobservable input used in the fair value measurement of the Company’s interest rate swap agreements is the credit factor. This factor represents the risk that a counterparty is either unable or unwilling to settle a transaction in accordance with the underlying contractual terms. A significant increase (decrease) in the credit factor could result in a significantly lower (higher) fair value measurement. The credit factor is determined by the Treasury Division based on the risk rating assigned to each counterparty in which the Company holds a net asset position. The Company’s Credit Policy Committee periodically reviews and approves the Expected Default Frequency of the Economic Capital Model for Credit Risk. The Expected Default Frequency is used as the credit factor for interest rate swap agreements.

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. For the years ended December 31, 2017 and 2016, 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 December 31, 2017 and 2016.

(dollars in thousands)	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
December 31, 2017			
Loans Held for Sale	$ 19,231	$ 18,854	$ 377
December 31, 2016			
Loans Held for Sale	$ 62,499	$ 61,782	$ 717

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of mortgage banking income in the Company’s consolidated statements of income. For the years ended December 31, 2017 and 2016, the net gains or losses from the change in fair value of the Company’s residential mortgage loans held for sale were not material.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

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

Investment Securities Held-to-Maturity

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

Loans

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

Time Deposits

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

Securities Sold Under Agreements to Repurchase

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

Other Debt

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

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 December 31, 2017 and 2016. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

			Fair Value Measurements		
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	—
December 31, 2016					
Financial Instruments – Assets					
Investment Securities Held-to-Maturity	$ 3,832,997	$ 3,827,527	$ 530,940	$ 3,296,587	$ —
Loans [1]	8,583,726	8,743,191	—	—	8,743,191
Financial Instruments – Liabilities					
Time Deposits	1,217,707	1,213,705	—	1,213,705	—
Securities Sold Under Agreements to Repurchase	523,378	523,374	—	523,374	—
Other Debt [2]	257,153	256,718	—	256,718	—

[1] Net of unearned income and the Allowance.
[2] Excludes capitalized lease obligations.

Note 22. Bank of Hawaii Corporation Financial Statements

Condensed financial statements of the Parent were as follows:

Condensed Statements of Comprehensive Income

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Income			
Dividends from Bank of Hawaii	$ 130,000	$ 120,000	$ 115,000
Investment Securities Gains (Losses), Net	12,027	(340)	9,870
Other Income	204	279	973
Total Income	142,231	119,939	125,843
Noninterest Expense			
Intercompany Salaries and Services	720	705	651
Other Expenses	1,401	1,392	2,325
Total Noninterest Expense	2,121	2,097	2,976
Income Before Income Tax Benefit and Equity in Undistributed Income of Subsidiaries	140,110	117,842	122,867
Income Tax Benefit (Expense)	(3,557)	2,137	(1,670)
Equity in Undistributed Income of Subsidiaries	48,119	61,482	39,507
Net Income	$ 184,672	$ 181,461	$ 160,704
Comprehensive Income	$ 183,863	$ 171,112	$ 163,833

Condensed Statements of Condition

(dollars in thousands)	December 31, 2017	December 31, 2016
Assets		
Cash with Bank of Hawaii	$ 49,669	$ 51,915
Investment Securities Held-to-Maturity	4,986	4,973
Goodwill	14,129	14,129
Income Taxes Receivable and Deferred Tax Assets	2,567	2,071
Other Assets	8,233	7,744
Equity in Net Assets of Subsidiaries	1,161,037	1,095,077
Total Assets	$ 1,240,621	$ 1,175,909
Liabilities		
Income Taxes Payable	$ 517	$ 6,273
Other Liabilities	8,236	8,099
Total Liabilities	8,753	14,372
Shareholders' Equity	1,231,868	1,161,537
Total Liabilities and Shareholders' Equity	$ 1,240,621	$ 1,175,909

Condensed Statements of Cash Flows

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Operating Activities			
Net Income	$ 184,672	$ 181,461	$ 160,704
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Share-Based Compensation	573	558	639
Net (Gains) Losses on Sales of Investment Securities	(12,027)	340	(9,870)
Equity in Undistributed Income of Subsidiaries	(48,119)	(61,482)	(39,507)
Net Change in Other Assets and Other Liabilities	(6,477)	1,508	(481)
Net Cash Provided by Operating Activities	118,622	122,385	111,485
Investing Activities			
Capital Distribution from BOHC Investment Fund LLC	613	—	—
Capital Contributions to the Bank	(12,467)	—	(10,179)
Proceeds from (Expenses related to) Sales of Investment Securities	12,027	(340)	9,870
Net Cash Provided by (Used in) Investing Activities	173	(340)	(309)
Financing Activities			
Proceeds from Issuance of Common Stock	13,101	9,079	15,364
Repurchase of Common Stock	(47,076)	(61,807)	(52,981)
Cash Dividends Paid	(87,066)	(81,157)	(78,367)
Net Cash Used in Financing Activities	(121,041)	(133,885)	(115,984)
Net Change in Cash and Cash Equivalents	(2,246)	(11,840)	(4,808)
Cash and Cash Equivalents at Beginning of Period	51,915	63,755	68,563
Cash and Cash Equivalents at End of Period	$ 49,669	$ 51,915	$ 63,755

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2017. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2017. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, the Chief Executive Officer and Chief Financial Officer assert that the Company maintained effective internal control over financial reporting as of December 31, 2017 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP's attestation report on the Company's internal control over financial reporting appears on the following page and is incorporated by reference herein.

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 December 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Bank of Hawaii Corporation

Opinion on Internal Control over Financial Reporting

We have audited Bank of Hawaii Corporation and subsidiaries' internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the COSO criteria). In our opinion, Bank of Hawaii Corporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 28, 2018

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information regarding the executive officers of the Parent is included under the caption "Executive Officers of the Registrant" in Part I, Item 1 of this report. Other information required by this Item is incorporated herein by reference to the Bank of Hawaii Corporation Proxy Statement for the 2018 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year to which this report relates.

The Parent's Board of Directors has determined that Mark A. Burak, Robert Huret, Victor K. Nichols, and Raymond P. Vara, Jr., members of the Parent's Audit and Risk Committee, are audit committee financial experts within the meaning of Item 407(d)(5) of Regulation S-K. All members on the Audit and Risk Committee are independent and are financially literate within the meaning of Section 10A(m)(3) of the Exchange Act and the rules of the New York Stock Exchange, as applicable.

The Parent has adopted a written code of ethics within the meaning of Item 406 of Regulation S-K that applies to the Parent's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. A copy of the Code of Ethics for Senior Financial Officers is available on the Company's website, www.boh.com. The Parent intends to provide disclosure of any change to, or waiver from, the Parent's Code of Ethics for Senior Financial Officers via its website.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Bank of Hawaii Corporation Proxy Statement for the 2018 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the Bank of Hawaii Corporation Proxy Statement for the 2018 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the Bank of Hawaii Corporation Proxy Statement for the 2018 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the Bank of Hawaii Corporation Proxy Statement for the 2018 annual meeting of shareholders to be filed with the SEC within 120 days after the end of the Company's fiscal year.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Schedules

The following Consolidated Financial Statements of Bank of Hawaii Corporation and Subsidiaries are included in Item 8 of this report:

Consolidated Statements of Income – Years ended December 31, 2017, 2016, and 2015

Consolidated Statements of Comprehensive Income – Years ended December 31, 2017, 2016, and 2015

Consolidated Statements of Condition – December 31, 2017 and 2016

Consolidated Statements of Shareholders' Equity – Years ended December 31, 2017, 2016, and 2015

Consolidated Statements of Cash Flows – Years ended December 31, 2017, 2016, and 2015

Notes to Consolidated Financial Statements

All other schedules to the Consolidated Financial Statements stipulated by Article 9 of Regulation S-X and all other schedules to the financial statements of the registrant required by Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and, therefore, have been omitted.

Exhibit Table

Exhibit Number	
3.1	Certificate of Incorporation of Bank of Hawaii Corporation (f/k/a Pacific Century Financial Corporation and Bancorp Hawaii, Inc.), as amended (incorporated by reference from Exhibit 3.1 to Bank of Hawaii Corporation's Annual Report on Form 10-K for its fiscal year ended December 31, 2005, as filed on February 28, 2006 (the "2005 10-K")).
3.2	Certificate of Amendment of Certificate of Incorporation of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.1 to Bank of Hawaii Corporation's Current Report on Form 8-K filed on April 30, 2008 (the "April 30, 2008 8-K")).
3.3	Amended and Restated By-Laws of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.2 to the April 30, 2008 8-K).
3.4	Amended and Restated By-Laws of Bank of Hawaii Corporation (incorporated by reference from Exhibit 3.2 to Bank of Hawaii Corporation's Current Report on Form 8-K filed on November 19, 2013).
4.1	Instruments defining the rights of holders of long-term debt of Bank of Hawaii Corporation and its consolidated subsidiaries are not filed as exhibits because the amount of debt authorized under any such instruments does not exceed 10% of the total assets of Bank of Hawaii Corporation and its consolidated subsidiaries. Bank of Hawaii Corporation agrees to furnish a copy of any such instrument to the Commission upon request.
10.1	Bank of Hawaii Corporation's Executive Incentive Plan, as amended (incorporated by reference from Exhibit 10.2 to the 2005 10-K).*
10.2	Bank of Hawaii Corporation's Executive Base Salary Deferral Plan (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii Corporation's Current Report on Form 8-K filed on December 22, 2005).*
10.3	Bank of Hawaii Corporation's Directors' Deferred Compensation Plan, as amended (incorporated by reference from Exhibit 10.7 to the 2005 10-K).*
10.4	Bank of Hawaii Corporation's Director Stock Compensation Program, as amended (incorporated by reference from Exhibit 10.8 to the 2005 10-K).*
10.5	Bank of Hawaii Corporation's Amended and Restated Director Stock Compensation Plan (incorporated by reference from Appendix B to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2005 Annual Meeting of Shareholders filed on March 17, 2005).*
10.7	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan (incorporated by reference from Appendix C to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2004 Annual Meeting of Shareholders, as filed on March 18, 2004).*
10.8	Amendment 2007-1 to the Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan (incorporated by reference from Exhibit 10.13 to the Bank of Hawaii Corporation's Annual Report on Form 10-K, as filed on February 25, 2008 (the "2007 10-K")).*
10.9	Amendment 2007-1 to the Bank of Hawaii Corporation Executive Incentive Plan (incorporated by reference from Exhibit 10.16 to the 2007 10-K).*
10.10	Board Resolution for Amendment to the Restricted Stock and Option Awards under the Bank of Hawaii Corporation's Amended and Restated Director Stock Compensation Plan (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 28, 2008).*
10.11	Bank of Hawaii Corporation's Amended and Restated Change-In-Control Retention Plan, (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on December 18, 2009).*
10.12	Amendment 2010-1 to the Bank of Hawaii Corporation Executive Incentive Plan (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on July 26, 2010).*
10.13	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan –Share Appreciation Replacement Program - 2011 Nonqualified Stock Option Agreement (incorporated by reference from Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on November 22, 2011).*
10.14	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2012 Restricted Stock In Lieu Of Base Salary Grant Agreement (incorporated by reference from Exhibit 10.3 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).*
10.15	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan – Form of 2012 Nonqualified Stock Option Grant Agreement (incorporated by reference from Exhibit 10.4 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 23, 2012).*
10.16	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock Grant Agreement - Ho, Biggs & Sellers (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).*

10.17	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock Grant Agreement - Lucien & Rossi (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).*
10.18	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock Unit Grant Agreement - Ho, Biggs & Sellers (incorporated by reference from Exhibit 10.3 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).*
10.19	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of 2014 Restricted Stock Unit Grant Agreement - Lucien & Rossi (incorporated by reference from Exhibit 10.4 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).*
10.20	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Form of Special Incentive Agreement - Rossi & Sellers (incorporated by reference from Exhibit 10.5 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 29, 2014).*
10.21	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan (incorporated by reference from Appendix A to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2014 Annual Meeting of Shareholders, as filed on March 14, 2014).*
10.22	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan - Form of 2015 Restricted Stock Grant Agreement - (incorporated by reference from Exhibit 10.1 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 28, 2015).*
10.23	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan - Form of 2015 Restricted Stock Unit Grant Agreement - (incorporated by reference from Exhibit 10.2 to Bank of Hawaii Corporation's Current Report on Form 8-K, as filed on January 28, 2015).*
10.24	Bank of Hawaii Corporation's 2015 Director Stock Compensation Plan (incorporated by reference from Appendix A to Bank of Hawaii Corporation's Definitive Proxy Statement on Schedule 14A for the 2015 Annual Meeting of Shareholders filed on March 13, 2015).*
10.25	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan - Form of 2016 Restricted Stock Grant Agreement (incorporated by reference from Exhibit 10.30 to the Bank of Hawaii Corporation's Annual Report on Form 10-K, as filed on February 29, 2016).*
10.26	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan - Form of 2016 Restricted Stock Unit Grant Agreement (incorporated by reference from Exhibit 10.31 to the Bank of Hawaii Corporation's Annual Report on Form 10-K, as filed on February 29, 2016).*
10.27	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Amendment of 2011 Nonqualified Stock Option Agreement (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii Corporation's Quarterly Report on Form 10-Q, as filed on July 25, 2016).*
10.28	Bank of Hawaii Corporation's 2004 Stock and Incentive Compensation Plan - Amendment of 2012 Nonqualified Stock Option Agreement (incorporated by reference from Exhibit 10.2 to the Bank of Hawaii Corporation's Quarterly Report on Form 10-Q, as filed on July 25, 2016).*
10.29	Bank of Hawaii Corporation's 2014 Stock and Incentive Plan - Form of 2017 Restricted Stock Grant Agreement (incorporated by reference from Exhibit 10.1 to the Bank of Hawaii corporation's Current Report on Form 8-K, as filed on February 27, 2017)
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification on Chief Executive Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934.
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.

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* Management contract or compensatory plan or arrangement.

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: February 28, 2018	Bank of Hawaii Corporation
	By: /s/ Peter S. Ho
	Peter S. Ho Chairman of the Board, Chief Executive Officer, and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 28, 2018

/s/ Peter S. Ho	/s/ S. Haunani Apoliona
Peter S. Ho Chairman of the Board, Chief Executive Officer, and President	S. Haunani Apoliona, Director
/s/ Mary G. F. Bitterman	/s/ Mark A. Burak
Mary G. F. Bitterman, Director	Mark A. Burak, Director
/s/ Michael J. Chun	/s/ Clinton R. Churchill
Michael J. Chun, Director	Clinton R. Churchill, Director
/s/ Robert Huret	/s/ Kent T. Lucien
Robert Huret, Director	Kent T. Lucien, Director and Chief Strategy Officer
/s/ Alicia E. Moy	/s/ Victor K. Nichols
Alicia E. Moy, Director	Victor K. Nichols, Director
/s/ Barbara J. Tanabe	/s/ Raymond P. Vara, Jr.
Barbara J. Tanabe, Director	Raymond P. Vara, Jr., Director
/s/ Robert W. Wo	/s/ Dean Y. Shigemura
Robert W. Wo, Director	Dean Y. Shigemura, Chief Financial Officer
/s/ Brent T. Flygar	
Brent T. Flygar, Principal Accounting Officer	

Exhibit 21.1

Bank of Hawaii Corporation
Subsidiaries of the Registrant

The required information with respect to subsidiaries of Bank of Hawaii Corporation as of December 31, 2017 is provided below. All domestic subsidiaries are wholly-owned. Each entity is consolidated with its immediate parent company.

BANK OF HAWAII CORPORATION (Parent)
Bank Holding Company - Delaware

Subsidiaries:

BANK OF HAWAII
Hawaii
Subsidiaries:

Bank of Hawaii Leasing, Inc. (Leasing)
Hawaii

Bankoh Investment Services, Inc. (Brokerage)
Hawaii

BOH Wholesale Insurance Agency, Inc. (Insurance)
Hawaii

Pacific Century Insurance Services, Inc. (Captive Insurance)
Hawaii

RGA Corp. (Real Property Holding Company)
Hawaii

BOH Community Development Enterprise, Inc. (New Markets Tax Credit Investments)
Hawaii

Pacific Century Life Insurance Corporation (Insurance)
Arizona

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements on Form S-3 (Nos. 333-64248 and 333-165824) and on Form S-3 ASR (No. 333-207801) pertaining to the Bank of Hawaii Corporation Dividend Reinvestment and Stock Purchase Plan;

(2) Registration Statements on Form S-8 (Nos. 33-54777, 333-80127 and 33-61134) pertaining to the Pacific Century Financial Corporation Stock Option Plan of 1994 (formerly the Bancorp Hawaii, Inc. Stock Option Plan of 1994);

(3) Registration Statements on Form S-8 (Nos. 2-96329, 33-29872, 33-49836, 33-57267 and 333-165825) pertaining to the Bank of Hawaii Retirement Savings Plan (formerly the Pacific Century Financial Corporation Profit Sharing Plan);

(4) Registration Statement on Form S-8 (No. 333-203611) pertaining to the Bank of Hawaii Corporation 2015 Director Stock Compensation Plan (formerly the Pacific Century Financial Corporation Directors' Stock Compensation Program);

(5) Registration Statements on Form S-8 (Nos. 333-115325, 333-143295 and 333-176463) pertaining to the Bank of Hawaii Corporation 2004 Stock and Incentive Compensation Plan; and

(6) Registration Statements on Form S-8 (Nos. 333-197674 and 333-217546) pertaining to the Bank of Hawaii Corporation 2014 Stock and Incentive Plan;

of our reports dated February 28, 2018, with respect to the consolidated financial statements of Bank of Hawaii Corporation and subsidiaries and the effectiveness of internal control over financial reporting of Bank of Hawaii Corporation and subsidiaries included in this Annual Report (Form 10-K) of Bank of Hawaii Corporation for the year ended December 31, 2017.

/s/ Ernst & Young LLP

Honolulu, Hawaii
February 28, 2018

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 annual report on Form 10-K 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: February 28, 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 annual report on Form 10-K 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: February 28, 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 Annual Report on Form 10-K of Bank of Hawaii Corporation (the “Company”) for the year ended December 31, 2017 (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: February 28, 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.