UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

or

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

For transition period from ______ to _______

Commission File Number 001-14585

FIRST HAWAIIAN, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	**99-0156159**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
999 Bishop Street, 29th Floor	
Honolulu, HI	**96813**
(Address of Principal Executive Offices)	(Zip Code)

(808) 525-7000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if 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 Exchange Act). Yes ☐ No ☒.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 139,586,282 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of October 19, 2017.

TABLE OF CONTENTS

FIRST HAWAIIAN, INC.
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	**2017**	**2016**	**2017**	**2016**
Interest income				
Loans and lease financing	**$ 118,986**	$ 106,900	**$ 342,431**	$ 316,958
Available-for-sale securities	**24,195**	21,123	**75,683**	57,135
Other	**2,089**	1,311	**4,096**	6,114
Total interest income	**145,270**	129,334	**422,210**	380,207
Interest expense				
Deposits	**11,949**	6,632	**28,279**	19,602
Short-term borrowings and long-term debt	**2**	19	**13**	183
Total interest expense	**11,951**	6,651	**28,292**	19,785
Net interest income	**133,319**	122,683	**393,918**	360,422
Provision for loan and lease losses	**4,500**	2,100	**13,400**	4,700
Net interest income after provision for loan and lease losses	**128,819**	120,583	**380,518**	355,722
Noninterest income				
Service charges on deposit accounts	**9,095**	9,575	**28,062**	28,759
Credit and debit card fees	**14,831**	14,103	**43,467**	41,732
Other service charges and fees	**8,510**	8,768	**25,717**	26,909
Trust and investment services income	**7,672**	7,508	**22,536**	22,236
Bank-owned life insurance	**3,119**	7,115	**10,624**	13,263
Investment securities gains, net	**—**	30	**—**	25,761
Other	**5,308**	1,591	**16,406**	9,920
Total noninterest income	**48,535**	48,690	**146,812**	168,580
Noninterest expense				
Salaries and employee benefits	**41,579**	42,106	**128,136**	128,762
Contracted services and professional fees	**10,834**	10,430	**33,530**	33,124
Occupancy	**5,844**	4,870	**16,188**	14,991
Equipment	**4,174**	4,192	**12,898**	12,135
Regulatory assessment and fees	**3,668**	3,546	**11,192**	8,869
Advertising and marketing	**2,005**	1,769	**5,255**	4,818
Card rewards program	**4,703**	4,512	**13,832**	10,743
Other	**10,848**	11,379	**32,204**	32,899
Total noninterest expense	**83,655**	82,804	**253,235**	246,341
Income before provision for income taxes	**93,699**	86,469	**274,095**	277,961
Provision for income taxes	**35,336**	33,234	**102,097**	104,335
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Basic earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24
Diluted earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24
Dividends declared per share	**$ 0.22**	$ 0.20	**$ 0.66**	$ 0.42
Basic weighted-average outstanding shares	**139,556,532**	139,500,542	**139,549,665**	139,473,360
Diluted weighted-average outstanding shares	**139,696,330**	139,503,558	**139,670,487**	139,474,373

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Other comprehensive income (loss), net of tax:				
Net unrealized losses on pensions and other benefits	**—**	—	**—**	(46)
Net unrealized gains (losses) on investment securities	**128**	(6,023)	**19,970**	40,432
Net unrealized gains on cash flow derivative hedges	**409**	935	**927**	558
Other comprehensive income (loss)	**537**	(5,088)	**20,897**	40,944
Total comprehensive income	**$ 58,900**	$ 48,147	**$ 192,895**	$ 214,570

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands, except share amount)	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	**$ 321,319**	$ 253,827
Interest-bearing deposits in other banks	**793,046**	798,231
Investment securities	**5,314,973**	5,077,514
Loans and leases	**12,149,711**	11,520,378
Less: allowance for loan and lease losses	**137,327**	135,494
Net loans and leases	**12,012,384**	11,384,884
Premises and equipment, net	**289,689**	300,788
Other real estate owned and repossessed personal property	**564**	329
Accrued interest receivable	**44,728**	41,971
Bank-owned life insurance	**435,607**	429,209
Goodwill	**995,492**	995,492
Other intangible assets	**13,980**	16,809
Other assets	**343,845**	362,775
Total assets	**$ 20,565,627**	$ 19,661,829
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	**$ 11,687,849**	$ 10,801,915
Noninterest-bearing	**5,907,634**	5,992,617
Total deposits	**17,595,483**	16,794,532
Short-term borrowings	**—**	9,151
Long-term debt	**34**	41
Retirement benefits payable	**135,092**	132,904
Other liabilities	**253,160**	248,716
Total liabilities	**17,983,769**	17,185,344
Commitments and contingent liabilities (Note 11)		
Stockholders' equity		
Common stock ($0.01 par value; authorized 300,000,000 shares; issued and outstanding 139,586,282 shares and 139,530,654 shares as of September 30, 2017 and December 31, 2016, respectively)	**1,396**	1,395
Additional paid-in capital	**2,489,273**	2,484,251
Retained earnings	**158,303**	78,850
Accumulated other comprehensive loss, net	**(67,114)**	(88,011)
Total stockholders' equity	**2,581,858**	2,476,485
Total liabilities and stockholders' equity	**$ 20,565,627**	$ 19,661,829

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(dollars in thousands, except share amounts)	Net Investment	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2015	$ 2,788,200	139,459,620	$ —	$ —	$ —	$ (51,259)	$ 2,736,941
Net income prior to reorganization on April 1, 2016	65,531	—	—	—	—	—	65,531
Distributions prior to reorganization on April 1, 2016	(363,624)	—	—	—	—	—	(363,624)
Recapitalization of First Hawaiian, Inc.	(2,490,107)	—	1,395	2,488,712	—	—	—
Net income	—	—	—	—	108,095	—	108,095
Cash dividends declared ($0.42 per share)	—	—	—	—	(57,891)	—	(57,891)
Equity-based awards	—	—	—	1,913	—	—	1,913
Contributions	—	—	—	61,992	—	—	61,992
Distributions	—	—	—	(69,938)	—	—	(69,938)
Other comprehensive income, net of tax	—	—	—	—	—	40,944	40,944
Balance as of September 30, 2016	$ —	139,459,620	$ 1,395	$ 2,482,679	$ 50,204	$ (10,315)	$ 2,523,963
Balance as of December 31, 2016	$ —	139,530,654	$ 1,395	$ 2,484,251	$ 78,850	$ (88,011)	$ 2,476,485
Net income	**—**	**—**	**—**	**—**	**171,998**	**—**	**171,998**
Cash dividends declared ($0.66 per share)	**—**	**—**	**—**	**—**	**(92,101)**	**—**	**(92,101)**
Common stock issued under Employee Stock Purchase Plan	**—**	**15,961**	**—**	**528**	**—**	**—**	**528**
Equity-based awards	**—**	**39,667**	**1**	**4,494**	**(444)**	**—**	**4,051**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**—**	**20,897**	**20,897**
Balance as of September 30, 2017	**$ —**	**139,586,282**	**$ 1,396**	**$ 2,489,273**	**$ 158,303**	**$ (67,114)**	**$ 2,581,858**

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2017	2016
Cash flows from operating activities		
Net income	$ **171,998**	$ 173,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**13,400**	4,700
Depreciation, amortization and accretion, net	**46,273**	39,786
Deferred income taxes	**(6,348)**	(176)
Stock-based compensation	**4,171**	2,059
Gains on sale of bank properties	**(2,667)**	—
Other (gains) losses	**(133)**	14
Net gains on investment securities	**—**	(25,761)
Change in assets and liabilities:		
Net increase in other assets [(1)]	**(935)**	(13,643)
Net decrease in other liabilities	**(11,257)**	(1,367)
Net cash provided by operating activities	**214,502**	179,238
Cash flows from investing activities		
Available-for-sale securities:		
Proceeds from maturities and principal repayments	**644,854**	893,184
Proceeds from sales	**—**	533,687
Purchases	**(864,049)**	(2,673,977)
Other investments:		
Proceeds from sales	**13,318**	17,636
Purchases	**(11,484)**	(17,959)
Loans:		
Net increase in loans and leases resulting from originations and principal repayments	**(626,262)**	(676,234)
Proceeds from sales of loans originated for investment	**1,775**	—
Purchases of loans	**(11,626)**	—
Proceeds from bank-owned life insurance	**4,226**	5,777
Purchases of premises, equipment and software	**(5,964)**	(11,179)
Proceeds from sales of premises and equipment	**3,857**	63
Proceeds from sales of other real estate owned	**635**	407
Other	**(1,572)**	50
Net cash used in investing activities	**(852,292)**	(1,928,545)
Cash flows from financing activities		
Net increase in deposits	**800,951**	903,603
Net decrease in short-term borrowings	**(9,151)**	(207,000)
Repayment of long-term debt	**(10)**	(10)
Dividends paid	**(92,101)**	(57,891)
Distributions paid	**—**	(363,624)
Stock tendered for payment of withholding taxes [(1)]	**(120)**	(146)
Proceeds from employee stock purchase plan	**528**	—
Net cash provided by financing activities	**700,097**	274,932
Net increase (decrease) in cash and cash equivalents	**62,307**	(1,474,375)
Cash and cash equivalents at beginning of period	**1,052,058**	2,650,195
Cash and cash equivalents at end of period	$ **1,114,365**	$ 1,175,820
Supplemental disclosures		
Interest paid	$ **24,692**	$ 19,034
Income taxes paid, net of income tax refunds	**87,240**	152,950
Noncash investing and financing activities:		
Transfers from loans and leases to other real estate owned	**759**	1,056
Transfers from loans and leases to loans held for sale	**1,759**	—
Derivative liability entered into in connection with sale of investment securities	**—**	8,828

(1) Prior period has been revised to conform to the current period presentation.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Basis of Presentation

First Hawaiian, Inc. (“FHI”), a bank holding company, owns 100% of the outstanding common stock of First Hawaiian Bank (“FHB” or the “Bank”), its only direct, wholly-owned subsidiary. FHI is a majority-owned, indirect subsidiary of BNP Paribas (“BNPP”), a financial institution based in France.

Reorganization Transactions

In connection with FHI’s initial public offering (“IPO”) in August 2016, in which BNPP sold approximately 17% of its interest in FHI, BNPP announced its intent to sell a controlling interest in FHI, including its wholly-owned subsidiary FHB, over time, subject to market conditions and other considerations. On April 1, 2016, a series of reorganization transactions (the “Reorganization Transactions”) were undertaken to facilitate the IPO. As part of the Reorganization Transactions, FHI, which was then known as BancWest Corporation (“BancWest”), formed a new bank holding company, BancWest Holding Inc. (“BWHI”), a Delaware corporation and a direct wholly-owned subsidiary of BancWest, and contributed 100% of its interest in Bank of the West (“BOW”), as well as other assets and liabilities not related to FHB, to BWHI. Following the contribution of BOW to BWHI, BancWest distributed its interest in BWHI to BNPP. As part of these transactions, BancWest amended its certificate of incorporation to change its name to “First Hawaiian, Inc.”, with First Hawaiian Bank remaining as the only direct wholly-owned subsidiary of FHI.

On July 1, 2016, in order to comply with the Board of Governors of the Federal Reserve System’s requirement (under Regulation YY) applicable to BNPP that a foreign banking organization with $50 billion or more in U.S. non-branch assets as of June 30, 2015 establish a U.S. intermediate holding company and hold its interest in the substantial majority of its U.S. subsidiaries through the intermediate holding company by July 1, 2016, FHI became an indirect subsidiary of BNP Paribas USA, Inc. (“BNP Paribas USA”), BNPP’s U.S. intermediate holding company. As part of that reorganization, FHI became a direct wholly-owned subsidiary of BancWest Corporation (“BWC”), a direct wholly-owned subsidiary of BNP Paribas USA.

On August 4, 2016, FHI’s common stock began trading on the NASDAQ Global Select Market under the ticker symbol “FHB”. On August 9, 2016, the IPO of 24,250,000 shares of FHI common stock, which included the full exercise of the underwriters’ option to purchase an additional 3,163,043 shares, at $23.00 per share was completed. On February 17, 2017, a secondary offering of 28,750,000 shares of FHI common stock, which included the full exercise of the underwriters’ option to purchase an additional 3,750,000 shares, at $32.00 per share was completed. FHI did not receive any of the proceeds from the sales of shares by BNPP. Following the secondary offering and exercise of the underwriters’ option to purchase additional shares in February 2017, BNPP beneficially owned approximately 62% of FHI’s common stock. BNPP continued to beneficially own approximately 62% of FHI’s common stock as of September 30, 2017.

Basis of Presentation

The accompanying unaudited consolidated financial statements of First Hawaiian, Inc. and Subsidiary (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, all adjustments, which consist of normal recurring adjustments necessary for a fair presentation of the interim period consolidated financial information, have been made. Results of operations for interim periods are not necessarily indicative of results to be expected for the entire year. Intercompany account balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events, actual results may differ from these estimates.

Accounting Standards Adopted in 2017

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*. This guidance requires entities to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the statement of income; changes the classification of excess tax benefits to an operating activity in the statement of cash flows; allows entities to elect whether to account for forfeitures of share-based payments by recognizing forfeitures of awards as they occur or by estimating the number of awards expected to be forfeited and adjusting the estimate when it is no longer probable that the employee will fulfill the service condition, as was previously required; and permitting entities to withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. Upon adoption of ASU No. 2016-09 on January 1, 2017, the Company made an accounting policy election to recognize forfeitures of stock-based awards as they occur. The adoption of ASU No. 2016-09 did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

The following ASUs have been issued by the FASB and are applicable to the Company in future reporting periods.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance amends most of the currently existing revenue recognition principles and requires entities to recognize revenues when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Approximately 73% of the Company's revenue is comprised of net interest income on loans, leases, investment securities and deposits, and is explicitly out of scope of the new revenue recognition guidance. The Company has completed an overall assessment of revenue streams that will be potentially affected by the new guidance. The Company has also substantially completed the identification and review of contracts that are under the scope of the new guidance. These contracts include those related to commission income, service charges and fees on deposit accounts, and trust and custody services. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company expects to adopt a modified retrospective transition approach, in which the guidance would only be applied to existing contracts in effect at the adoption date and new contracts entered into after the adoption date. The adoption of ASU No. 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This guidance provides that 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. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 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 presented in the financial statements. The Company has lease agreements, such as leases for branch locations, which are currently considered operating leases, and therefore, not recognized on the Company's consolidated balance sheets. The Company preliminarily expects the new guidance will require these lease agreements to be recognized on the consolidated balance sheets as a right-of-use asset with a corresponding lease liability. However, the Company continues to evaluate the extent of the potential impact this guidance will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, this update requires a current expected credit loss ("CECL") approach to determine the allowance for credit losses. The CECL approach requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions and reasonable and supportable forecasts. In addition, this guidance modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for a reversal of credit losses in future periods. This update requires entities to record a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with earlier adoption permitted. The Company is currently evaluating the capability of its existing systems and processes to support the implementation of this new standard as well as the impact that this standard will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment.* This guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the current two-step goodwill impairment test. This guidance provides that a goodwill impairment test be conducted by comparing the fair value of a reporting unit with its carrying amount. Entities are to recognize an impairment charge for goodwill by the amount by which the carrying amount exceeds the reporting unit's fair value. Entities will continue to have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance requires entities to report the service cost component of net periodic benefit cost in the same line item as other compensation costs arising from services rendered by pertinent employees during the reporting period. The other components of net periodic benefit costs are to be presented in the income statement separately from the service cost component. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU No. 2017-07 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* Under current GAAP, entities normally amortize the premium as an adjustment of yield over the contractual life of the instrument. This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718), Scope of Modification Accounting.* This guidance applies to entities that change the terms or conditions of a share-based payment award. This update clarifies when an entity should account for a change as a modification. Modification accounting will be required only if the fair value, the vesting conditions or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU No. 2017-09 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, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities.* This guidance changes the recognition and presentation requirements of hedge accounting, including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line as the hedged item. This guidance also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged item in fair value hedges of interest rate risk, reducing the complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method, and reducing the risk of material error corrections if a company applies the shortcut method inappropriately. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

2. Investment Securities

As of September 30, 2017 and December 31, 2016, investment securities consisted predominantly of the following investment categories:

U.S. Treasury and debt securities – includes U.S. Treasury notes and debt securities issued by government-sponsored enterprises.

Mortgage- and asset-backed securities – includes securities backed by notes or receivables secured by either mortgage or prime auto assets with cash flows based on actual or scheduled payments.

Collateralized mortgage obligations – includes securities backed by a pool of mortgages with cash flows distributed based on certain rules rather than pass through payments.

As of September 30, 2017 and December 31, 2016, all of the Company's investment securities were classified as debt securities and available-for-sale. Amortized cost and fair value of securities as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017				December 31, 2016			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	**$ 404,693**	**$ —**	**$ (7,927)**	**$ 396,766**	$ 405,637	$ —	$ (13,164)	$ 392,473
Government-sponsored enterprises debt securities	**249,711**	**26**	**(4,599)**	**245,138**	249,707	16	(7,056)	242,667
Government agency mortgage-backed securities	**163,289**	**—**	**(3,502)**	**159,787**	190,485	—	(4,822)	185,663
Government-sponsored enterprises mortgage-backed securities	**186,957**	**234**	**(3,052)**	**184,139**	208,034	385	(4,034)	204,385
Non-government asset-backed securities	**101**	**—**	**—**	**101**	12,592	—	(9)	12,583
Collateralized mortgage obligations:								
Government agency	**3,551,654**	**1,129**	**(38,879)**	**3,513,904**	3,409,822	794	(58,794)	3,351,822
Government-sponsored enterprises	**824,664**	**1,529**	**(11,055)**	**815,138**	700,338	789	(13,206)	687,921
Total available-for-sale securities	**$ 5,381,069**	**$ 2,918**	**$ (69,014)**	**$ 5,314,973**	$ 5,176,615	$ 1,984	$ (101,085)	$ 5,077,514

Proceeds from calls and sales of investment securities were nil for both the three and nine months ended September 30, 2017. Proceeds from calls and sales of investment securities totaled $46.2 million and nil, respectively, for the three months ended September 30, 2016, and $121.2 million and $505.0 million, respectively, for the nine months ended September 30, 2016. Gross realized gains were nil for both the three and nine months ended September 30, 2017. Including the 2016 sale of Visa Class B restricted shares described below, the Company recorded gross realized gains of nil and $25.8 million for the three and nine months ended September 30, 2016, respectively. Gross realized losses were nil for both the three and nine months ended September 30, 2017. There were no gross realized losses for the three and nine months ended September 30, 2016. The provision for income taxes related to the Company's net realized gains on the sale of investment securities was nil for the three and nine months ended September 30, 2017 and nil and $10.2 million for the three and nine months ended September 30, 2016, respectively. Gains and losses realized on sales of securities are determined using the specific identification method.

Interest income from taxable investment securities was $24.2 million and $21.1 million for the three months ended September 30, 2017 and 2016, respectively, and $75.7 million and $57.1 million for the nine months ended September 30, 2017 and 2016, respectively. The Company did not own any non-taxable investment securities during both the three and nine months ended September 30, 2017 and 2016.

The amortized cost and fair value of U.S. Treasury and government-sponsored enterprises debt securities as of September 30, 2017, by contractual maturity, are shown below. Mortgage-backed securities, asset-backed securities and collateralized mortgage obligations are disclosed separately in the table below as remaining expected maturities will differ from contractual maturities as borrowers have the right to prepay obligations.

(dollars in thousands)	September 30, 2017 Amortized Cost	September 30, 2017 Fair Value
Due after one year through five years	$ 330,821	$ 323,769
Due after five years through ten years	323,583	318,135
	654,404	641,904
Government agency mortgage-backed securities	163,289	159,787
Government-sponsored enterprises mortgage-backed securities	186,957	184,139
Non-government asset-backed securities	101	101
Collateralized mortgage obligations:		
Government agency	3,551,654	3,513,904
Government-sponsored enterprises	824,664	815,138
Total mortgage- and asset-backed securities	4,726,665	4,673,069
Total available-for-sale securities	**$ 5,381,069**	**$ 5,314,973**

At September 30, 2017, pledged securities totaled $3.7 billion, of which $3.4 billion was pledged to secure public deposits and $230.6 million was pledged to secure other financial transactions. At December 31, 2016, pledged securities totaled $2.7 billion, of which $2.5 billion was pledged to secure public deposits and repurchase agreements, and $209.1 million was pledged to secure other financial transactions.

The Company held no securities of any single issuer, other than the U.S. government, government agency and government-sponsored enterprises, which were in excess of 10% of stockholders' equity as of September 30, 2017 and December 31, 2016.

The following table presents the gross unrealized losses and fair values of securities in the available-for-sale portfolio by length of time that the 169 and 158 individual securities in each category have been in a continuous loss position as of September 30, 2017 and December 31, 2016, respectively. The 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.

	Time in Continuous Loss as of September 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury securities	$ (802)	$ 97,031	$ (7,125)	$ 299,735	$ (7,927)	$ 396,766
Government-sponsored enterprises debt securities	(1,471)	111,554	(3,128)	98,558	(4,599)	210,112
Government agency mortgage-backed securities	(2,080)	111,991	(1,422)	47,796	(3,502)	159,787
Government-sponsored enterprises mortgage-backed securities	(441)	36,211	(2,611)	141,003	(3,052)	177,214
Collateralized mortgage obligations:						
Government agency	(12,237)	1,589,897	(26,642)	1,336,841	(38,879)	2,926,738
Government-sponsored enterprises	(2,274)	319,802	(8,781)	241,718	(11,055)	561,520
Total available-for-sale securities with unrealized losses	**$ (19,305)**	**$ 2,266,486**	**$ (49,709)**	**$ 2,165,651**	**$ (69,014)**	**$ 4,432,137**

	Time in Continuous Loss as of December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury securities	$ (13,164)	$ 392,473	$ —	$ —	$ (13,164)	$ 392,473
Government-sponsored enterprises debt securities	(7,056)	207,651	—	—	(7,056)	207,651
Government agency mortgage-backed securities	(4,822)	185,663	—	—	(4,822)	185,663
Government-sponsored enterprises mortgage-backed securities	(4,034)	195,848	—	—	(4,034)	195,848
Non-government asset-backed securities	(3)	5,202	(6)	7,381	(9)	12,583
Collateralized mortgage obligations:						
Government agency	(51,484)	2,847,103	(7,310)	233,706	(58,794)	3,080,809
Government-sponsored enterprises	(1,807)	252,065	(11,399)	279,282	(13,206)	531,347
Total available-for-sale securities with unrealized losses	$ (82,370)	$ 4,086,005	$ (18,715)	$ 520,369	$ (101,085)	$ 4,606,374

Other-Than-Temporary Impairment (“OTTI”)

Unrealized losses for all investment securities are reviewed to determine whether the losses are other than temporary. Investment securities are evaluated for OTTI on at least a quarterly basis, and more frequently when economic and market conditions warrant such an evaluation, to determine whether the decline in fair value below amortized cost is other than temporary.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. The decline in value is not related to any issuer- or industry-specific credit event. At September 30, 2017 and December 31, 2016, the Company did not have the intent to sell and determined it was more likely than not that the Company would not be required to sell the securities prior to recovery of the amortized cost basis. As the Company has the intent and ability to hold securities in an unrealized loss position, each security with an unrealized loss position in the above tables has been further assessed to determine if a credit loss exists. If it is probable that the Company will not collect all amounts due according to the contractual terms of an investment security, an OTTI is considered to have occurred. In determining whether a credit loss exists, the Company estimates the present value of future cash flows expected to be collected from the investment security. If the present value of future cash flows is less than the amortized cost basis of the security, an OTTI exists. As of September 30, 2017 and December 31, 2016, the Company did not expect any credit losses in its debt securities and no OTTI was recognized on securities during the nine months ended September 30, 2017 and for the year ended December 31, 2016.

Visa Class B Restricted Shares

In 2008, the Company received 394,000 Visa Class B restricted shares as part of Visa’s initial public offering. Visa Class B restricted shares are not currently convertible to publicly traded Visa Class A common shares, and only transferable in limited circumstances, until the settlement of certain litigation which are indemnified by Visa members, including the Company. As there are existing transfer restrictions and the outcome of the aforementioned litigation is uncertain, these shares were included in the consolidated balance sheets at their historical cost of $0.

During the nine months ended September 30, 2016, the Company recorded a $22.7 million net realized gain related to the sale of 274,000 Visa Class B restricted shares (recorded in the three months ended March 31, 2016). Concurrent with the sale of the Visa Class B restricted shares, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank’s Class B conversion ratio to unrestricted Class A common shares. See “Note 10. Derivative Financial Instruments” for more information. There were no such sales during the nine months ended September 30, 2017 or during the three months ended September 30, 2016.

The Company held approximately 120,000 Visa Class B restricted shares as of both September 30, 2017 and December 31, 2016. These shares continued to be carried at $0 cost basis during each of the respective periods.

3. Loans and Leases

As of September 30, 2017 and December 31, 2016, loans and leases were comprised of the following:

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	**$ 3,190,237**	$ 3,239,600
Real estate:		
Commercial	**2,625,688**	2,343,495
Construction	**598,763**	450,012
Residential	**4,001,478**	3,796,459
Total real estate	**7,225,929**	6,589,966
Consumer	**1,562,172**	1,510,772
Lease financing	**171,373**	180,040
Total loans and leases	**$ 12,149,711**	$ 11,520,378

Outstanding loan balances are reported net of unearned income, including net deferred loan costs of $29.5 million and $23.8 million at September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017, residential real estate loans totaling $2.3 billion were pledged to collateralize the Company's borrowing capacity at the Federal Home Loan Bank of Des Moines ("FHLB"), and consumer and commercial and industrial loans totaling $905.2 million were pledged to collateralize the borrowing capacity at the Federal Reserve Bank of San Francisco ("FRB"). As of December 31, 2016, residential real estate loans totaling $2.1 billion were pledged to collateralize the Company's borrowing capacity at the FHLB, and consumer and commercial and industrial loans totaling $935.7 million were pledged to collateralize the borrowing capacity at the FRB. Residential real estate loans collateralized by properties that were in the process of foreclosure totaled $2.4 million and $4.1 million at September 30, 2017 and December 31, 2016, respectively.

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Company for assuming that risk, management may require a certain amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land, buildings, equipment, income-producing commercial properties and residential real estate. The Company applies the same collateral policy for loans whether they are funded immediately or on a delayed basis. The loan and lease portfolio is principally located in Hawaii and, to a lesser extent, on the U.S. Mainland, Guam and Saipan. The risk inherent in the portfolio depends upon both the economic stability of the state or territories, which affects property values, and the financial strength and creditworthiness of the borrowers.

At September 30, 2017 and December 31, 2016, remaining loan and lease commitments were comprised of the following:

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	**$ 2,406,088**	$ 2,185,810
Real estate:		
Commercial	**80,719**	88,331
Construction	**470,247**	434,406
Residential	**986,715**	953,781
Total real estate	**1,537,681**	1,476,518
Consumer	**1,494,407**	1,459,467
Lease financing	**—**	16
Total loan and lease commitments	**$ 5,438,176**	$ 5,121,811

4. Allowance for Loan and Lease Losses

The Company must maintain an allowance for loan and lease losses (the "Allowance") that is adequate to absorb estimated probable credit losses associated with its loan and lease portfolio. The Allowance consists of an allocated portion, which covers estimated credit losses for specifically identified loans and pools of loans and leases, and an unallocated portion.

Segmentation

Management has identified three primary portfolio segments in estimating the Allowance: commercial lending, residential real estate lending and consumer lending. Commercial lending is further segmented into four distinct portfolios based on characteristics relating to the borrower, transaction, and collateral. These portfolio segments are: commercial and industrial, commercial real estate, construction, and lease financing. Residential real estate is not further segmented, but consists of single-family residential mortgages, real estate secured installment loans and home equity lines of credit. Consumer lending is not further segmented, but consists primarily of automobile loans, credit cards, and other installment loans. Management has developed a methodology for each segment taking into consideration portfolio segment-specific factors such as product type, loan portfolio characteristics, management information systems, and other risk factors.

Specific Allocation

Commercial

A specific allocation is determined for individually impaired commercial loans. A loan is considered impaired when it is probable that the Company will be unable to collect the full amount of principal and interest according to the contractual terms of the loan agreement.

Management identifies material impaired loans based on their size in relation to the Company's total loan and lease portfolio. Each impaired loan equal to or exceeding a specified threshold requires an analysis to determine the appropriate level of reserve for that specific loan. Impaired loans below the specified threshold are treated as a pool, with specific allocations established based on qualitative factors such as asset quality trends, risk identification, lending policies, portfolio growth, and portfolio concentrations.

Residential

A specific allocation is determined for residential real estate loans based on delinquency status. In addition, each impaired loan equal to or exceeding a specified threshold requires analysis to determine the appropriate level of reserve for that specific loan, generally based on the value of the underlying collateral less estimated costs to sell. The specific allocation will be zero for impaired loans in which the value of the underlying collateral, less estimated costs to sell, exceeds the unpaid principal balance of the loan.

Consumer

A specific allocation is determined for the consumer loan portfolio using delinquency-based formula allocations. The Company uses a formula approach in determining the consumer loan specific allocation and recognizes the statistical validity of measuring losses predicated on past due status.

Pooled Allocation

Commercial

Pooled allocation for pass, special mention, substandard, and doubtful grade commercial loans and leases that share common risk characteristics and properties is determined using a historical loss rate analysis and qualitative factor considerations. Loan grade categories are discussed under “Credit Quality”.

Residential and Consumer

Pooled allocation for non-delinquent consumer and residential real estate loans is determined using a historical loss rate analysis and qualitative factor considerations.

Qualitative Adjustments

Qualitative adjustments to historical loss rates or other static sources may be necessary since these rates may not be an accurate indicator of losses inherent in the current portfolio. To estimate the level of adjustments, management considers factors including global, national and local economic conditions; levels and trends in problem loans; the effect of credit concentrations; collateral value trends; changes in risk due to changes in lending policies and practices; management expertise; industry and regulatory trends; and volume of loans.

Unallocated Allowance

The Company’s Allowance incorporates an unallocated portion to cover risk factors and events that may have occurred as of the evaluation date that have not been reflected in the risk measures utilized due to inherent limitations in the precision of the estimation process. These risk factors, in addition to past and current events based on facts at the unaudited consolidated balance sheet date and realistic courses of action that management expects to take, are assessed in determining the level of unallocated allowance.

The Allowance was comprised of the following for the periods indicated:

	Three Months Ended September 30, 2017							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$ 33,341	$ 20,011	$ 5,471	$ 857	$ 44,374	$ 27,903	$ 4,926	$ 136,883
Charge-offs	(408)	—	—	(1)	(293)	(6,263)	—	(6,965)
Recoveries	582	336	—	—	139	1,852	—	2,909
Increase (decrease) in Provision	(1,677)	234	353	(36)	657	5,107	(138)	4,500
Balance at end of period	$ 31,838	$ 20,581	$ 5,824	$ 820	$ 44,877	$ 28,599	$ 4,788	$ 137,327

(dollars in thousands)	Nine Months Ended September 30, 2017							
	Commercial Lending							
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of period	**$ 33,129**	**$ 18,448**	**$ 4,513**	**$ 847**	**$ 43,436**	**$ 28,388**	**$ 6,733**	**$ 135,494**
Charge-offs	**(1,338)**	**—**	**—**	**(147)**	**(315)**	**(17,086)**	**—**	**(18,886)**
Recoveries	**825**	**468**	**—**	**—**	**610**	**5,416**	**—**	**7,319**
Increase (decrease) in Provision	**(778)**	**1,665**	**1,311**	**120**	**1,146**	**11,881**	**(1,945)**	**13,400**
Balance at end of period	**$ 31,838**	**$ 20,581**	**$ 5,824**	**$ 820**	**$ 44,877**	**$ 28,599**	**$ 4,788**	**$ 137,327**

(dollars in thousands)	Three Months Ended September 30, 2016							
	Commercial Lending							
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$ 35,792	$ 18,260	$ 4,636	$ 780	$ 46,452	$ 28,386	$ 2,054	$ 136,360
Charge-offs	(210)	—	—	—	(268)	(4,878)	—	(5,356)
Recoveries	6	42	—	—	350	1,523	—	1,921
Increase (decrease) in Provision	(1,428)	221	596	(55)	(492)	3,183	75	2,100
Balance at end of period	$ 34,160	$ 18,523	$ 5,232	$ 725	$ 46,042	$ 28,214	$ 2,129	$ 135,025

(dollars in thousands)	Nine Months Ended September 30, 2016							
	Commercial Lending							
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$ 34,025	$ 18,489	$ 3,793	$ 888	$ 46,099	$ 28,385	$ 3,805	$ 135,484
Charge-offs	(348)	—	—	—	(796)	(13,379)	—	(14,523)
Recoveries	228	3,288	—	1	1,116	4,731	—	9,364
Increase (decrease) in Provision	255	(3,254)	1,439	(164)	(377)	8,477	(1,676)	4,700
Balance at end of period	$ 34,160	$ 18,523	$ 5,232	$ 725	$ 46,042	$ 28,214	$ 2,129	$ 135,025

The disaggregation of the Allowance and recorded investment in loans by impairment methodology as of September 30, 2017 and December 31, 2016 were as follows:

(dollars in thousands)	September 30, 2017							
	Commercial Lending							
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Individually evaluated for impairment	**$ 4**	**$ 7**	**$ —**	**$ —**	**$ 631**	**$ —**	**$ —**	**$ 642**
Collectively evaluated for impairment	**31,834**	**20,574**	**5,824**	**820**	**44,246**	**28,599**	**4,788**	**136,685**
Balance at end of period	**$ 31,838**	**$ 20,581**	**$ 5,824**	**$ 820**	**$ 44,877**	**$ 28,599**	**$ 4,788**	**$ 137,327**
Loans and leases:								
Individually evaluated for impairment	**$ 19,223**	**$ 9,061**	**$ —**	**$ —**	**$ 17,053**	**$ —**	**$ —**	**$ 45,337**
Collectively evaluated for impairment	**3,171,014**	**2,616,627**	**598,763**	**171,373**	**3,984,425**	**1,562,172**	**—**	**12,104,374**
Balance at end of period	**$ 3,190,237**	**$ 2,625,688**	**$ 598,763**	**$ 171,373**	**$ 4,001,478**	**$ 1,562,172**	**$ —**	**$ 12,149,711**

(dollars in thousands)	December 31, 2016							
	Commercial Lending							
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Individually evaluated for impairment	$ 380	$ 7	$ —	$ —	$ 705	$ —	$ —	$ 1,092
Collectively evaluated for impairment	32,749	18,441	4,513	847	42,731	28,388	6,733	134,402
Balance at end of period	$ 33,129	$ 18,448	$ 4,513	$ 847	$ 43,436	$ 28,388	$ 6,733	$ 135,494
Loans and leases:								
Individually evaluated for impairment	$ 27,572	$ 12,545	$ —	$ 153	$ 19,158	$ —	$ —	$ 59,428
Collectively evaluated for impairment	3,212,028	2,330,950	450,012	179,887	3,777,301	1,510,772	—	11,460,950
Balance at end of period	$ 3,239,600	$ 2,343,495	$ 450,012	$ 180,040	$ 3,796,459	$ 1,510,772	$ —	$ 11,520,378

Credit Quality

The Company performs an internal loan review and grading on an ongoing basis. The review provides management with periodic information as to the quality of the loan portfolio and effectiveness of the Company's lending policies and procedures. The objective of the loan review and grading procedures is to identify, in a timely manner, existing or emerging credit quality problems so that appropriate steps can be initiated to avoid or minimize future losses.

Loans subject to grading include: commercial and industrial loans, commercial and standby letters of credit, installment loans to businesses or individuals for business and commercial purposes, commercial real estate loans, overdraft lines of credit, commercial credit cards, and other credits as may be determined. Loans which are not subject to grading include loans that are 100% sold with no recourse to the Company, consumer installment loans, indirect automobile loans, consumer credit cards, business credit cards, home equity lines of credit and residential mortgage loans.

Residential and consumer loans are underwritten primarily on the basis of credit bureau scores, debt-service-to-income ratios, and collateral quality and loan to value ratios.

A credit risk rating system is used to determine loan grade and is based on borrower credit risk and transactional risk. The loan grading process is a mechanism used to determine the risk of a particular borrower and is based on the following eight factors of a borrower: character, earnings and operating cash flow, asset and liability structure, debt capacity, financial reporting, management and controls, borrowing entity, and industry and operating environment.

Pass – "Pass" (uncriticized loans) and leases, are not considered to carry greater than normal risk. The borrower has the apparent ability to satisfy obligations to the Company, and therefore no loss in ultimate collection is anticipated.

Special Mention – Loans and leases that have potential weaknesses deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for assets or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – Loans and leases that are inadequately protected by the current financial condition and paying capacity of the obligor or by any collateral pledged. Loans and leases so classified must have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the distinct possibility that the bank may sustain some loss if the deficiencies are not corrected.

Doubtful – Loans and leases that have weaknesses found in substandard borrowers with the added provision that the weaknesses make collection of debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – Loans and leases classified as loss are considered uncollectible and of such little value that their continuance as an asset is not warranted. This classification does not mean that the loan or lease has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

The credit risk profiles by internally assigned grade for loans and leases as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017				
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Total
Grade:					
Pass	**$ 3,083,654**	**$ 2,581,682**	**$ 591,824**	**$ 170,673**	**$ 6,427,833**
Special mention	**46,093**	**23,040**	**6,292**	**553**	**75,978**
Substandard	**59,123**	**20,966**	**647**	**147**	**80,883**
Doubtful	**1,367**	**—**	**—**	**—**	**1,367**
Total	**$ 3,190,237**	**$ 2,625,688**	**$ 598,763**	**$ 171,373**	**$ 6,586,061**

	December 31, 2016				
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Total
Grade:					
Pass	$ 3,166,304	$ 2,298,839	$ 445,149	$ 179,345	$ 6,089,637
Special mention	41,719	23,859	3,789	368	69,735
Substandard	29,811	20,797	1,074	174	51,856
Doubtful	1,766	—	—	153	1,919
Total	$ 3,239,600	$ 2,343,495	$ 450,012	$ 180,040	$ 6,213,147

There were no loans and leases graded as Loss as of September 30, 2017 and December 31, 2016.

The credit risk profiles based on payment activity for loans and leases that were not subject to loan grading as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017				
(dollars in thousands)	Residential	Consumer	Consumer - Auto	Credit Cards	Total
Performing	$ 3,990,063	$ 232,541	$ 984,114	$ 321,722	$ 5,528,440
Non-performing and delinquent	11,415	3,763	16,580	3,452	35,210
Total	$ 4,001,478	$ 236,304	$ 1,000,694	$ 325,174	$ 5,563,650

	December 31, 2016				
(dollars in thousands)	Residential	Consumer	Consumer - Auto	Credit Cards	Total
Performing	$ 3,778,070	$ 240,185	$ 906,829	$ 340,801	$ 5,265,885
Non-performing and delinquent	18,389	3,327	15,927	3,703	41,346
Total	$ 3,796,459	$ 243,512	$ 922,756	$ 344,504	$ 5,307,231

Impaired and Nonaccrual Loans and Leases

The Company evaluates certain loans and leases individually for impairment. A loan or lease is considered to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan or lease. An allowance for impaired commercial loans, including commercial real estate and construction loans, 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. An allowance for impaired residential loans is measured based on the estimated fair value of the collateral, less any selling costs. Management exercises significant judgment in developing these estimates.

The Company generally places a loan on nonaccrual status when management believes that collection of principal or interest has become doubtful or when a loan or lease becomes 90 days past due as to principal or interest, unless it is well secured and in the process of collection.

It is the Company's policy to charge off a loan when the facts indicate that the loan is considered uncollectible.

The aging analyses of past due loans and leases as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017							
	Accruing Loans and Leases							
(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due	Current	Total Accruing Loans and Leases	Total Non Accruing Loans and Leases	Total Outstanding
Commercial and industrial	$ 179	$ 568	$ 1,751	$ 2,498	$ 3,185,427	$ 3,187,925	$ 2,312	$ 3,190,237
Commercial real estate	—	84	3,247	3,331	2,622,357	2,625,688	—	2,625,688
Construction	—	259	—	259	598,504	598,763	—	598,763
Lease financing	—	—	—	—	171,373	171,373	—	171,373
Residential	4,588	210	1,055	5,853	3,990,063	3,995,916	5,562	4,001,478
Consumer	18,421	3,480	1,894	23,795	1,538,377	1,562,172	—	1,562,172
Total	$ 23,188	$ 4,601	$ 7,947	$ 35,736	$ 12,106,101	$ 12,141,837	$ 7,874	$ 12,149,711

(dollars in thousands)	December 31, 2016 Accruing Loans and Leases 30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due	Current	Total Accruing Loans and Leases	Total Non Accruing Loans and Leases	Total Outstanding
Commercial and industrial	$ 720	$ 163	$ 449	$ 1,332	$ 3,235,538	$ 3,236,870	$ 2,730	$ 3,239,600
Commercial real estate	475	—	—	475	2,343,020	2,343,495	—	2,343,495
Construction	—	—	—	—	450,012	450,012	—	450,012
Lease financing	—	—	83	83	179,804	179,887	153	180,040
Residential	9,907	1,069	866	11,842	3,778,070	3,789,912	6,547	3,796,459
Consumer	17,626	3,460	1,870	22,956	1,487,816	1,510,772	—	1,510,772
Total	$ 28,728	$ 4,692	$ 3,268	$ 36,688	$ 11,474,260	$ 11,510,948	$ 9,430	$ 11,520,378

The total carrying amounts and the total unpaid principal balances of impaired loans and leases as of September 30, 2017 and December 31, 2016 were as follows:

(dollars in thousands)	September 30, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial and industrial	**$ 19,071**	**$ 19,858**	**$ —**
Commercial real estate	**8,157**	**8,157**	**—**
Residential	**8,281**	**8,864**	**—**
Total	**$ 35,509**	**$ 36,879**	**$ —**
Impaired loans with a related allowance recorded:			
Commercial and industrial	**$ 152**	**$ 152**	**$ 4**
Commercial real estate	**904**	**904**	**7**
Residential	**8,772**	**9,053**	**631**
Total	**$ 9,828**	**$ 10,109**	**$ 642**
Total impaired loans:			
Commercial and industrial	**$ 19,223**	**$ 20,010**	**$ 4**
Commercial real estate	**9,061**	**9,061**	**7**
Residential	**17,053**	**17,917**	**631**
Total	**$ 45,337**	**$ 46,988**	**$ 642**

(dollars in thousands)	December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial and industrial	$ 22,404	$ 22,608	$ —
Commercial real estate	11,598	11,598	—
Lease financing	153	153	—
Residential	9,608	10,628	—
Total	$ 43,763	$ 44,987	$ —
Impaired loans with a related allowance recorded:			
Commercial and industrial	$ 5,168	$ 5,624	$ 380
Commercial real estate	947	947	7
Residential	9,550	9,831	705
Total	$ 15,665	$ 16,402	$ 1,092
Total impaired loans:			
Commercial and industrial	$ 27,572	$ 28,232	$ 380
Commercial real estate	12,545	12,545	7
Lease financing	153	153	—
Residential	19,158	20,459	705
Total	$ 59,428	$ 61,389	$ 1,092

The following tables provide information with respect to the Company's average balances, and of interest income recognized from, impaired loans for the three and nine months ended September 30, 2017 and 2016:

(dollars in thousands)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:				
Commercial and industrial	$ 19,100	$ 204	$ 20,402	$ 642
Commercial real estate	8,252	92	9,871	338
Lease financing	—	—	77	—
Residential	8,291	139	8,566	419
Total	$ 35,643	$ 435	$ 38,916	$ 1,399
Impaired loans with a related allowance recorded:				
Commercial and industrial	$ 154	$ 2	$ 3,179	$ 52
Commercial real estate	910	10	925	32
Residential	8,875	96	9,150	285
Total	$ 9,939	$ 108	$ 13,254	$ 369
Total impaired loans:				
Commercial and industrial	$ 19,254	$ 206	$ 23,581	$ 694
Commercial real estate	9,162	102	10,796	370
Lease financing	—	—	77	—
Residential	17,166	235	17,716	704
Total	$ 45,582	$ 543	$ 52,170	$ 1,768

(dollars in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:				
Commercial and industrial	$ 29,018	$ 335	$ 30,044	$ 1,207
Commercial real estate	11,752	176	9,713	556
Construction	—	—	188	—
Lease financing	168	3	171	4
Residential	11,312	192	12,197	453
Total	$ 52,250	$ 706	$ 52,313	$ 2,220
Impaired loans with a related allowance recorded:				
Commercial and industrial	$ 991	$ 3	$ 661	$ 11
Commercial real estate	479	11	319	33
Residential	8,487	96	8,616	298
Total	$ 9,957	$ 110	$ 9,596	$ 342
Total impaired loans:				
Commercial and industrial	$ 30,009	$ 338	$ 30,705	$ 1,218
Commercial real estate	12,231	187	10,032	589
Construction	—	—	188	—
Lease financing	168	3	171	4
Residential	19,799	288	20,813	751
Total	$ 62,207	$ 816	$ 61,909	$ 2,562

Modifications

Commercial and industrial loans modified in a troubled debt restructuring ("TDR") may involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor may be requested. Modifications of commercial real estate and construction loans in a TDR may 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 new borrower or guarantor. Modifications of construction loans in a TDR may also involve extending the interest-only payment period. Interest continues to accrue on the missed payments and as a result, the effective yield on the lease remains unchanged. As the forbearance period usually involves an insignificant payment delay, lease financing modifications typically do not meet the reporting criteria for a TDR. Residential real estate loans modified in a TDR may be comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally two years. Generally, consumer loans are not classified as a TDR as they are normally charged off upon reaching a predetermined delinquency status that ranges from 120 to 180 days and varies by product type.

Loans modified in a TDR may already be on nonaccrual status and in some cases partial charge-offs may have already been taken against the outstanding loan balance. Loans modified in a TDR are evaluated for impairment. As a result, this may have a financial effect of increasing the specific Allowance associated with the loan. An Allowance for impaired commercial loans, including commercial real estate and construction 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. An Allowance for impaired residential loans that have been modified in a TDR is measured based on the estimated fair value of the collateral, less any selling costs. Management exercises significant judgment in developing these estimates.

The following presents, by class, information related to loans modified in a TDR during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
(dollars in thousands)	Number of Contracts	Recorded Investment(1)	Related Allowance	Number of Contracts	Recorded Investment(1)	Related Allowance
Commercial and industrial	—	$ —	$ —	1	$ 1,120	$ —
Residential	—	—	—	2	661	21
Total	—	$ —	$ —	3	$ 1,781	$ 21

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
(dollars in thousands)	Number of Contracts	Recorded Investment(1)	Related Allowance	Number of Contracts	Recorded Investment(1)	Related Allowance
Commercial and industrial	2	$ 98	$ 4	6	$ 16,015	$ 4
Commercial real estate	4	5,044	7	6	10,450	7
Residential	3	577	7	10	3,709	53
Total	9	$ 5,719	$ 18	22	$ 30,174	$ 64

(1) The recorded investment balances reflect all partial paydowns and charge-offs since the modification date and do not include TDRs that have been fully paid off, charged off, or foreclosed upon by the end of the period.

The above loans were modified in a TDR through temporary interest-only payments, reduced payments, or below-market interest rates.

The Company had total remaining loan and lease commitments including standby letters of credit of $5.4 billion as of September 30, 2017 and $5.1 billion as of December 31, 2016. Of the $5.4 billion at September 30, 2017, there were commitments of $1.0 million related to borrowers who had loan terms modified in a TDR. Of the $5.1 billion at December 31, 2016, there were commitments of $6.9 million related to borrowers who had loan terms modified in a TDR.

The following table presents, by class, loans modified in TDRs that have defaulted in the current period within 12 months of their permanent modification date for the periods indicated. The Company is reporting these defaulted TDRs based on a payment default definition of 30 days past due:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017		Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
(dollars in thousands)	Number of Contracts	Recorded Investment(1)	Number of Contracts	Recorded Investment(1)	Number of Contracts	Recorded Investment(1)	Number of Contracts	Recorded Investment(1)
Commercial and industrial (2)	—	$ —	1	$ 2,496	—	$ —	—	$ —
Commercial real estate (3)	—	—	1	1,393	—	—	—	—
Residential (4)	—	—	1	510	—	—	—	—
Total	—	$ —	3	$ 4,399	—	$ —	—	$ —

(1) The recorded investment balances reflect all partial paydowns and charge-offs since the modification date and do not include TDRs that have been fully paid off, charged off, or foreclosed upon by the end of the period.
(2) For the nine months ended September 30, 2017, the maturity date for the commercial and industrial loan that subsequently defaulted was extended.
(3) For the nine months ended September 30, 2017, the commercial real estate loan that subsequently defaulted was extended.
(4) For the nine months ended September 30, 2017, the residential real estate loan that subsequently defaulted was modified for interest-only payments.

Foreclosure Proceedings

There were no residential mortgage loans collateralized by real estate property that were modified in a TDR that were in the process of foreclosure at September 30, 2017 and one residential real estate loan of $0.5 million that was in process of foreclosure at December 31, 2016.

Foreclosed Property

Residential real estate property held from one foreclosed TDR of a residential mortgage loan included in other real estate owned and repossessed personal property shown in the unaudited consolidated balance sheets was $0.3 million as of both September 30, 2017 and December 31, 2016.

5. Transfers of Financial Assets

The Company's transfers of financial assets with continuing interest may include pledges of collateral to secure public deposits and repurchase agreements, FHLB and FRB borrowing capacity, automated clearing house ("ACH") transactions and interest rate swaps.

For public deposits and repurchase agreements, the Company enters into bilateral agreements with the entity to pledge investment securities as collateral in the event of default. 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. The counterparty has the right to sell or repledge the investment securities. 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 investment securities. For transfers of assets with the FHLB and the FRB, the Company enters into bilateral agreements to pledge loans and investment securities as collateral to secure borrowing capacity. For ACH transactions, the Company enters into bilateral agreements to collateralize possible daylight overdrafts. For interest rate swaps, the Company enters into bilateral agreements to pledge collateral when either party is in a negative fair value position to mitigate counterparty credit risk. Counterparties to ACH transactions, certain interest rate swaps, the FHLB and the FRB do not have the right to sell or repledge the collateral.

The carrying amounts of the assets pledged as collateral to secure public deposits, borrowing arrangements and other transactions as of September 30, 2017 and December 31, 2016 were as follows:

(dollars in thousands)	September 30, 2017	December 31, 2016
Public deposits	**$ 3,440,535**	$ 2,521,761
Federal Home Loan Bank	**2,323,773**	2,097,233
Federal Reserve Bank	**905,249**	935,672
Repurchase agreements	**—**	10,066
ACH transactions	**151,466**	152,394
Interest rate swaps	**36,230**	30,399
Total	**$ 6,857,253**	$ 5,747,525

As the Company did not enter into reverse repurchase agreements, no collateral was accepted as of September 30, 2017 and December 31, 2016. In addition, no debt was extinguished by in-substance defeasance. At September 30, 2017, the Company had $1.9 billion and $679.9 million in lines of credit available from the FHLB and the FRB, respectively. None of the lines available were drawn upon as of September 30, 2017.

As of September 30, 2017, the Company did not have any repurchase agreements. A disaggregation of the gross amount of recognized liabilities for repurchase agreements by the class of collateral pledged as of December 31, 2016 was as follows:

	December 31, 2016			
	Remaining Contractual Maturity of the Agreements			
(dollars in thousands)	Up to 30 days	30-90 days	Greater than 90 days	Total
Government agency collateralized mortgage obligations	$ 1,200	$ —	$ 4,951	$ 6,151
Government-sponsored enterprises mortgage-backed securities	—	2,000	1,000	3,000
Gross amount of recognized liabilities for repurchase agreements	$ 1,200	$ 2,000	$ 5,951	$ 9,151

6. Deposits

As of September 30, 2017 and December 31, 2016, deposits were categorized as interest-bearing or noninterest-bearing as follows:

(dollars in thousands)	September 30, 2017	December 31, 2016
U.S.:		
Interest-bearing	$ 10,982,814	$ 10,129,958
Noninterest-bearing	5,252,249	5,399,212
Foreign:		
Interest-bearing	705,035	671,957
Noninterest-bearing	655,385	593,405
Total deposits	$ 17,595,483	$ 16,794,532

The following table presents the maturity distribution of time certificates of deposit as of September 30, 2017:

(dollars in thousands)	Under $250,000	$250,000 or More	Total
Three months or less	$ 276,403	$ 1,872,346	$ 2,148,749
Over three through six months	254,135	887,468	1,141,603
Over six through twelve months	259,014	319,229	578,243
One to two years	140,633	222,640	363,273
Two to three years	113,747	50,855	164,602
Three to four years	101,430	39,481	140,911
Four to five years	68,182	39,518	107,700
Thereafter	46	—	46
Total	$ 1,213,590	$ 3,431,537	$ 4,645,127

Time certificates of deposit in denominations of $250,000 or more, in the aggregate, were $3.4 billion and $2.5 billion as of September 30, 2017 and December 31, 2016, respectively. Overdrawn deposit accounts were classified as loans and totaled $2.4 million and $1.5 million as of September 30, 2017 and December 31, 2016, respectively.

7. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is defined as the revenues, expenses, gains and losses that are included in comprehensive income but excluded from net income. The Company’s significant items of accumulated other comprehensive loss are pension and other benefits, net unrealized gains or losses on investment securities and net unrealized gains or losses on cash flow derivative hedges. Changes in accumulated other comprehensive loss for the three and nine months ended September 30, 2017 and 2016 are presented below:

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at June 30, 2017	$ (111,823)	$ 44,172	$ (67,651)
Three months ended September 30, 2017			
Investment securities:			
Unrealized net gains arising during the period	212	(84)	128
Net change in unrealized gains on investment securities	212	(84)	128
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the period	675	(266)	409
Net change in unrealized gains on cash flow derivative hedges	675	(266)	409
Other comprehensive income	887	(350)	537
Accumulated other comprehensive loss at September 30, 2017	$ (110,936)	$ 43,822	$ (67,114)

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2016	$ (145,472)	$ 57,461	$ (88,011)
Nine months ended September 30, 2017			
Investment securities:			
Unrealized net gains arising during the period	**33,005**	**(13,035)**	**19,970**
Net change in unrealized gains on investment securities	**33,005**	**(13,035)**	**19,970**
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the period	**1,531**	**(604)**	**927**
Net change in unrealized gains on cash flow derivative hedges	**1,531**	**(604)**	**927**
Other comprehensive income	**34,536**	**(13,639)**	**20,897**
Accumulated other comprehensive loss at September 30, 2017	**$ (110,936)**	**$ 43,822**	**$ (67,114)**

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at June 30, 2016	$ (8,644)	$ 3,417	$ (5,227)
Three months ended September 30, 2016			
Investment securities:			
Unrealized net losses arising during the period	(9,925)	3,920	(6,005)
Reclassification of net gains to net income:			
Investment securities gains, net	(30)	12	(18)
Net change in unrealized losses on investment securities	(9,955)	3,932	(6,023)
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the period	1,545	(610)	935
Net change in unrealized gains on cash flow derivative hedges	1,545	(610)	935
Other comprehensive loss	(8,410)	3,322	(5,088)
Accumulated other comprehensive loss at September 30, 2016	$ (17,054)	$ 6,739	$ (10,315)

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2015	$ (84,722)	$ 33,463	$ (51,259)
Nine months ended September 30, 2016			
Pension and other benefits:			
Change due to Reorganization Transactions	(78)	32	(46)
Net change in pension and other benefits	(78)	32	(46)
Investment securities:			
Unrealized net gains arising during the period	92,590	(36,573)	56,017
Reclassification of net gains to net income:			
Investment securities gains, net	(25,761)	10,176	(15,585)
Net change in unrealized gains on investment securities	66,829	(26,397)	40,432
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the period	917	(359)	558
Net change in unrealized gains on cash flow derivative hedges	917	(359)	558
Other comprehensive income	67,668	(26,724)	40,944
Accumulated other comprehensive loss at September 30, 2016	$ (17,054)	$ 6,739	$ (10,315)

The following table summarizes changes in accumulated other comprehensive loss, net of tax, for the periods indicated:

(dollars in thousands)	Pensions and Other Benefits	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains on Cash Flow Derivative Hedges	Total Accumulated Other Comprehensive Loss
Three Months Ended September 30, 2017				
Balance at beginning of period	$ (30,237)	$ (40,116)	$ 2,702	$ (67,651)
Other comprehensive income	**—**	**128**	**409**	**537**
Balance at end of period	**$ (30,237)**	**$ (39,988)**	**$ 3,111**	**$ (67,114)**
Nine Months Ended September 30, 2017				
Balance at beginning of period	$ (30,237)	$ (59,958)	$ 2,184	$ (88,011)
Other comprehensive income	**—**	**19,970**	**927**	**20,897**
Balance at end of period	**$ (30,237)**	**$ (39,988)**	**$ 3,111**	**$ (67,114)**
Three Months Ended September 30, 2016				
Balance at beginning of period	$ (26,929)	$ 21,349	$ 353	$ (5,227)
Other comprehensive (loss) income	—	(6,023)	935	(5,088)
Balance at end of period	$ (26,929)	$ 15,326	$ 1,288	$ (10,315)
Nine Months Ended September 30, 2016				
Balance at beginning of period	$ (26,883)	$ (25,106)	$ 730	$ (51,259)
Other comprehensive (loss) income	(46)	40,432	558	40,944
Balance at end of period	$ (26,929)	$ 15,326	$ 1,288	$ (10,315)

8. Regulatory Capital Requirements

Federal and state laws and regulations limit the amount of dividends the Company may declare or pay. The Company depends primarily on dividends from FHB as the source of funds for the Company's payment of dividends.

The Company and the Bank are subject to various regulatory capital requirements imposed by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's operating activities and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of its assets and certain off-balance-sheet items. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of Common Equity Tier 1 ("CET1"), Tier 1 and total capital to risk-weighted assets, as well as a minimum leverage ratio.

The table below sets forth those ratios at September 30, 2017 and December 31, 2016:

(dollars in thousands)	First Hawaiian, Inc. and Subsidiary Amount	Ratio	First Hawaiian Bank Amount	Ratio	Minimum Capital Ratio[1]	Well-Capitalized Ratio[1]
September 30, 2017:						
Common equity tier 1 capital to risk-weighted assets	**$ 1,653,480**	**12.71 %**	**$ 1,645,372**	**12.67 %**	**4.50 %**	**6.50 %**
Tier 1 capital to risk-weighted assets	**1,653,480**	**12.71 %**	**1,645,372**	**12.67 %**	**6.00 %**	**8.00 %**
Total capital to risk-weighted assets	**1,791,407**	**13.77 %**	**1,783,299**	**13.73 %**	**8.00 %**	**10.00 %**
Tier 1 capital to average assets (leverage ratio)	**1,653,480**	**8.66 %**	**1,645,372**	**8.63 %**	**4.00 %**	**5.00 %**
December 31, 2016:						
Common equity tier 1 capital to risk-weighted assets	$ 1,569,004	12.75 %	$ 1,533,056	12.51 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,569,004	12.75 %	1,533,063	12.51 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,705,098	13.85 %	1,669,157	13.62 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,569,004	8.36 %	1,533,063	8.19 %	4.00 %	5.00 %

(1) As defined by the regulations issued by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation ("FDIC").

A new capital conservation buffer, comprised of common equity Tier 1 capital, was established above the regulatory minimum capital requirements. This capital conservation buffer was phased 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. As of September 30, 2017, under the bank regulatory capital guidelines, the Company and Bank were both classified as well-capitalized. Management is not aware of any conditions or events that have occurred since September 30, 2017, to change the capital adequacy category of the Company or the Bank.

9. Income Taxes

The Company's effective tax rate was 37.71% and 38.43% for the three months ended September 30, 2017 and 2016, respectively, and 37.25% and 37.54% for the nine months ended September 30, 2017 and 2016, respectively.

The Company is subject to examination by the Internal Revenue Service ("IRS") and tax authorities in states in which the Company has significant business operations. The tax years under examination and open for examination vary by jurisdiction. There are currently no federal examinations under way; however, refund claims and tax returns for certain years are being reviewed by state jurisdictions. No material unanticipated adjustments were made by the IRS in the years most recently examined. The Company's income tax returns for 2014 and subsequent tax years generally remain subject to examination by U.S. federal and foreign jurisdictions, and 2013 and subsequent years are subject to examination by state taxing authorities.

A reconciliation of the amount of unrecognized tax benefits is as follows for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,					
	2017			2016		
(dollars in thousands)	Tax	Interest and Penalties	Total	Tax	Interest and Penalties	Total
Balance at January 1,	**$ 127,085**	**$ 9,965**	**$ 137,050**	$ 5,903	$ 2,935	$ 8,838
Additions for current year tax positions	**1,727**	**—**	**1,727**	6,268	1,117	7,385
Additions for Reorganization Transactions	**—**	**226**	**226**	115,877	5,459	121,336
Additions for prior years' tax positions:						
Accrual of interest and penalties	**—**	**295**	**295**	—	95	95
Reductions for prior years' tax positions:						
Expiration of statute of limitations	**(258)**	**(152)**	**(410)**	(530)	(215)	(745)
Other	**—**	**—**	**—**	(12)	(1)	(13)
Balance at September 30,	**$ 128,554**	**$ 10,334**	**$ 138,888**	$ 127,506	$ 9,390	$ 136,896

Included in the balance of unrecognized tax benefits was $11.2 million and $10.9 million of unrecognized tax benefits for the nine months ended September 30, 2017 and 2016, respectively, that, if recognized, would impact the effective tax rate.

In connection with the Reorganization Transactions discussed below, the Company recorded interest and penalties of $0.2 million for the nine months ended September 30, 2017 and unrecognized tax benefits and interest and penalties of $115.9 million and $5.5 million, respectively, for the nine months ended September 30, 2016. Included in the balance of the unrecognized tax benefits as of September 30, 2017 was $93.9 million attributable to tax refund claims with respect to tax years 2005 through 2012 in the State of California. Such refund claims were filed by the Company in 2015, on behalf of the Company and its affiliates, including BOW, concerning the determination of taxes for which no benefit is currently recognized. It is reasonably possible that the amount of unrecognized tax benefits could decrease within the next 12 months by as much as $107.2 million of taxes and $5.4 million of accrued interest and penalties as a result of settlements and the expiration of the statute of limitations in various states.

The Company recognizes interest and penalties attributable to both unrecognized tax benefits and undisputed tax adjustments in the provision for income taxes. For the nine months ended September 30, 2017 and 2016, the Company recorded $0.4 million and $0.2 million, respectively, of net expense attributable to interest and penalties. The Company had a liability of $12.5 million and $12.1 million as of September 30, 2017 and December 31, 2016, respectively, for accrued interest and penalties, of which $10.3 million and $10.0 million as of September 30, 2017 and December 31, 2016, respectively, were attributable to unrecognized tax benefits and the remainder was attributable to tax adjustments which are not expected to be in dispute.

Prior to the Reorganization Transactions, the Company filed consolidated U.S. Federal and combined state tax returns that incorporated the tax receivables and unrecognized tax benefits of FHB and BOW. The consummation of the Reorganization Transactions did not relieve the Company of the pre-Reorganization Transactions tax receivables and unrecognized tax benefits recognized by BOW that were included in the Company's consolidated and combined tax returns. As a result, on April 1, 2016, the Company recorded $72.8 million related to current tax receivables, $116.6 million related to unrecognized tax benefits, and an indemnification payable of $28.6 million. Additionally, in connection with the Reorganization Transactions, the Company incurred certain tax-related liabilities related to the distribution of its interest in BWHI amounting to $95.4 million. The amount necessary to pay the distribution taxes (net of the expected federal tax benefit of $33.4 million) was paid by BNPP to the Company on April 1, 2016. The Company expects that any future refunds or adjustments to such taxes will be reimbursed to, or funded by, BWHI or its affiliates pursuant to a tax sharing agreement entered into on April 1, 2016 and pursuant to certain tax allocation agreements entered into among the parties. Accordingly, the assumption of the pre-Reorganization Transactions tax receivables, unrecognized tax benefits and distribution tax liabilities and the offsetting indemnification receivables or payables were reflected as equity contributions and distributions on April 1, 2016. If there are any future adjustments to the indemnified tax receivables or unrecognized tax benefits, an offsetting adjustment to the indemnification receivables or payables will be recorded to the provision for income taxes and other noninterest income or expense.

10. Derivative Financial Instruments

The Company enters into derivative contracts primarily to manage its interest rate risk, as well as for customer accommodation purposes. Derivatives used for risk management purposes consist of interest rate swaps that are designated as either a fair value hedge or a cash flow hedge. The derivatives are recognized on the unaudited consolidated balance sheets as either assets or liabilities at fair value. Derivatives entered into for customer accommodation purposes consist of various free-standing interest rate derivative products and foreign exchange contracts. 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 following table summarizes notional amounts and fair values of derivatives held by the Company as of September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
		Fair Value			Fair Value	
(dollars in thousands)	Notional Amount	Asset Derivatives (1)	Liability Derivatives (2)	Notional Amount	Asset Derivatives (1)	Liability Derivatives (2)
Derivatives designated as hedging instruments:						
Interest rate swaps	**$ 196,173**	**$ —**	**$ (3,343)**	$ 200,504	$ —	$ (5,296)
Derivatives not designated as hedging instruments:						
Interest rate swaps	**1,727,957**	**19,743**	**(15,503)**	1,297,101	15,982	(18,299)
Funding swap	**41,536**	**—**	**(5,975)**	37,143	—	(7,460)
Foreign exchange contracts	**3,442**	**88**	**(12)**	3,664	—	(147)

(1) The positive fair value of derivative assets is included in other assets.
(2) The negative fair value of derivative liabilities is included in other liabilities.

As of September 30, 2017, the Company pledged $23.7 million in financial instruments and $12.5 million in cash as collateral for interest rate swaps. As of December 31, 2016, the Company pledged $12.1 million in financial instruments and $18.3 million in cash as collateral for interest rate swaps.

Fair Value Hedges

To manage the risk related to the Company's net interest margin, interest rate swaps are utilized to hedge certain fixed-rate loans. These swaps have maturity, amortization and prepayment features that correspond to the loans hedged, and are designated and qualify as fair value hedges. Any gain or loss on the swaps, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, is recognized in current period earnings.

At September 30, 2017, the Company carried interest rate swaps with notional amounts totaling $46.2 million with a positive fair value of nil and fair value losses of $1.0 million that were categorized as fair value hedges for commercial and industrial loans and commercial real estate loans. The Company received 6-month London Interbank Offered Rate ("LIBOR") and paid fixed rates ranging from 2.59% to 3.44%. The swaps mature between 2019 and 2023. At December 31, 2016, the Company carried interest rate swaps with notional amounts totaling $50.5 million with a positive fair value of nil and a negative fair value of $1.5 million that were categorized as fair value hedges for commercial and industrial loans and commercial real estate loans.

The following table shows the net gains and losses recognized in income related to derivatives in fair value hedging relationships for the three and nine months ended September 30, 2017 and 2016:

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest expense recorded in net interest income	**$ (142)**	$ (279)	**$ (511)**	$ (973)
Gains (losses) recorded in noninterest income:				
Recognized on derivatives	**150**	479	**274**	(1,039)
Recognized on hedged item	**(224)**	(481)	**(222)**	1,065
Net gains (losses) recognized on fair value hedges (ineffective portion)	**(74)**	(2)	**52**	26
Net losses recognized on fair value hedges	**$ (216)**	$ (281)	**$ (459)**	$ (947)

Cash Flow Hedges

The Company utilizes interest rate swaps to reduce exposure to interest rates associated with short-term fixed-rate liabilities. The Company enters into interest rate swaps paying fixed rates and receiving LIBOR. The LIBOR index will correspond to the short-term fixed-rate nature of the liabilities being hedged. If interest rates rise, the increase in interest received on the swaps will offset increases in interest costs associated with these liabilities. By hedging with interest rate swaps, the Company minimizes the adverse impact on interest expense associated with increasing rates on short-term liabilities.

The interest rate swaps are designated and qualify as cash flow hedges. The effective portion of the gain or loss on the interest rate swaps is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. There were no recognized expenses related to the ineffective portion of the change in fair value of derivatives designated as a cash flow hedge for the three and nine months ended September 30, 2017 and 2016.

As of September 30, 2017 and December 31, 2016, the Company carried two interest rate swaps with notional amounts totaling $150.0 million, with a negative fair value of $2.3 million as of September 30, 2017 and a negative fair value of $3.8 million as of December 31, 2016, in order to reduce exposure to interest rate increases associated with short-term fixed-rate liabilities. The swaps mature in 2018. The Company received 6-month LIBOR and paid fixed rates ranging from 2.98% to 3.03%. The interest rate swaps designated as cash flow hedges resulted in net interest expense of $0.6 million and $0.8 million during the three months ended September 30, 2017 and 2016, respectively, and $1.9 million and $2.5 million during the nine months ended September 30, 2017 and 2016, respectively.

The following table summarizes the effect of cash flow hedging relationships for the three and nine months ended September 30, 2017 and 2016:

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Pretax gains recognized in other comprehensive income on derivatives (effective portion)	**$ 675**	$ 1,545	**$ 1,531**	$ 917

There were no gains or losses reclassified from accumulated other comprehensive loss to earnings during the three and nine months ended September 30, 2017 and 2016.

Free-Standing Derivative Instruments

For the derivatives that are not designated as hedges, changes in fair value are reported in current period earnings. The following table summarizes the impact on pretax earnings of derivatives not designated as hedges, as reported on the unaudited consolidated statements of income for the three and nine months ended September 30, 2017 and 2016:

(dollars in thousands)	Net gains (losses) recognized in the consolidated statements of income line item	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Derivatives Not Designated As Hedging Instruments:					
Interest rate swaps	Other noninterest income	**$ 234**	$ 378	**$ 587**	$ (17)
Funding swap	Other noninterest income	**(41)**	6	**(74)**	25
Foreign exchange contracts	Other noninterest income	**(149)**	72	**78**	(50)

As of September 30, 2017, the Company carried multiple interest rate swaps with notional amounts totaling $1.7 billion, including $1.6 billion related to the Company's customer swap program, with a positive fair value of $19.7 million and a negative fair value of $15.5 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 1.24% to 5.33%. The swaps mature between 2018 and 2037. As of December 31, 2016, the Company carried multiple interest rate swaps with notional amounts totaling $1.3 billion, including $1.2 billion related to the Company's customer swap program, with a positive fair value of $16.0 million and a negative fair value of $18.3 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 0.77% to 4.90%. The swaps mature between 2018 and 2035. These swaps resulted in net interest expense of $0.2 million and $0.3 million for the three months ended September 30, 2017 and 2016, respectively, and net interest expense of $0.7 million and $0.8 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company's customer swap program is designed by offering customers a variable-rate loan that is swapped to fixed-rate through an interest-rate swap. The Company simultaneously executes an offsetting interest-rate swap with a swap dealer. Upfront fees on the dealer swap are recorded in other noninterest income and totaled $1.3 million and $0.7 million for the three months ended September 30, 2017 and 2016, respectively, and $5.9 million and $4.3 million for the nine months ended September 30, 2017 and 2016, respectively. Interest rate swaps related to the program had asset fair values of $19.7 million and $16.0 million as of September 30, 2017 and December 31, 2016, respectively, and liability fair values of $13.8 million and $16.0 million as of September 30, 2017 and December 31, 2016, respectively.

In conjunction with the 2016 sale of Class B restricted shares of common stock issued by Visa, the Company entered into a funding swap agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion ratio to unrestricted Class A common shares. A derivative liability ("Visa derivative") of $6.0 million and $7.5 million was included in the unaudited consolidated balance sheets at September 30, 2017 and December 31, 2016, respectively, to provide for the fair value of this liability. Under the terms of the funding swap agreement, the Company will make monthly payments to the buyer based on Visa's Class A stock price and the number of Visa Class B restricted shares that were sold until the date on which the covered litigation is settled. There were no sales of these shares prior to 2016. See "Note 14. Fair Value" for more information.

Counterparty Credit Risk

By using derivatives, the Company is exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset, net of cash or other collateral received, and net of derivatives in a loss position with the same counterparty to the extent master netting arrangements exist. The Company minimizes counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. Counterparty credit risk related to derivatives is considered in determining fair value.

The Company's interest rate swap agreements include bilateral collateral agreements with collateral requirements which begin with exposures in excess of $0.5 million. For each counterparty, the Company reviews the interest rate swap collateral daily. Collateral for customer interest rate swap agreements, calculated as the pledged property less loan balance, requires valuation of the property pledged. Counterparty credit risk adjustments of nil and $0.1 million were recognized for the three months ended September 30, 2017 and 2016, respectively and $0.1 million and $0.2 million were recognized for the nine months ended September 30, 2017 and 2016, respectively.

11. Commitments and Contingent Liabilities

Contingencies

On January 27, 2017, a purported class action lawsuit was filed by a Bank customer alleging that FHB improperly charges an overdraft fee in circumstances where an account has sufficient funds to cover the transaction at the time a transaction is authorized by the customer but not at the time the transaction is posted, and that this practice constitutes an unjust and deceptive trade practice. The lawsuit further alleges that FHB's practice of assessing a one-time continuous negative balance overdraft fee on accounts remaining in a negative balance for a seven-day period constitutes a usurious interest charge and an unfair and deceptive trade practice.

This lawsuit is 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 this legal proceeding is uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of potential loss, if any, for this action because, among other things, its 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 the Company were to be found liable. Accordingly, the Company has not recognized any liability associated with this action. Management disputes any wrongdoing and the case is being vigorously defended.

In addition to the litigation noted above, various other legal proceedings are pending or threatened against the Company. After consultation with legal counsel, management does not expect that the aggregate liability, if any, resulting from these proceedings would have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby and commercial letters of credit which are not reflected in the unaudited consolidated financial statements.

Unfunded Commitments to Extend Credit

A commitment to extend credit is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specified purpose. Commitments are reported net of participations sold to other institutions. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Company will experience is expected to be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in extending loans. In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate, by monitoring the size and expiration structure of these portfolios and by applying the same credit standards maintained for all of its related credit activities. Commitments to extend credit are reported net of participations sold to other institutions of $60.5 million and $94.5 million at September 30, 2017 and December 31, 2016, respectively.

Standby and Commercial Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures third parties that it will receive the specified funds if customers fail to meet their contractual obligations. The credit risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. Standby letters of credit are reported net of participations sold to other institutions of $17.8 million and $19.0 million at September 30, 2017 and December 31, 2016, respectively. The Company also had commitments for commercial and similar letters of credit. Commercial letters of credit are issued specifically to facilitate commerce whereby the commitment is typically drawn upon when the underlying transaction between the customer and a third party is consummated. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held supports those commitments for which collateral is deemed necessary. The commitments outstanding as of September 30, 2017 have maturities ranging from October 2017 to March 2021. Substantially all fees received from the issuance of such commitments are deferred and amortized on a straight-line basis over the term of the commitment.

Financial instruments with off-balance sheet risk at September 30, 2017 and December 31, 2016, respectively, were as follows:

(dollars in thousands)	September 30, 2017	December 31, 2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 5,438,176**	$ 5,121,811
Standby letters of credit	**160,515**	60,848
Commercial letters of credit	**5,853**	6,813

Guarantees

The Company sells residential mortgage loans in the secondary market primarily to The Federal National Mortgage Association ("FNMA" or "Fannie Mae") and The Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") that may potentially require repurchase under certain conditions. This risk is managed through the Company's underwriting practices. The Company services loans sold to investors and loans originated by other originators under agreements that may include repurchase remedies if certain servicing requirements are not met. This risk is managed through the Company's quality assurance and monitoring procedures. Management does not anticipate any material losses as a result of these transactions.

Foreign Exchange Contracts

The Company has forward foreign exchange contracts that represent commitments to purchase or sell foreign currencies at a future date at a specified price. The Company's utilization of forward foreign exchange contracts is subject to the primary underlying risk of movements in foreign currency exchange rates and to additional counterparty risk should its counterparties fail to meet the terms of their contracts. Forward foreign exchange contracts are utilized to mitigate the Company's risk to satisfy customer demand for foreign currencies and are not used for trading purposes. See "Note 10. Derivative Financial Instruments" for more information.

Reorganization Transactions

In connection with the Reorganization Transactions as discussed in Note 1, FHI (formerly BancWest) distributed its interest in BWHI (including BOW) to BNPP so that BWHI was held directly by BNPP. BWHI is now held indirectly by BNPP through its intermediate holding company. As a result of the Reorganization Transactions that occurred on April 1, 2016, various tax or other contingent liabilities could arise related to the business of BOW, or related to the Company's operations prior to the restructuring when it was known as BancWest, including its then-wholly-owned subsidiary, BOW. The Company is not able to determine the ultimate outcome or estimate the amounts of these contingent liabilities, if any, at this time.

12. Earnings per Share

For the three and nine months ended September 30, 2017 and 2016, the Company made no adjustments to net income for the purpose of computing earnings per share and there were no antidilutive securities. For the three and nine months ended September 30, 2017 and 2016, the computations of basic and diluted earnings per share were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except shares and per share amounts)	2017	2016	2017	2016
Numerator:				
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Denominator:				
Basic: weighted-average shares outstanding	**139,556,532**	139,500,542	**139,549,665**	139,473,360
Add: weighted-average equity-based awards	**139,798**	3,016	**120,822**	1,013
Diluted: weighted-average shares outstanding	**139,696,330**	139,503,558	**139,670,487**	139,474,373
Basic earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24
Diluted earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24

13. Benefit Plans

The following table sets forth the components of net periodic benefit cost for the three and nine months ended September 30, 2017 and 2016, recorded as a component of salaries and employee benefits in the unaudited consolidated statements of income:

	Pension Benefits		Other Benefits	
(dollars in thousands)	2017	2016	2017	2016
Three Months Ended September 30,				
Service cost	**$ 157**	$ 215	**$ 179**	$ 193
Interest cost	**2,041**	2,172	**201**	210
Expected return on plan assets	**(1,242)**	(1,180)	**—**	—
Prior service credit	**—**	—	**(107)**	(107)
Recognized net actuarial loss	**2,000**	1,774	**—**	—
Total net periodic benefit cost	**$ 2,956**	$ 2,981	**$ 273**	$ 296
Nine Months Ended September 30,				
Service cost	**$ 472**	$ 644	**$ 537**	$ 577
Interest cost	**6,124**	6,486	**603**	631
Expected return on plan assets	**(3,726)**	(3,515)	**—**	—
Prior service credit	**—**	—	**(322)**	(321)
Recognized net actuarial loss	**5,998**	5,319	**—**	—
Total net periodic benefit cost	**$ 8,868**	$ 8,934	**$ 818**	$ 887

14. Fair Value

The Company determines the fair values of its financial instruments based on the requirements established in Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 defines fair value as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions.

Fair Value Hierarchy

ASC 820 establishes three levels of fair values based on the markets in which the assets or liabilities are traded and the reliability of the assumptions used to determine fair value. The levels are:

- § Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- § Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- § Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability ("Company-level data"). Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

ASC 820 requires that the Company disclose estimated fair values for certain financial instruments. Financial instruments include such items as investment securities, loans, deposits, interest rate and foreign exchange contracts, interest rate swaps and other instruments as defined by the standard. The Company has an organized and established process for determining and reviewing the fair value of financial instruments reported in the Company's financial statements. The fair value measurements are reviewed to ensure they are reasonable and in line with market experience in similar asset and liability classes.

Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as other real estate owned, other customer relationships, and other intangible assets. These nonrecurring fair value adjustments typically involve the application of lower-of-cost-or-fair-value accounting or write-downs of individual assets.

Disclosure of fair values is not required for certain items such as lease financing, obligations for pension and other postretirement benefits, premises and equipment, prepaid expenses, and income tax assets and liabilities.

Reasonable comparisons of fair value information with that of other financial institutions cannot necessarily be made because the standard permits many alternative calculation techniques, and numerous assumptions have been used to estimate the Company's fair values.

Valuation Techniques Used in the Fair Value Measurement of Assets and Liabilities Carried at Fair Value

For the assets and liabilities measured at fair value on a recurring basis (categorized in the valuation hierarchy table below), the Company applies the following valuation techniques:

Available-for-sale securities

Available-for-sale debt securities are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices, including estimates by third-party pricing services, if available. If quoted prices are not available, fair values are measured using proprietary valuation models that utilize market observable parameters from active market makers and inter-dealer brokers whereby securities are valued based upon available market data for securities with similar characteristics. Management reviews the pricing information received from the Company's third-party pricing service to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy and transfers of securities within the fair value hierarchy are made if necessary. On a monthly basis, management reviews the pricing information received from the third-party pricing service which 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 third-party pricing service. Management also 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. As of September 30, 2017 and December 31, 2016, management did not make adjustments to prices provided by the third-party pricing services as a result of illiquid or inactive markets. The Company's third-party pricing service has also established processes for the Company to submit inquiries regarding quoted prices. Periodically, the Company will challenge the quoted prices provided by the 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 the Company. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis. The Company classifies all available-for-sale securities as Level 2 in the fair value hierarchy.

Derivatives

Most of the Company's derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Company measures fair value on a recurring basis using proprietary valuation models that primarily use market observable inputs, such as yield curves, and option volatilities. The fair value of derivatives includes values associated with counterparty credit risk and the Company's own credit standing. The Company classifies these derivatives, included in other assets and other liabilities, as Level 2 in the fair value hierarchy.

Concurrent with the sale of the Visa Class B restricted shares, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion ratio to unrestricted Class A common shares. The Visa derivative of $6.0 million and $7.5 million was included in the unaudited consolidated balance sheets at September 30, 2017 and December 31, 2016, respectively, to provide for the fair value of this liability. The potential liability related to this funding swap agreement was determined based on management's estimate of the timing and the amount of Visa's litigation settlement and the resulting payments due to the counterparty under the terms of the contract. As such, the funding swap agreement is classified as Level 3 in the fair value hierarchy. The significant unobservable inputs used in the fair value measurement of the Company's funding swap agreement are the potential future changes in the conversion factor, expected term and growth rate of the market price of Visa Class A common shares. Material increases or (decreases) in any of those inputs may result in a significantly higher or (lower) fair value measurement.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 are summarized below:

	Fair Value Measurements as of September 30, 2017			
(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
U.S. Treasury securities	$ —	$ 396,766	$ —	$ 396,766
Government-sponsored enterprises debt securities	—	245,138	—	245,138
Government agency mortgage-backed securities (1)	—	159,787	—	159,787
Government-sponsored enterprises mortgage-backed securities (1)	—	184,139	—	184,139
Non-government asset-backed securities	—	101	—	101
Collateralized mortgage obligations:				
Government agency	—	3,513,904	—	3,513,904
Government-sponsored enterprises	—	815,138	—	815,138
Total available-for-sale securities	—	5,314,973	—	5,314,973
Other assets (2)	—	19,831	—	19,831
Liabilities				
Other liabilities (3)	—	(18,858)	(5,975)	(24,833)
Total	$ —	$ 5,315,946	$ (5,975)	$ 5,309,971

(dollars in thousands)	Fair Value Measurements as of December 31, 2016 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
U.S. Treasury securities	$ —	$ 392,473	$ —	$ 392,473
Government-sponsored enterprises debt securities	—	242,667	—	242,667
Government agency mortgage-backed securities (1)	—	185,663	—	185,663
Government-sponsored enterprises mortgage-backed securities (1)	—	204,385	—	204,385
Non-government asset-backed securities	—	12,583	—	12,583
Collateralized mortgage obligations:				
Government agency	—	3,351,822	—	3,351,822
Government-sponsored enterprises	—	687,921	—	687,921
Total available-for-sale securities	—	5,077,514	—	5,077,514
Other assets (2)	—	15,982	—	15,982
Liabilities				
Other liabilities (3)	—	(23,742)	(7,460)	(31,202)
Total	$ —	$ 5,069,754	$ (7,460)	$ 5,062,294

(1) Backed by residential real estate.
(2) Other assets include derivative assets.
(3) Other liabilities include derivative liabilities.

Changes in Fair Value Levels

For the three and nine months ended September 30, 2017 and 2016 there were no transfers between fair value hierarchy levels.

The changes in Level 3 liabilities measured at fair value on a recurring basis for the three and nine months ended September 30, 2017 and 2016 are summarized in the table below.

(dollars in thousands)	Visa Derivative 2017	2016
Three Months Ended September 30,		
Balance as of July 1,	**$ (6,493)**	$ (8,376)
Total net (losses) gains included in other noninterest income	**(41)**	6
Settlements	**559**	444
Balance as of September 30,	**$ (5,975)**	$ (7,926)
Total net (losses) gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of September 30,	**$ (41)**	$ 6
Nine Months Ended September 30,		
Balance as of January 1,	**$ (7,460)**	$ —
Total net (losses) gains included in other noninterest income	**(73)**	25
Purchases	**—**	(8,875)
Settlements	**1,558**	924
Balance as of September 30,	**$ (5,975)**	$ (7,926)
Total net (losses) gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of September 30,	**$ (73)**	$ 25

Valuation Techniques Used in the Fair Value Measurement of Assets and Liabilities Carried at Other Than Fair Value

For the financial instruments that are not required to be carried at fair value on a recurring basis (categorized in the valuation hierarchy table below), the Company uses the following methods and assumptions to estimate the fair value:

Cash and cash equivalents

Cash and cash equivalents include cash and due from banks and interest-bearing deposits in other banks. The carrying amount is considered a reasonable estimate of fair value because there is a relatively short duration of time between the origination of the instrument and its expected realization. As such, these short-term financial assets are classified as Level 1. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities. Accordingly, these assets are classified as Level 2.

Loans

Fair values are estimated for pools of loans with similar characteristics using discounted cash flow analyses. The Company utilizes interest rates currently being offered for groups of loans with similar terms to borrowers of similar credit quality to estimate the fair values of: (1) commercial and industrial loans; (2) certain mortgage loans, including 1-4 family residential, commercial real estate and rental property; and (3) consumer loans. As such, loans are classified as Level 3.

Deposits

The fair value of deposits with no maturity date, such as interest-bearing and noninterest-bearing checking, regular savings, and certain types of money market savings accounts, approximate their carrying amounts, the amounts payable on demand at the reporting date. Accordingly, these are classified as Level 1. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities. Accordingly, these are classified as Level 2.

Short-term borrowings

The fair values of short-term borrowings are estimated using quoted market prices or discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. As such, short-term borrowings are classified as Level 2.

Off-balance sheet instruments

Fair values of letters of credit and commitments to extend credit are determined based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. As such, off-balance sheet financial instruments are classified as Level 3.

Standby letters of credit

The Company recognizes a liability for the fair value of the obligation undertaken in issuing a standby letter of credit at the inception of the guarantee. These liabilities are disclosed at fair value on a nonrecurring basis. Thereafter, these liabilities are carried at amortized cost. The fair value is based on the commission the Company receives when entering into the guarantee. As Company-level data is incorporated into the fair value measurement, the liability for standby letters of credit is classified as Level 3.

Assets and Liabilities Carried at Other Than Fair Value

The following tables summarize for the periods indicated the estimated fair value of the Company's financial instruments that are not required to be carried at fair value on a recurring basis, excluding leases and short-term financial assets and liabilities for which carrying amounts approximate fair value. The tables also summarize the fair values of the Company's off-balance sheet commitments, excluding lease commitments.

	September 30, 2017				
		Fair Value Measurements			
(dollars in thousands)	Book Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	**$ 1,114,365**	**$ 321,319**	**$ 793,045**	**$ —**	**$ 1,114,364**
Loans [(1)]	**11,978,338**	**—**	**—**	**11,979,164**	**11,979,164**
Financial liabilities:					
Deposits	**$ 17,595,483**	**$ 12,950,356**	**$ 4,639,721**	**$ —**	**$ 17,590,077**
Off-balance sheet financial instruments:					
Commitments to extend credit [(2)]	**$ 20,180**	**$ —**	**$ —**	**$ 20,180**	**$ 20,180**
Standby letters of credit	**2,857**	**—**	**—**	**2,857**	**2,857**
Commercial letters of credit	**15**	**—**	**—**	**15**	**15**

(1) Excludes financing leases of $171.4 million at September 30, 2017.
(2) There were no lease commitments at September 30, 2017.

	December 31, 2016				
		Fair Value Measurements			
(dollars in thousands)	Book Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	$ 1,052,058	$ 253,827	$ 798,226	$ —	$ 1,052,053
Loans [(1)]	11,340,338	—	—	11,306,675	11,306,675
Financial liabilities:					
Deposits	$ 16,794,532	$ 13,055,935	$ 3,730,945	$ —	$ 16,786,880
Short-term borrowings	9,151	—	9,109	—	9,109
Off-balance sheet financial instruments:					
Commitments to extend credit [(2)]	$ 20,677	$ —	$ —	$ 20,677	$ 20,677
Standby letters of credit	876	—	—	876	876
Commercial letters of credit	17	—	—	17	17

(1) Excludes financing leases of $180.0 million at December 31, 2016.
(2) There were no lease commitments at December 31, 2016.

Valuation Techniques Used in the Fair Value Measurement of Assets and Liabilities Carried at the Lower of Cost or Fair Value

The Company applies the following valuation techniques to assets measured at the lower of cost or fair value:

Mortgage servicing rights ("MSRs")

MSRs are carried at the lower of cost or fair value and are therefore subject to fair value measurements on a nonrecurring basis. The fair value of MSRs is determined using models which use significant unobservable inputs, such as estimates of prepayment rates, the resultant weighted average lives of the MSRs and the option-adjusted spread levels. Accordingly, the Company classifies MSRs as Level 3.

Impaired loans

A large portion of the Company's impaired loans are collateral dependent and are measured at fair value on a nonrecurring basis using collateral values as a practical expedient. The fair values of collateral for impaired loans are primarily based on real estate appraisal reports prepared by third party appraisers less disposition costs, present value of the expected future cash flows or the loan's observable market price. Certain loans are measured based on the present value of expected future cash flows, discounted at the loan's effective rate, which is not a fair value measurement. The Company measures the impairment on certain loans and leases by performing a lower-of-cost-or-fair-value analysis. If impairment is determined by the value of the collateral or an observable market price, it is written down to fair value on a nonrecurring basis as Level 3.

Other real estate owned

The Company values these properties at fair value at the time the Company acquires them, which establishes their new cost basis. After acquisition, the Company carries such properties at the lower of cost or fair value less estimated selling costs on a nonrecurring basis. Fair value is measured on a nonrecurring basis using collateral values as a practical expedient. The fair values of collateral for other real estate owned are primarily based on real estate appraisal reports prepared by third party appraisers less disposition costs, and are classified as Level 3.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required to record certain assets at fair value on a nonrecurring basis in accordance with GAAP. These assets are subject to fair value adjustments that result from the application of lower of cost or fair value accounting or write-downs of individual assets to fair value.

The following table provides the level of valuation inputs used to determine each fair value adjustment and the fair value of the related individual assets or portfolio of assets with fair value adjustments on a nonrecurring basis as of September 30, 2017 and December 31, 2016:

(dollars in thousands)	Level 1	Level 2	Level 3
September 30, 2017			
Impaired loans	**$ —**	**$ —**	**$ 107**
December 31, 2016			
Impaired loans	$ —	$ —	$ 1,567

Total losses on impaired loans were $0.2 million for both the three months ended September 30, 2017 and 2016 and $0.7 million and $0.4 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	Quantitative Information about Level 3 Fair Value Measurements at September 30, 2017			
(dollars in thousands)	**Fair value**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted Average)**
Impaired loans	**$ 107**	**Appraisal Value**	**Appraisal Value**	**n/m [(1)]**
Other liabilities	**$ (5,975)**	**Discounted Cash Flow**	**Expected Conversion Factor**	**1.6483**
			Expected Term	**4 years**
			Growth Rate	**15%**

	Quantitative Information about Level 3 Fair Value Measurements at December 31, 2016			
(dollars in thousands)	**Fair value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Impaired loans	$ 1,567	Appraisal Value	Appraisal Value	n/m [(1)]
Other liabilities	$ (7,460)	Discounted Cash Flow	Expected Conversion Factor	1.6483
			Expected Term	4 years
			Growth Rate	15%

(1) The fair value of these assets is determined based on appraised values of collateral or broker price opinions, the range of which is not meaningful to disclose.

15. Reportable Operating Segments

The Company’s operations are organized into three business segments – Retail Banking, Commercial Banking, and Treasury and Other. These segments reflect how discrete financial information is currently evaluated by the chief operating decision maker and how performance is assessed and resources allocated. The Company’s internal management process measures the performance of these business segments. This process, which is not necessarily comparable with similar information 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 loan and lease 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.

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.

The Company allocates the provision for loan and lease losses to each segment based on management’s estimate of the inherent loss content in each of the specific loan and lease portfolios.

Noninterest income and expense includes allocations from support units to the business segments. These allocations are based on actual usage where practicably calculated or by management’s estimate of such usage. Income tax expense is allocated to each business segment based on the consolidated effective income tax rate for the period shown.

Business Segments

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products offered include residential and commercial mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans and small business loans and leases. Deposit products offered include checking, savings, and time deposit accounts. Retail Banking also offers wealth management services. Products and services from Retail Banking are delivered to customers through 62 banking locations throughout the State of Hawaii, Guam, and Saipan.

Commercial Banking

Commercial Banking offers products that include corporate banking, residential and commercial real estate loans, commercial lease financing, auto dealer financing, deposit products and credit cards. Commercial lending and deposit products are offered primarily to middle-market and large companies locally, nationally, and internationally.

Treasury and Other

Treasury consists of corporate asset and liability management activities including interest rate risk management. The segment’s assets and liabilities (and related interest income and expense) consist of interest-bearing deposits, investment securities, federal funds sold and purchased, government deposits, short and long-term borrowings and bank-owned properties. The primary sources of noninterest income are from bank-owned life insurance, net gains from the sale of investment securities, foreign exchange income related to customer-driven currency requests from merchants and island visitors and management of bank-owned properties. 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, Credit and Risk Management, Human Resources, Finance, Administration, Marketing, 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.

The following tables present selected business segment financial information for the periods indicated:

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other [1]	Total
Three Months Ended September 30, 2017				
Net interest income (expense)	**$ 108,885**	**$ 28,448**	**$ (4,014)**	**$ 133,319**
Provision for loan and lease losses	**(1,663)**	**(2,837)**	**—**	**(4,500)**
Net interest income (expense) after provision for loan and lease losses	**107,222**	**25,611**	**(4,014)**	**128,819**
Noninterest income	**22,587**	**16,786**	**9,162**	**48,535**
Noninterest expense	**(53,607)**	**(15,906)**	**(14,142)**	**(83,655)**
Income (loss) before (provision) benefit for income taxes	**76,202**	**26,491**	**(8,994)**	**93,699**
(Provision) benefit for income taxes	**(28,756)**	**(9,993)**	**3,413**	**(35,336)**
Net income (loss)	**$ 47,446**	**$ 16,498**	**$ (5,581)**	**$ 58,363**
Total assets as of September 30, 2017	**$ 6,868,484**	**$ 5,421,428**	**$ 8,275,715**	**$ 20,565,627**

(1) Includes a $2.7 million gain on the sale of bank properties.

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other [1]	Total
Nine Months Ended September 30, 2017				
Net interest income (expense)	**$ 321,498**	**$ 83,707**	**$ (11,287)**	**$ 393,918**
Provision for loan and lease losses	**(4,952)**	**(8,448)**	**—**	**(13,400)**
Net interest income (expense) after provision for loan and lease losses	**316,546**	**75,259**	**(11,287)**	**380,518**
Noninterest income	**68,587**	**53,277**	**24,948**	**146,812**
Noninterest expense	**(165,015)**	**(46,713)**	**(41,507)**	**(253,235)**
Income (loss) before (provision) benefit for income taxes	**220,118**	**81,823**	**(27,846)**	**274,095**
(Provision) benefit for income taxes	**(81,974)**	**(30,436)**	**10,313**	**(102,097)**
Net income (loss)	**$ 138,144**	**$ 51,387**	**$ (17,533)**	**$ 171,998**
Total assets as of September 30, 2017	**$ 6,868,484**	**$ 5,421,428**	**$ 8,275,715**	**$ 20,565,627**

(1) Includes a $2.7 million gain on the sale of bank properties.

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Three Months Ended September 30, 2016				
Net interest income (expense)	$ 104,048	$ 28,655	$ (10,020)	$ 122,683
Provision for loan and lease losses	(770)	(1,330)	—	(2,100)
Net interest income (expense) after provision for loan and lease losses	103,278	27,325	(10,020)	120,583
Noninterest income	22,398	15,479	10,813	48,690
Noninterest expense	(51,093)	(14,792)	(16,919)	(82,804)
Income (loss) before (provision) benefit for income taxes	74,583	28,012	(16,126)	86,469
(Provision) benefit for income taxes	(27,672)	(10,399)	4,837	(33,234)
Net income (loss)	$ 46,911	$ 17,613	$ (11,289)	$ 53,235
Total assets as of September 30, 2016	$ 6,850,483	$ 4,655,114	$ 8,387,096	$ 19,892,693

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Nine Months Ended September 30, 2016				
Net interest income (expense)	$ 310,244	$ 84,460	$ (34,282)	$ 360,422
Provision for loan and lease losses	(1,722)	(2,978)	—	(4,700)
Net interest income (expense) after provision for loan and lease losses	308,522	81,482	(34,282)	355,722
Noninterest income	68,553	48,498	51,529	168,580
Noninterest expense	(160,495)	(39,676)	(46,170)	(246,341)
Income (loss) before (provision) benefit for income taxes	216,580	90,304	(28,923)	277,961
(Provision) benefit for income taxes	(80,727)	(33,640)	10,032	(104,335)
Net income (loss)	$ 135,853	$ 56,664	$ (18,891)	$ 173,626
Total assets as of September 30, 2016	$ 6,850,483	$ 4,655,114	$ 8,387,096	$ 19,892,693

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the documents incorporated by reference herein, contains, and from time to time our management may make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including the following: the geographic concentration of our business; current and future economic and market conditions in the U.S. generally or in Hawaii, Guam and Saipan in particular; the effect of the current low interest rate environment or changes in interest rates on our net interest income, net interest margin, the fair value of our investment securities and our loan originations; our inability to receive dividends from our bank, pay dividends to our common stockholders and satisfy obligations as they become due; the effects of geopolitical instability, including war, terrorist attacks, pandemics and man-made and natural disasters; our ability to maintain our bank's reputation; our ability to attract and retain skilled employees or changes in our management personnel; our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business; our ability to successfully develop and commercialize new or enhanced products and services; changes in the demand for our products and services; the effectiveness of our risk management and internal disclosure controls and procedures; any failure or interruption of our information and communications systems; our ability to identify and address cybersecurity risks; our ability to keep pace with technological changes; our ability to attract and retain customer deposits; the effects of problems encountered by other financial institutions; our access to sources of liquidity and capital to address our liquidity needs; fluctuations in the fair value of our assets and liabilities and off-balance sheet exposures; the effects of the failure of any component of our business infrastructure provided by a third party; the impact of, and changes in, applicable laws, regulations and accounting standards and policies; possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations; our likelihood of success in, and the impact of, litigation or regulatory actions; market perceptions associated with our separation from BNP Paribas ("BNPP") and other aspects of our business; contingent liabilities and unexpected tax liabilities that may be applicable to us as a result of the Reorganization Transactions, as discussed below; the effect of BNPP's beneficial ownership of our outstanding common stock and the control it retains over our business; our ability to retain service providers to perform oversight or control functions or services that have otherwise been performed in the past by affiliates of BNPP; the one-time and incremental costs of operating as a stand-alone public company; our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002; and damage to our reputation from any of the factors described above.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Company Overview

First Hawaiian, Inc. ("FHI" or the "Parent") is a bank holding company incorporated in the state of Delaware and headquartered in Honolulu, Hawaii. The Parent's wholly-owned bank subsidiary, First Hawaiian Bank ("FHB" or the "Bank"), was founded in 1858 under the name Bishop & Company and was the first successful banking partnership in the Kingdom of Hawaii and the second oldest bank formed west of the Mississippi River. Today, FHB is the largest full-service bank headquartered in Hawaii. The Bank operates its business through three operating segments: Retail Banking, Commercial Banking, and Treasury and Other.

References to "we," "our," "us," or the "Company" refer to the Parent and its subsidiary that are consolidated for financial reporting purposes.

Reorganization Transactions

In connection with FHI's initial public offering ("IPO") in August 2016, in which BNPP sold approximately 17% of its interest in FHI, BNPP announced its intent to sell a controlling interest in FHI, including its wholly-owned subsidiary FHB, over time, subject to market conditions and other considerations. On April 1, 2016, a series of reorganization transactions (the "Reorganization Transactions") were undertaken to facilitate the IPO. As part of the Reorganization Transactions, FHI, which was then known as BancWest Corporation ("BancWest"), formed a new bank holding company, BancWest Holding Inc. ("BWHI"), a Delaware corporation and a direct wholly-owned subsidiary of BancWest, and contributed 100% of its interest in Bank of the West ("BOW"), as well as other assets and liabilities not related to FHB, to BWHI. Following the contribution of BOW to BWHI, BancWest distributed its interest in BWHI to BNPP. As part of these transactions, BancWest amended its certificate of incorporation to change its name to "First Hawaiian, Inc.", with First Hawaiian Bank remaining as the only direct wholly-owned subsidiary of FHI.

On July 1, 2016, in order to comply with the Board of Governors of the Federal Reserve System's requirement (under Regulation YY) applicable to BNPP that a foreign banking organization with $50 billion or more in U.S. non-branch assets as of June 30, 2015 establish a U.S. intermediate holding company and hold its interest in the substantial majority of its U.S. subsidiaries through the intermediate holding company by July 1, 2016, FHI became an indirect subsidiary of BNP Paribas USA, Inc. ("BNP Paribas USA"), BNPP's U.S. intermediate holding company. As part of that reorganization, FHI became a direct wholly-owned subsidiary of BancWest Corporation ("BWC"), a direct wholly-owned subsidiary of BNP Paribas USA.

Public Offerings and Separation from BNPP

On August 4, 2016, FHI's common stock began trading on the NASDAQ Global Select Market under the ticker symbol "FHB". On August 9, 2016, the IPO of 24,250,000 shares of FHI common stock, which included the full exercise of the underwriters' option to purchase an additional 3,163,043 shares, at $23.00 per share was completed. On February 17, 2017, a secondary offering of 28,750,000 shares of FHI common stock, which included the full exercise of the underwriters' option to purchase an additional 3,750,000 shares, at $32.00 per share was completed. FHI did not receive any of the proceeds from the sales of shares by BNPP. Following the secondary offering and exercise of the underwriters' option to purchase additional shares in February 2017, BNPP beneficially owned approximately 62% of FHI's common stock. BNPP continued to beneficially own approximately 62% of FHI's common stock as of September 30, 2017.

We entered into a transitional services agreement with BNPP, BWHI, BOW and FHB (the "Transitional Services Agreement") pursuant to which BNPP, BWHI and BOW will continue to provide us with certain services they currently provide either directly or on a pass-through basis, and we have agreed to continue to provide, or arrange to provide, BNPP, BWHI and BOW with certain services that we currently provide to them, either directly or on a pass-through basis. The Transitional Services Agreement will terminate on December 31, 2018, although the provision of certain services will terminate on earlier dates. In connection with our transition to a stand-alone public company and our separation from BNPP, we expect to incur incremental ongoing and one-time expenses of between $12.7 million and $17.2 million in the aggregate per year for the years ending December 31, 2017 and 2018. We expect our incremental ongoing costs to include those incurred under the Transitional Services Agreement, as well as increases in audit fees, insurance premiums, employee salaries and benefits (including stock-based compensation expenses for employees and non-employee directors) and consulting fees. Our estimates also include cost increases that we expect to result from the higher pricing of services by third-party vendors whose future contracts with us do not reflect BOW volumes or the benefits of BNPP bargaining power. Our one-time expenses incurred in connection with our IPO included professional fees, consulting fees and certain filing and listing fees. In addition, once we are no longer subject to the Comprehensive Capital Analysis and Review ("CCAR") process, we expect our stress testing-related compliance costs to increase incrementally as we will continue to require certain services for our Dodd-Frank Act Stress Testing ("DFAST") process and the expenses associated with those services will no longer be reimbursed by BNPP. The actual amount of the incremental expenses we will incur as a stand-alone public company and as part of our separation from BNPP may be higher, perhaps significantly, from our current estimates for a number of reasons, including, among others, the final terms we are able to negotiate with service providers prior to the termination of the Transitional Services Agreement, as well as additional costs we may incur that we have not currently anticipated.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company reflected the results of operations, financial position and cash flows of FHI and its wholly-owned subsidiary, FHB. Intercompany account balances and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect normal recurring adjustments necessary for a fair presentation of the results for the interim periods.

The accompanying unaudited interim consolidated financial statements of the Company should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and filed with the U.S. Securities and Exchange Commission (the "SEC").

Hawaii Economy

Hawaii's economy continued its strong performance for the nine months ended September 30, 2017, led in large part by a strong tourism industry. Visitor arrivals for the first eight months in 2017 increased by 4.7% compared to the same period in 2016, and total visitor spending for the first eight months in 2017 increased by 8.5% compared to the same period in 2016, according to the Hawaii Tourism Authority. Visitor arrivals and spending increased, in particular, from U.S. mainland, Japanese and Canadian visitors. The statewide seasonally-adjusted unemployment rate was 2.5% in September 2017 compared to 3.0% for the same period in 2016, according to the State of Hawaii, Department of Labor and Industrial Relations. The national seasonally-adjusted unemployment rate was 4.2% in September 2017 compared to 4.9% for the same period in 2016. With regards to housing, the volume of single-family home sales on Oahu increased by 5.0% for the nine months ended September 30, 2017 compared to the same period in 2016, while the volume of condominium sales on Oahu increased by 5.8% for the nine months ended September 30, 2017 compared to the same period in 2016, according to the Honolulu Board of Realtors. The median price of single-family home sales on Oahu was $757,000 for the nine months ended September 30, 2017, an increase of 3.4% compared to the same period in 2016. The median price of condominium sales on Oahu was $407,000 for the nine months ended September 30, 2017, an increase of 5.4% compared to the same period in 2016. As of September 30, 2017, months of inventory of single family homes and condominiums on Oahu remained low at approximately 2.4 and 2.6 months, respectively.

Financial Highlights

Our financial highlights for the periods indicated are presented in Table 1:

Financial Highlights **Table 1**

(dollars in thousands, except per share data)	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
Income Statement Data:				
Interest income	**$ 145,270**	$ 129,334	**$ 422,210**	$ 380,207
Interest expense	**11,951**	6,651	**28,292**	19,785
Net interest income	**133,319**	122,683	**393,918**	360,422
Provision for loan and lease losses	**4,500**	2,100	**13,400**	4,700
Net interest income after provision for loan and lease losses	**128,819**	120,583	**380,518**	355,722
Noninterest income	**48,535**	48,690	**146,812**	168,580
Noninterest expense	**83,655**	82,804	**253,235**	246,341
Income before provision for income taxes	**93,699**	86,469	**274,095**	277,961
Provision for income taxes	**35,336**	33,234	**102,097**	104,335
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Basic earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24
Diluted earnings per share	**$ 0.42**	$ 0.38	**$ 1.23**	$ 1.24
Basic weighted-average outstanding shares	**139,556,532**	139,500,542	**139,549,665**	139,473,360
Diluted weighted-average outstanding shares	**139,696,330**	139,503,558	**139,670,487**	139,474,373
Dividend payout ratio	**52.38 %**	52.39 %	**53.66 %**	33.34 %
Supplemental Income Statement Data (non-GAAP) [1]:				
Core net interest income	**$ 133,319**	$ 122,683	**$ 393,918**	$ 360,422
Core noninterest income	**45,868**	48,690	**144,145**	142,852
Core noninterest expense	**83,112**	79,714	**251,851**	240,704
Core net income	**57,040**	55,177	**171,203**	161,110
Core basic earnings per share	**0.41**	0.40	**1.23**	1.16
Core diluted earnings per share	**0.41**	0.40	**1.23**	1.16
Other Financial Information / Performance Ratios:[2]				
Net interest margin	**2.96 %**	2.87 %	**2.99 %**	2.84 %
Core net interest margin (non-GAAP) [1],[3]	**2.96 %**	2.87 %	**2.99 %**	2.84 %
Efficiency ratio	**46.00 %**	48.31 %	**46.83 %**	46.56 %
Core efficiency ratio (non-GAAP) [1],[4]	**46.38 %**	46.51 %	**46.80 %**	47.82 %
Return on average total assets	**1.15 %**	1.10 %	**1.16 %**	1.21 %
Core return on average total assets (non-GAAP) [1],[5]	**1.13 %**	1.14 %	**1.15 %**	1.12 %
Return on average tangible assets (non-GAAP) [10]	**1.21 %**	1.16 %	**1.22 %**	1.28 %
Core return on average tangible assets (non-GAAP) [1],[6]	**1.18 %**	1.20 %	**1.21 %**	1.18 %
Return on average total stockholders' equity	**9.03 %**	8.45 %	**9.10 %**	8.96 %
Core return on average total stockholders' equity (non-GAAP) [1],[7]	**8.82 %**	8.76 %	**9.06 %**	8.31 %
Return on average tangible stockholders' equity (non-GAAP) [10]	**14.76 %**	14.02 %	**15.01 %**	14.56 %
Core return on average tangible stockholders' equity (non-GAAP) [1],[8]	**14.42 %**	14.53 %	**14.94 %**	13.51 %
Noninterest expense to average assets	**1.65 %**	1.71 %	**1.70 %**	1.72 %
Core noninterest expense to average assets (non-GAAP) [1],[9]	**1.64 %**	1.64 %	**1.70 %**	1.68 %

	September 30, 2017	December 31, 2016
Balance Sheet Data:		
Loans and leases	**$ 12,149,711**	$ 11,520,378
Allowance for loan and lease losses	**137,327**	135,494
Interest-bearing deposits in other banks	**793,046**	798,231
Investment securities	**5,314,973**	5,077,514
Goodwill	**995,492**	995,492
Total assets	**20,565,627**	19,661,829
Total deposits	**17,595,483**	16,794,532
Total liabilities	**17,983,769**	17,185,344
Total stockholders' equity	**2,581,858**	2,476,485
Book value per share	**$ 18.50**	$ 17.75
Tangible book value per share (non-GAAP) [10]	**$ 11.36**	$ 10.61
Asset Quality Ratios:		
Non-accrual loans and leases / total loans and leases	**0.06 %**	0.08 %
Allowance for loan and lease losses / total loans and leases	**1.13 %**	1.18 %
Net charge-offs / average total loans and leases [2]	**0.13 %**	0.08 %

Capital Ratios:	September 30, 2017	December 31, 2016
Common Equity Tier 1 Capital Ratio	**12.71 %**	12.75 %
Tier 1 Capital Ratio	**12.71 %**	12.75 %
Total Capital Ratio	**13.77 %**	13.85 %
Tier 1 Leverage Ratio	**8.66 %**	8.36 %
Total stockholders' equity to total assets	**12.55 %**	12.60 %
Tangible stockholders' equity to tangible assets (non-GAAP)[10]	**8.11 %**	7.93 %

(1) We present net interest income, noninterest income, noninterest expense, net income, earnings per share and the related ratios described below, on an adjusted, or ‘‘core,’’ basis, each a non-GAAP financial measure. These core measures exclude from the corresponding GAAP measure the impact of certain items that we do not believe are representative of our financial results. We believe that the presentation of these non-GAAP measures helps identify underlying trends in our business from period to period that could otherwise be distorted by the effect of certain expenses, gains and other items included in our operating results. We believe that these core measures provide useful information about our operating results and enhance the overall understanding of our past performance and future performance. Investors should consider our performance and financial condition as reported under GAAP and all other relevant information when assessing our performance or financial condition. Non-GAAP measures have limitations as analytical tools and investors should not consider them in isolation or as a substitute for analysis of our financial results or financial condition as reported under GAAP.

The following table provides a reconciliation of net interest income, noninterest income, noninterest expense and net income to their "core" non-GAAP financial measures:

GAAP to Non-GAAP Reconciliation **Table 2**

(dollars in thousands, except per share data)	As of and for the Three Months Ended September 30, 2017	As of and for the Three Months Ended September 30, 2016	As of and for the Nine Months Ended September 30, 2017	As of and for the Nine Months Ended September 30, 2016
Net interest income	**$ 133,319**	$ 122,683	**$ 393,918**	$ 360,422
Core net interest income (non-GAAP)	**$ 133,319**	$ 122,683	**$ 393,918**	$ 360,422
Noninterest income	**$ 48,535**	$ 48,690	**$ 146,812**	$ 168,580
Gains on sale of bank properties	**(2,667)**	—	**(2,667)**	—
Gains on sale of securities	**—**	—	**—**	(3,050)
Gains on sale of stock (Visa/MasterCard)	**—**	—	**—**	(22,678)
Core noninterest income (non-GAAP)	**$ 45,868**	$ 48,690	**$ 144,145**	$ 142,852
Noninterest expense	**$ 83,655**	$ 82,804	**$ 253,235**	$ 246,341
One-time items[(a)]	**(543)**	(3,090)	**(1,384)**	(5,637)
Core noninterest expense (non-GAAP)	**$ 83,112**	$ 79,714	**$ 251,851**	$ 240,704
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Gains on sale of bank properties	**(2,667)**	—	**(2,667)**	—
Gains on sale of securities	**—**	—	**—**	(3,050)
Gains on sale of stock (Visa/MasterCard)	**—**	—	**—**	(22,678)
One-time items[(a)]	**543**	3,090	**1,384**	5,637
Tax adjustments [(b)]	**801**	(1,148)	**488**	7,575
Total core adjustments	**(1,323)**	1,942	**(795)**	(12,516)
Core net income (non-GAAP)	**$ 57,040**	$ 55,177	**$ 171,203**	$ 161,110
Core basic earnings per share (non-GAAP)	**$ 0.41**	$ 0.40	**$ 1.23**	$ 1.16
Core diluted earnings per share (non-GAAP)	**$ 0.41**	$ 0.40	**$ 1.23**	$ 1.16

(a) One-time items include nonrecurring offering and public company transition related costs.
(b) Represents the adjustments to net income, tax effected at the Company's effective tax rate for the respective period.

(2) Except for the efficiency ratio and the core efficiency ratio, amounts are annualized for the three and nine months ended September 30, 2017 and 2016.

(3) Core net interest margin is a non-GAAP financial measure. We compute our core net interest margin as the ratio of core net interest income to average earning assets. For a reconciliation to the most directly comparable GAAP financial measure for core net interest income, see Table 2, GAAP to Non-GAAP Reconciliation.

(4) Core efficiency ratio is a non-GAAP financial measure. We compute our core efficiency ratio as the ratio of core noninterest expense to the sum of core net interest income and core noninterest income. For a reconciliation to the most directly comparable GAAP financial measure for core noninterest expense, core net interest income and core noninterest income, see Table 2, GAAP to Non-GAAP Reconciliation.

(5) Core return on average total assets is a non-GAAP financial measure. We compute our core return on average total assets as the ratio of core net income to average total assets. For a reconciliation to the most directly comparable GAAP financial measure for core net income, see Table 2, GAAP to Non-GAAP Reconciliation.

(6) Core return on average tangible assets is a non-GAAP financial measure. We compute our core return on average tangible assets as the ratio of core net income to average tangible assets. For a reconciliation to the most directly comparable GAAP financial measure for core net income, see Table 2, GAAP to Non-GAAP Reconciliation.

(7) Core return on average total stockholders' equity is a non-GAAP financial measure. We compute our core return on average total stockholders' equity as the ratio of core net income to average total stockholders' equity. For a reconciliation to the most directly comparable GAAP financial measure for core net income, see Table 2, GAAP to Non-GAAP Reconciliation.

(8) Core return on average tangible stockholders' equity is a non-GAAP financial measure. We compute our core return on average tangible stockholders' equity as the ratio of core net income to average tangible stockholders' equity, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from

our average total stockholders' equity. For a reconciliation to the most directly comparable GAAP financial measure for core net income, see Table 2, GAAP to Non-GAAP Reconciliation.

(9) Core noninterest expense to average assets is a non-GAAP financial measure. We compute our core noninterest expense to average assets as the ratio of core noninterest expense to average assets. For a reconciliation to the most directly comparable GAAP financial measure for core noninterest expense, see Table 2, GAAP to Non-GAAP Reconciliation.

(10) Return on average tangible assets, return on average tangible stockholders' equity, tangible stockholders' equity to tangible assets and tangible book value per share are non-GAAP financial measures. We compute our return on average tangible assets as the ratio of net income to average tangible assets, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from our average total assets. We compute our return on average tangible stockholders' equity as the ratio of net income to average tangible stockholders' equity, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from our average total stockholders' equity. We compute our tangible stockholders' equity to tangible assets as the ratio of tangible stockholders' equity to tangible assets, each of which we calculate by subtracting (and thereby effectively excluding) amounts related to our goodwill. We compute our tangible book value per share as the ratio of tangible stockholders' equity to outstanding shares. We believe that these financial measures are useful for investors, regulators, management and others to evaluate financial performance and 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 for the periods indicated:

GAAP to Non-GAAP Reconciliation **Table 3**

	For the three months ended September 30,		For the nine months ended September 30,	
(dollars in thousands, except per share data)	**2017**	2016	**2017**	2016
Income Statement Data:				
Net income	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626
Average total stockholders' equity	**$ 2,564,563**	$ 2,506,099	**$ 2,527,435**	$ 2,588,602
Less: average goodwill	**995,492**	995,492	**995,492**	995,492
Average tangible stockholders' equity	**$ 1,569,071**	$ 1,510,607	**$ 1,531,943**	$ 1,593,110
Average total assets	**$ 20,109,090**	$ 19,314,668	**$ 19,858,184**	$ 19,185,484
Less: average goodwill	**995,492**	995,492	**995,492**	995,492
Average tangible assets	**$ 19,113,598**	$ 18,319,176	**$ 18,862,692**	$ 18,189,992
Return on average total stockholders' equity[a]	**9.03 %**	8.45 %	**9.10 %**	8.96 %
Return on average tangible stockholders' equity (non-GAAP)[a]	**14.76 %**	14.02 %	**15.01 %**	14.56 %
Return on average total assets[a]	**1.15 %**	1.10 %	**1.16 %**	1.21 %
Return on average tangible assets (non-GAAP)[a]	**1.21 %**	1.16 %	**1.22 %**	1.28 %

	As of September 30, 2017	As of December 31, 2016
Balance Sheet Data:		
Total stockholders' equity	**$ 2,581,858**	$ 2,476,485
Less: goodwill	**995,492**	995,492
Tangible stockholders' equity	**$ 1,586,366**	$ 1,480,993
Total assets	**$ 20,565,627**	$ 19,661,829
Less: goodwill	**995,492**	995,492
Tangible assets	**$ 19,570,135**	$ 18,666,337
Shares outstanding	**139,586,282**	139,530,654
Total stockholders' equity to total assets	**12.55 %**	12.60 %
Tangible stockholders' equity to tangible assets (non-GAAP)	**8.11 %**	7.93 %
Book value per share	**$ 18.50**	$ 17.75
Tangible book value per share (non-GAAP)	**$ 11.36**	$ 10.61

(a) Annualized for the three and nine months ended September 30, 2017 and 2016.

Financial Highlights

Net income was $58.4 million for the three months ended September 30, 2017, an increase of $5.1 million or 10% as compared to the same period in 2016. Basic and diluted earnings per share were $0.42 per share for the three months ended September 30, 2017, an increase of $0.04 per share or 11% as compared to the same period in 2016. The increase was primarily due to a $10.6 million increase in net interest income, partially offset by a $2.4 million increase in the provision for loan and lease losses (the "Provision"), a $2.1 million increase in the provision for income taxes, a $0.9 million increase in noninterest expense and a $0.2 million decrease in noninterest income for the three months ended September 30, 2017.

Our return on average total assets was 1.15% for the three months ended September 30, 2017, an increase of five basis points as compared to the same period in 2016, and our return on average total stockholders' equity was 9.03% for the three months ended September 30, 2017, an increase of 58 basis points as compared to the same period in 2016. Our return on average tangible assets was 1.21% for the three months ended September 30, 2017, an increase of five basis points from the same period in 2016, and our return on average tangible stockholders' equity was 14.76% for the three months ended September 30, 2017, an increase of 74 basis points from the same period in 2016. We continued to prudently manage our expenses as our efficiency ratio was 46.00% for the three months ended September 30, 2017 compared to 48.31% for the same period in 2016.

Our results for the three months ended September 30, 2017 were highlighted by the following:

- Net interest income was $133.3 million for the three months ended September 30, 2017, an increase of $10.6 million or 9% as compared to the same period in 2016. Our net interest margin was 2.96% for the three months ended September 30, 2017, an increase of nine basis points from the same period in 2016. The increase in net interest income was primarily due to higher average balances in all loan categories, except for lease financing, and higher average balances and yields in our investment securities portfolio. This was partially offset by lower average balances in interest-bearing deposits in other banks and higher deposit funding costs.

- The Provision was $4.5 million for the three months ended September 30, 2017, an increase of $2.4 million as compared to the same period in 2016. The Provision is recorded to maintain the allowance for loan and lease losses (the "Allowance") at levels deemed adequate to absorb probable credit losses that have been incurred in our loan and lease portfolio as of the balance sheet date.

- Noninterest income was $48.5 million for the three months ended September 30, 2017, a decrease of $0.2 million as compared to the same period in 2016. The decrease was primarily due to a $4.0 million decrease in bank-owned life insurance ("BOLI") income, partially offset by a $3.7 million increase in other noninterest income.

- Noninterest expense was $83.7 million for the three months ended September 30, 2017, an increase of $0.9 million or 1% as compared to the same period in 2016. The increase in noninterest expense was primarily due to a $1.0 million increase in occupancy costs.

Net income was $172.0 million for the nine months ended September 30, 2017, a decrease of $1.6 million or 1% as compared to the same period in 2016. Basic and diluted earnings per share were $1.23 per share for the nine months ended September 30, 2017, a decrease of $0.01 or 1% as compared to the same period in 2016. The decrease was primarily due to a $21.8 million decrease in noninterest income, an $8.7 million increase in the Provision and a $6.9 million increase in noninterest expense, partially offset by a $33.5 million increase in net interest income and a $2.2 million decrease in the provision for income taxes for the nine months ended September 30, 2017.

Our return on average total assets was 1.16% for the nine months ended September 30, 2017, a decrease of five basis points as compared to the same period in 2016, and our return on average total stockholders' equity was 9.10% for the nine months ended September 30, 2017, an increase of 14 basis points as compared to the same period in 2016. Our return on average tangible assets was 1.22% for the nine months ended September 30, 2017, a decrease of six basis points as compared to the same period in 2016, and our return on average tangible stockholders' equity was 15.01% for the nine months ended September 30, 2017, an increase of 45 basis points as compared to the same period in 2016. We continued to prudently manage our expenses as our efficiency ratio was 46.83% for the nine months ended September 30, 2017 compared to 46.56% for the same period in 2016. The efficiency ratio for the nine months ended September 30, 2016 was favorably impacted by net gains on the sale of investment securities of $25.8 million.

Our results for the nine months ended September 30, 2017 were highlighted by the following:

- Net interest income was $393.9 million for the nine months ended September 30, 2017, an increase of $33.5 million or 9% as compared to the same period in 2016. Our net interest margin was 2.99% for the nine months ended September 30, 2017, an increase of 15 basis points as compared to the same period in 2016. The increase in net interest income was primarily due to higher average balances in all loan categories, except for lease financing, and higher average balances and yields in our investment securities portfolio. This was partially offset by lower average balances in interest-bearing deposits in other banks and higher deposit funding costs.

- The Provision was $13.4 million for the nine months ended September 30, 2017, an increase of $8.7 million as compared to the same period in 2016. The increase was primarily due to the large recovery of a commercial loan during the nine months ended September 30, 2016.

- Noninterest income was $146.8 million for the nine months ended September 30, 2017, a decrease of $21.8 million or 13% as compared to the same period in 2016. The decrease was primarily due to a $25.8 million net gain on the sale of investment securities in 2016 and a $2.6 million decrease in BOLI income, partially offset by a $6.5 million increase in other noninterest income.

- Noninterest expense was $253.2 million for the nine months ended September 30, 2017, an increase of $6.9 million or 3% as compared to the same period in 2016. The increase in noninterest expense was primarily due to a $3.1 million increase in card rewards program expense, a $2.3 million increase in regulatory assessment and fees and a $1.2 million increase in occupancy expense.

During the nine months ended September 30, 2017, we continued to benefit from a strong Hawaii economy by reaching record levels of loans and deposit balances. Our investment securities portfolio remained strong as we continued to invest in high-grade investment securities. We also continued to maintain adequate reserves for loan and lease losses and high levels of liquidity and capital.

- Total loans and leases were $12.1 billion as of September 30, 2017, an increase of $629.3 million or 6% from December 31, 2016. We experienced strong growth in our commercial real estate portfolio as corporations continued to invest in their businesses and sought to acquire new real estate assets to expand their businesses. We also continued to experience strong growth in our residential real estate portfolio as housing demand continued to remain strong.

- The Allowance was $137.3 million as of September 30, 2017, an increase of $1.8 million or 1% from December 31, 2016. The ratio of our Allowance to total loans and leases outstanding was 1.13% as of

September 30, 2017, a decrease of five basis points compared to December 31, 2016. The overall level of the Allowance was commensurate with our stable credit risk profile, loan portfolio growth and composition and a strong Hawaii economy.

- We continued to invest in high-grade investment securities, primarily collateralized mortgage obligations issued by the Government National Mortgage Association ("Ginnie Mae"), Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The total carrying value of our investment securities portfolio was $5.3 billion as of September 30, 2017, an increase of $237.5 million or 5% compared to December 31, 2016.

- Total deposits were $17.6 billion as of September 30, 2017, an increase of $801.0 million or 5% from December 31, 2016. Increases in time and money market deposit balances were partially offset by decreases in savings and demand deposit balances.

- Finally, total stockholders' equity was $2.6 billion as of September 30, 2017, an increase of $105.4 million or 4% from December 31, 2016. The increase in stockholders' equity was primarily due to earnings for the nine months ended September 30, 2017 of $172.0 million, partially offset by dividends declared and paid of $92.1 million to our stockholders during the nine months ended September 30, 2017.

Analysis of Results of Operations

Net Interest Income

For the three months ended September 30, 2017 and 2016, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 4. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 5.

Average Balances and Interest Rates **Table 4**

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets						
Interest-Bearing Deposits in Other Banks	**$ 597.5**	**$ 2.0**	**1.30 %**	$ 1,023.6	$ 1.3	0.51 %
Available-for-Sale Investment Securities	**5,124.9**	**24.2**	**1.88**	4,743.7	21.1	1.77
Loans Held for Sale	**0.1**	**—**	**3.62**	—	—	—
Loans and Leases [(1)]						
Commercial and industrial	**3,276.4**	**27.3**	**3.31**	3,248.1	23.7	2.90
Real estate - commercial	**2,696.4**	**25.1**	**3.69**	2,338.2	21.3	3.63
Real estate - construction	**570.6**	**5.1**	**3.54**	448.9	3.7	3.29
Real estate - residential	**3,846.8**	**39.2**	**4.04**	3,571.3	36.4	4.06
Consumer	**1,546.9**	**21.0**	**5.39**	1,467.0	20.5	5.55
Lease financing	**177.9**	**1.3**	**2.91**	188.2	1.3	2.84
Total Loans and Leases	**12,115.0**	**119.0**	**3.90**	11,261.7	106.9	3.78
Other Earning Assets	**29.5**	**0.1**	**1.22**	—	—	—
Total Earning Assets [(2)]	**17,867.0**	**145.3**	**3.23**	17,029.0	129.3	3.02
Cash and Due from Banks	**324.0**			357.1		
Other Assets	**1,918.1**			1,928.6		
Total Assets	**$20,109.1**			$19,314.7		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Savings	**$ 4,505.1**	**$ 1.1**	**0.10 %**	$ 4,416.4	$ 0.6	0.06 %
Money Market	**2,607.7**	**0.9**	**0.13**	2,549.3	0.6	0.10
Time	**4,208.0**	**10.0**	**0.94**	3,776.6	5.4	0.57
Total Interest-Bearing Deposits	**11,320.8**	**12.0**	**0.42**	10,742.3	6.6	0.25
Short-Term Borrowings	**0.8**	**—**	**0.91**	18.5	—	0.42
Total Interest-Bearing Liabilities	**11,321.6**	**12.0**	**0.42**	10,760.8	6.6	0.25
Net Interest Income		**$133.3**			$122.7	
Interest Rate Spread			**2.81 %**			2.77 %
Net Interest Margin			**2.96 %**			2.87 %
Noninterest-Bearing Demand Deposits	**5,844.6**			5,649.8		
Other Liabilities	**378.3**			398.0		
Stockholders' Equity	**2,564.6**			2,506.1		
Total Liabilities and Stockholders' Equity	**$20,109.1**			$19,314.7		

(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) For the three months ended September 30, 2017 and 2016, the taxable-equivalent basis adjustments made to the table above were not material.

Analysis of Change in Net Interest Income **Table 5**

(dollars in millions)	Three Months Ended September 30, 2017 Compared to September 30, 2016		
	Volume	Rate	Total [(1)]
Change in Interest Income:			
Interest-Bearing Deposits in Other Banks	$ (0.7)	$ 1.4	$ 0.7
Available-for-Sale Investment Securities	1.7	1.4	3.1
Loans and Leases			
Commercial and industrial	0.2	3.4	3.6
Real estate - commercial	3.3	0.4	3.7
Real estate - construction	1.1	0.3	1.4
Real estate - residential	2.8	—	2.8
Consumer	1.0	(0.5)	0.5
Total Loans and Leases	8.4	3.6	12.0
Other Earning Assets	0.1	—	0.1
Total Change in Interest Income	9.5	6.4	15.9
Change in Interest Expense:			
Interest-Bearing Deposits			
Savings	—	0.5	0.5
Money Market	—	0.2	0.2
Time	0.7	3.9	4.6
Total Interest-Bearing Deposits	0.7	4.6	5.3
Total Change in Interest Expense	0.7	4.6	5.3
Change in Net Interest Income	$ 8.8	$ 1.8	$ 10.6

(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.

Net interest income, on a fully taxable-equivalent basis, was $133.3 million for the three months ended September 30, 2017, an increase of $10.6 million or 9% compared to the same period in 2016. Our net interest margin was 2.96% for the three months ended September 30, 2017, an increase of 9 basis points from the same period in 2016. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances in all loan categories and higher average balances and yields in our investment securities portfolio. This was partially offset by lower average balances in interest-bearing deposits in other banks and higher deposit funding costs. For the three months ended September 30, 2017, the average balance of our loans and leases was $12.1 billion, an increase of $853.3 million or 8% compared to the same period in 2016. The higher average balance in loans and leases was primarily due to strong growth in our commercial real estate, residential real estate, construction real estate, and consumer lending portfolios. For the three months ended September 30, 2017, the average balance of our investment securities portfolio was $5.1 billion, an increase of $381.2 million or 8% compared to the same period in 2016. Yields on our investment securities portfolio were 1.88% for the three months ended September 30, 2017, an increase of 11 basis points from the same period in 2016. Deposit funding costs were $12.0 million for the three months ended September 30, 2017, an increase of $5.4 million or 82% compared to the same period in 2016. Rates paid on our interest-bearing deposits were 42 basis points for the three months ended September 30, 2017, an increase of 17 basis points compared to the same period in 2016. While we experienced higher rates paid on all interest-bearing deposit categories in the three months ended September 30, 2017, particularly high rates were paid on our time deposits with an increase of 37 basis points compared to the same period in 2016.

For the nine months ended September 30, 2017 and 2016, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 6. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 7.

Average Balances and Interest Rates **Table 6**

(dollars in millions)	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets						
Interest-Bearing Deposits in Other Banks	**$ 516.8**	**$ 4.0**	**1.02 %**	$ 1,602.3	$ 6.1	0.51 %
Available-for-Sale Investment Securities	**5,189.7**	**75.7**	**1.95**	4,304.5	57.1	1.77
Loans and Leases [1]						
Commercial and industrial	**3,263.3**	**77.3**	**3.17**	3,200.6	70.3	2.93
Real estate - commercial	**2,606.1**	**71.1**	**3.65**	2,273.3	62.9	3.70
Real estate - construction	**514.1**	**13.1**	**3.41**	425.0	10.4	3.27
Real estate - residential	**3,784.5**	**115.5**	**4.08**	3,525.5	108.9	4.13
Consumer	**1,528.8**	**61.8**	**5.41**	1,441.6	60.4	5.59
Lease financing	**172.1**	**3.6**	**2.84**	189.5	4.1	2.90
Total Loans and Leases	**11,868.9**	**342.4**	**3.86**	11,055.5	317.0	3.83
Other Earning Assets	**30.0**	**0.1**	**0.62**	—	—	—
Total Earning Assets [2]	**17,605.4**	**422.2**	**3.21**	16,962.3	380.2	2.99
Cash and Due from Banks	**322.7**			320.1		
Other Assets	**1,930.1**			1,903.1		
Total Assets	**$19,858.2**			$19,185.5		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Savings	**$ 4,500.1**	**$ 2.5**	**0.08 %**	$ 4,371.6	$ 1.9	0.06 %
Money Market	**2,574.0**	**2.2**	**0.11**	2,410.6	1.7	0.09
Time	**4,027.9**	**23.6**	**0.78**	3,782.2	16.0	0.57
Total Interest-Bearing Deposits	**11,102.0**	**28.3**	**0.34**	10,564.4	19.6	0.25
Short-Term Borrowings	**2.1**	**—**	**0.68**	148.0	0.2	0.16
Total Interest-Bearing Liabilities	**11,104.1**	**28.3**	**0.34**	10,712.4	19.8	0.25
Net Interest Income		**$393.9**			$360.4	
Interest Rate Spread			**2.87 %**			2.74 %
Net Interest Margin			**2.99 %**			2.84 %
Noninterest-Bearing Demand Deposits	**5,848.5**			5,514.8		
Other Liabilities	**378.2**			369.7		
Stockholders' Equity	**2,527.4**			2,588.6		
Total Liabilities and Stockholders' Equity	**$19,858.2**			$19,185.5		

(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) For the nine months ended September 30, 2017 and 2016, the taxable-equivalent basis adjustments made to the table above were not material.

Analysis of Change in Net Interest Income			**Table 7**
	Nine Months Ended September 30, 2017 Compared to September 30, 2016		
(dollars in millions)	**Volume**	**Rate**	**Total** [(1)]
Change in Interest Income:			
Interest-Bearing Deposits in Other Banks	**$ (5.8)**	**$ 3.7**	**$ (2.1)**
Available-for-Sale Investment Securities	**12.4**	**6.1**	**18.5**
Loans and Leases			
Commercial and industrial	**1.4**	**5.6**	**7.0**
Real estate - commercial	**9.1**	**(0.9)**	**8.2**
Real estate - construction	**2.2**	**0.5**	**2.7**
Real estate - residential	**7.9**	**(1.3)**	**6.6**
Consumer	**3.6**	**(2.1)**	**1.5**
Lease financing	**(0.4)**	**(0.1)**	**(0.5)**
Total Loans and Leases	**23.8**	**1.7**	**25.5**
Other Earning Assets	**0.1**	**—**	**0.1**
Total Change in Interest Income	**30.5**	**11.5**	**42.0**
Change in Interest Expense:			
Interest-Bearing Deposits			
Savings	**0.1**	**0.5**	**0.6**
Money Market	**0.1**	**0.4**	**0.5**
Time	**1.1**	**6.5**	**7.6**
Total Interest-Bearing Deposits	**1.3**	**7.4**	**8.7**
Short-Term Borrowings	**(0.3)**	**0.1**	**(0.2)**
Total Change in Interest Expense	**1.0**	**7.5**	**8.5**
Change in Net Interest Income	**$ 29.5**	**$ 4.0**	**$ 33.5**

(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.

Net interest income, on a fully taxable-equivalent basis, was $393.9 million for the nine months ended September 30, 2017, an increase of $33.5 million or 9% compared to the same period in 2016. Our net interest margin was 2.99% for the nine months ended September 30, 2017, an increase of 15 basis points from the same period in 2016. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances in all loan categories and higher average balances and yields in our investment securities portfolio. This was partially offset by lower average balances in interest-bearing deposits in other banks and higher deposit funding costs. For the nine months ended September 30, 2017, the average balance of our loans and leases was $11.9 billion, an increase of $813.4 million or 7% compared to the same period in 2016. The higher average balance in loans and leases was primarily due to strong growth in our commercial real estate, residential real estate, consumer, and commercial and industrial lending portfolios. For the nine months ended September 30, 2017, the average balance of our investment securities portfolio was $5.2 billion, an increase of $885.2 million or 21% compared to the same period in 2016. Yields on our investment securities portfolio were 1.95% for the nine months ended September 30, 2017, an increase of 18 basis points from the same period in 2016. Yields on our loans and leases were 3.86% for the nine months ended September 30, 2017, an increase of three basis points as compared to the same period in 2016. Deposit funding costs were $28.3 million for the nine months ended September 30, 2017, an increase of $8.7 million or 44% compared to the same period in 2016. Rates paid on our interest-bearing deposits were 34 basis points for the nine months ended September 30, 2017, an increase of nine basis points compared to the same period in 2016. While we experienced higher rates paid on all interest-bearing deposit categories in the nine months ended September 30, 2017, particularly high rates were paid on our time deposits with an increase of 21 basis points compared to the same period in 2016.

Provision for Loan and Lease Losses

The Provision was $4.5 million for the three months ended September 30, 2017, which represented an increase of $2.4 million compared to the same period in 2016. We recorded net charge-offs of loans and leases of $4.1 million and $3.4 million for the three months ended September 30, 2017 and 2016, respectively. This represented net charge-offs of 0.13% and 0.12% of average loans and leases, on an annualized basis, for the three months ended September 30, 2017 and 2016, respectively. The Provision was $13.4 million for the nine months ended September 30, 2017, which represented an increase of $8.7 million compared to the same period in 2016. This increase was primarily due to the large recovery of a commercial loan during the nine months ended September 30, 2016. We recorded net charge-offs of loans and leases of $11.6 million and $5.2 million for the nine months ended September 30, 2017 and 2016, respectively. This represented net charge-offs of 0.13% and 0.06% of average loans and leases, on an annualized basis, for the nine months ended September 30, 2017 and 2016, respectively. The Allowance was $137.3 million as of September 30, 2017, an increase of $1.8 million or 1% from December 31, 2016 and represented 1.13% of total outstanding loans and leases as of September 30, 2017, compared to 1.18% of total outstanding loans and leases as of December 31, 2016. The Provision is recorded to maintain the Allowance at levels deemed adequate by management based on the factors noted in the "Risk Governance and Quantitative and Qualitative Disclosures About Market Risk — Credit Risk" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Noninterest Income

Table 8 presents the major components of noninterest income for the three months ended September 30, 2017 and 2016 and Table 9 presents the major components of noninterest income for the nine months ended September 30, 2017 and 2016:

Noninterest Income **Table 8**

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Dollar Change	Percent Change
Service charges on deposit accounts	**$ 9,095**	$ 9,575	$ (480)	(5)%
Credit and debit card fees	**14,831**	14,103	728	5
Other service charges and fees	**8,510**	8,768	(258)	(3)
Trust and investment services income	**7,672**	7,508	164	2
Bank-owned life insurance	**3,119**	7,115	(3,996)	(56)
Investment securities gains, net	**—**	30	(30)	n.m.
Other	**5,308**	1,591	3,717	n.m.
Total noninterest income	**$ 48,535**	$ 48,690	$ (155)	— %

Noninterest Income **Table 9**

(dollars in thousands)	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Dollar Change	Percent Change
Service charges on deposit accounts	**$ 28,062**	$ 28,759	$ (697)	(2)%
Credit and debit card fees	**43,467**	41,732	1,735	4
Other service charges and fees	**25,717**	26,909	(1,192)	(4)
Trust and investment services income	**22,536**	22,236	300	1
Bank-owned life insurance	**10,624**	13,263	(2,639)	(20)
Investment securities gains, net	**—**	25,761	(25,761)	n.m.
Other	**16,406**	9,920	6,486	65
Total noninterest income	**$ 146,812**	$ 168,580	$ (21,768)	(13)%

n.m. – Denotes a variance which is not meaningful.

Total noninterest income was $48.5 million for the three months ended September 30, 2017, a decrease of $0.2 million as compared to the same period in 2016. Total noninterest income was $146.8 million for the nine months ended September 30, 2017, a decrease of $21.8 million or 13% as compared to the same period in 2016.

Service charges on deposit accounts were $9.1 million for the three months ended September 30, 2017, a decrease of $0.5 million or 5% as compared to the same period in 2016. Service charges on deposit accounts were $28.1 million for the nine months ended September 30, 2017, a decrease of $0.7 million or 2% as compared to the same period in 2016. This decrease was primarily due to a $0.8 million decrease in account analysis service charges.

Credit and debit card fees were $14.8 million for the three months ended September 30, 2017, an increase of $0.7 million or 5% as compared to the same period in 2016. This increase was primarily due to a $1.2 million increase in merchant service revenues, partially offset by a $0.4 million decrease in network association dues. Credit and debit card fees were $43.5 million for the nine months ended September 30, 2017, an increase of $1.7 million or 4% as compared to the same period in 2016. This increase was primarily due to a $2.8 million increase in merchant service revenues, partially offset by a $0.6 million decrease in network association dues, a $0.2 million decrease in net interchange fees and a $0.2 million decrease in rental fees from credit card terminals.

Other service charges and fees were $8.5 million for the three months ended September 30, 2017, a decrease of $0.3 million or 3% as compared to the same period in 2016. Other service charges and fees were $25.7 million for the nine months ended September 30, 2017, a decrease of $1.2 million or 4% as compared to the same period in 2016. This decrease was primarily due to a $0.9 million decrease in residential mortgage loan servicing fees and a $0.5 million decrease in fees from annuities and securities.

BOLI income was $3.1 million for the three months ended September 30, 2017, a decrease of $4.0 million or 56% as compared to the same period in 2016. This decrease was due to a $3.4 million decrease in death benefits received and a $0.6 million decrease in BOLI earnings. BOLI income was $10.6 million for the nine months ended September 30, 2017, a decrease of $2.6 million or 20% as compared to the same period in 2016. This decrease was due to a $2.4 million decrease in death benefits received and a $0.2 million decrease in BOLI earnings.

Net gains on the sale of investment securities were nil for the three months ended September 30, 2017, a nominal decrease as compared to the same period in 2016. Net gains on the sale of investment securities were nil for the nine months ended September 30, 2017, a decrease of $25.8 million as compared to the same period in 2016. Net gains on the sale of investment securities for the nine months ended September 30, 2016 were due to a $22.7 million net gain on the sale of 274,000 Visa Class B restricted shares and a $3.1 million net gain on the sale of available-for-sale investment securities.

Other noninterest income was $5.3 million for the three months ended September 30, 2017, an increase of $3.7 million as compared to the same period in 2016. This increase was primarily due to a $2.7 million gain on the sale of bank properties, a $0.6 million decrease in the amortization on mortgage servicing rights and a $0.6 million increase in customer-related interest rate swap fees. Other noninterest income was $16.4 million for the nine months ended September 30, 2017, an increase of $6.5 million or 65% as compared to the same period in 2016. This increase was primarily due to a $2.7 million gain on the sale of bank properties, a $1.6 million increase in customer-related interest rate swap fees, a $1.5 million increase in vendor bonuses received, a $1.1 million decrease in the amortization on mortgage servicing rights, a $1.0 million increase related to insurance proceeds from severe weather which affected the Hawaiian Islands and a $0.7 million increase in net gains recognized in income related to derivative contracts. This was partially offset by $2.4 million in recoveries on loans in excess of amounts previously charged-off for the nine months ended September 30, 2016.

Noninterest Expense

Table 10 presents the major components of noninterest expense for the three months ended September 30, 2017 and 2016 and Table 11 presents the major components of noninterest expense for the nine months ended September 30, 2017 and 2016:

Noninterest Expense **Table 10**

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Dollar Change	Percentage Change
Salaries and employee benefits	**$ 41,579**	$ 42,106	$ (527)	(1)%
Contracted services and professional fees	**10,834**	10,430	404	4
Occupancy	**5,844**	4,870	974	20
Equipment	**4,174**	4,192	(18)	—
Regulatory assessment and fees	**3,668**	3,546	122	3
Advertising and marketing	**2,005**	1,769	236	13
Card rewards program	**4,703**	4,512	191	4
Other	**10,848**	11,379	(531)	(5)
Total noninterest expense	**$ 83,655**	$ 82,804	$ 851	1 %

Noninterest Expense **Table 11**

(dollars in thousands)	Nine Months Ended September 30, 2017	2016	Dollar Change	Percentage Change
Salaries and employee benefits	**$ 128,136**	$ 128,762	$ (626)	— %
Contracted services and professional fees	**33,530**	33,124	406	1
Occupancy	**16,188**	14,991	1,197	8
Equipment	**12,898**	12,135	763	6
Regulatory assessment and fees	**11,192**	8,869	2,323	26
Advertising and marketing	**5,255**	4,818	437	9
Card rewards program	**13,832**	10,743	3,089	29
Other	**32,204**	32,899	(695)	(2)
Total noninterest expense	**$ 253,235**	$ 246,341	$ 6,894	3 %

Total noninterest expense was $83.7 million for the three months ended September 30, 2017, an increase of $0.9 million or 1% as compared to the same period in 2016. Total noninterest expense was $253.2 million for the nine months ended September 30, 2017, an increase of $6.9 million or 3% as compared to the same period in 2016.

Salaries and employee benefits expense was $41.6 million for the three months ended September 30, 2017, a decrease of $0.5 million or 1% as compared to the same period in 2016. This decrease was primarily due to a $2.5 million decrease in other compensation, primarily due to the IPO and related stock-based compensation recorded in the three months ended September 30, 2016, and a $1.2 million decrease in incentive compensation. This was partially offset by a $1.7 million increase in base salaries and related payroll taxes and a $1.1 million decrease in deferred loan origination costs. Salaries and employee benefits expense was $128.1 million for the nine months ended September 30, 2017, a decrease of $0.6 million as compared to the same period in 2016. This decrease was primarily due to a $3.6 million increase in deferred loan origination costs, a $2.1 million decrease in other compensation, primarily due to the IPO and related stock-based compensation recorded in the nine months ended September 30, 2016, and a $1.6 million decrease in incentive compensation. This was partially offset by a $5.3 million increase in base salaries and related payroll taxes and a $0.7 million increase in group health plan costs.

Occupancy expense was $5.8 million for the three months ended September 30, 2017, an increase of $1.0 million or 20% as compared to the same period in 2016. This increase was primarily due to a $0.5 million increase in building maintenance expense and a $0.4 million decrease in net sublease rental income. Occupancy expense was $16.2 million for the nine months ended September 30, 2017, an increase of $1.2 million or 8% as compared to the same period in 2016. This increase was primarily due to a $1.3 million decrease in net sublease rental income.

Equipment expense was $4.2 million for the three months ended September 30, 2017, a nominal decrease as compared to the same period in 2016. Equipment expense was $12.9 million for the nine months ended September 30, 2017, an increase of $0.8 million or 6% as compared to the same period in 2016. This increase was primarily due to a $0.5 million increase in service contracts expense and a $0.3 million increase in depreciation expense.

Regulatory assessment and fees were $3.7 million for the three months ended September 30, 2017, an increase of $0.1 million or 3% as compared to the same period in 2016. Regulatory assessment and fees were $11.2 million for the nine months ended September 30, 2017, an increase of $2.3 million or 26% as compared to the same period in 2016. This increase was primarily due to a change in the calculation of the Federal Deposit Insurance Corporation insurance assessment and adoption of an additional surcharge, which resulted in a higher assessment rate.

Card rewards program expense was $4.7 million for the three months ended September 30, 2017, an increase of $0.2 million or 4% as compared to the same period in 2016. Card rewards program expense was $13.8 million for the nine months ended September 30, 2017, an increase of $3.1 million or 29% as compared to the same period in 2016. This increase was primarily due to a change in terms related to the expiration of our debit card reward points recorded during the nine months ended September 30, 2016, as well as higher levels of activity in bankcard operating charges in the current period.

Other noninterest expense was $10.8 million for the three months ended September 30, 2017, a decrease of $0.5 million or 5% as compared to the same period in 2016. This decrease was primarily due to a $0.5 million decrease in supplies. Other noninterest expense was $32.2 million for the nine months ended September 30, 2017, a decrease of $0.7 million or 2% as compared to the same period in 2016. This decrease was primarily due to a $1.2 million decrease in operational losses (which includes losses as a result of bank error, fraud, items processing, or theft), a $0.4 million decrease in supplies, a $0.4 million decrease in travel expenses and a $0.3 million decrease in telephone expenses, partially offset by a $0.9 million increase in software amortization expense and a $0.8 million increase in insurance expense as a result of higher rates due to our transition to a stand-alone public company.

Provision for Income Taxes

The provision for income taxes was $35.3 million (an effective tax rate of 37.71%) for the three months ended September 30, 2017, compared with the provision for income taxes of $33.2 million (an effective tax rate of 38.43%) for the same period in 2016. The provision for income taxes was $102.1 million (an effective tax rate of 37.25%) for the nine months ended September 30, 2017, compared with the provision for income taxes of $104.3 million (an effective tax rate of 37.54%) for the same period in 2016. The slight decrease in the effective tax rate for the nine months ended September 30, 2017 as compared to the same period in 2016 was primarily due to the reduction in non-deductible IPO related costs in the current period. Additional information about the provision for income taxes is presented in "Note 9. Income Taxes" contained in our unaudited interim consolidated financial statements.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking and Treasury and Other. Table 12 summarizes net income from our business segments for the three and nine months ended September 30, 2017 and 2016. Additional information about operating segment performance is presented in "Note 15. Reportable Operating Segments" contained in our unaudited interim consolidated financial statements.

Business Segment Net Income — **Table 12**

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Retail Banking	**$ 47,446**	$ 46,911	**$ 138,144**	$ 135,853
Commercial Banking	**16,498**	17,613	**51,387**	56,664
Treasury and Other	**(5,581)**	(11,289)	**(17,533)**	(18,891)
Total	**$ 58,363**	$ 53,235	**$ 171,998**	$ 173,626

Retail Banking. Our Retail Banking segment includes the financial products and services we provide to consumers, small businesses and certain commercial customers. Loan and lease products offered include residential and commercial mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans and small business loans and leases. Deposit products offered include checking, savings and time deposit accounts. Our Retail Banking segment also includes our wealth management services.

Net income for the Retail Banking segment was $47.4 million for the three months ended September 30, 2017, an increase of $0.5 million or 1% as compared to the same period in 2016. The increase in net income for the Retail Banking segment was primarily due to a $4.8 million increase in net interest income, partially offset by a $2.5 million increase in noninterest expense and a $1.1 million increase in the provision for income taxes. The increase in net interest income was primarily due to higher earnings credits from our deposit portfolio. The increase in noninterest expense was primarily due to a decrease in deferred loan origination costs.

Net income for the Retail Banking segment was $138.1 million for the nine months ended September 30, 2017, an increase of $2.3 million or 2% as compared to the same period in 2016. The increase in net income for the Retail Banking segment was primarily due to a $11.3 million increase in net interest income, partially offset by a $4.5 million increase in noninterest expense, $3.2 million increase in the Provision and a $1.2 million increase in the provision for income taxes. The increase in net interest income was primarily due to higher earnings credits from our deposit portfolio. The increase in noninterest expense was primarily due to higher allocated expenses, contracted services and professional fees, occupancy expense and regulatory assessments and fees.

Commercial Banking. Our Commercial Banking segment includes our corporate banking, residential and commercial real estate loans, commercial lease financing, auto dealer financing, deposit products and credit cards that we provide primarily to middle market and large companies in Hawaii, Guam, Saipan and California.

Net income for the Commercial Banking segment was $16.5 million for the three months ended September 30, 2017, a decrease of $1.1 million or 6% as compared to the same period in 2016. The decrease in net income for the Commercial Banking segment was primarily due to a $1.5 million increase in the Provision and a $1.1 million increase in noninterest expense, partially offset by a $1.3 million increase in noninterest income. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Commercial Banking segment. The increase in noninterest income was primarily due to higher merchant service revenues.

Net income for the Commercial Banking segment was $51.4 million for the nine months ended September 30, 2017, a decrease of $5.3 million or 9% as compared to the same period in 2016. The decrease in net income for the Commercial Banking segment was primarily due to a $7.0 million increase in noninterest expense and a $5.5 million increase in the Provision, partially offset by a $4.8 million increase in noninterest income and a $3.2 million decrease in the provision for income taxes. The increase in noninterest expense was primarily due to higher card rewards program expenses, overall expenses that were allocated to the Commercial Banking segment, regulatory assessment and fees and contracted data processing. The increase in noninterest income was primarily due to higher merchant service revenues, vendor bonuses received and customer-related interest rate swap fees.

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

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

Net loss for the Treasury and Other segment was $5.6 million for the three months ended September 30, 2017, a decrease of $5.7 million in loss as compared to the same period in 2016. The decrease in the net loss was primarily due to a $6.0 million decrease in net interest expense and a $2.8 million decrease in noninterest expense, partially offset by a $1.7 million decrease in noninterest income and a $1.4 million decrease in the benefit for income taxes. The decrease in net interest expense was primarily due to higher average loan balances and higher average investment securities earning higher yields. The decrease in noninterest expense was primarily due to a decrease in salaries and benefits expense. The decrease in noninterest income was primarily due to lower BOLI income, partially offset by a gain on the sale of bank properties.

Net loss for the Treasury and Other segment was $17.5 million for the nine months ended September 30, 2017, a decrease of $1.4 million in loss as compared to the same period in 2016. The decrease in the net loss was primarily due to a $23.0 million decrease in net interest expense and a $4.7 million decrease in noninterest expense, partially offset by a $26.6 million decrease in noninterest income. The decrease in net interest expense was primarily due to higher average loan balances and higher average investment securities earning higher yields. The decrease in noninterest expense was primarily due to an increase in overall expenses that were allocated from the Treasury and Other segment and lower contracted services and professional fees. The decrease in noninterest income was primarily due to a $22.7 million net gain on the sale of 274,000 Visa Class B restricted shares recorded during the nine months ended September 30, 2016 and lower BOLI income.

Analysis of Financial Condition

Liquidity

Liquidity refers to our ability to maintain cash flow that is adequate to fund operations and meet present and future financial obligations through either the sale or maturity of existing assets or by obtaining additional funding through liability management. We consider the effective and prudent management of liquidity to be fundamental to our health and strength. Our objective is to manage our cash flow and liquidity reserves so that they are adequate to fund our obligations and other commitments on a timely basis and at a reasonable cost.

Liquidity is managed to ensure stable, reliable and cost effective sources of funds to satisfy demand for credit, deposit withdrawals and investment opportunities. 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 Company's Asset Liability Management Committee ("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.

Immediate liquid resources are available in cash, which is primarily on deposit with the Federal Reserve Bank of San Francisco (the "FRB"). As of September 30, 2017 and December 31, 2016, cash and cash equivalents were $1.1 billion. Potential sources of liquidity also include investment securities in our available-for-sale portfolio. The carrying value of our available-for-sale investment securities was $5.3 billion as of September 30, 2017 and $5.1 billion as of December 31, 2016. As of September 30, 2017 and December 31, 2016, we maintained our excess liquidity primarily in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. As of September 30, 2017 and December 31, 2016, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 3.6 years and 3.8 years, respectively. Furthermore, as of September 30, 2017, we expect maturities and paydowns of approximately $0.9 billion to occur over the next twelve months. These funds offer substantial resources to meet either new loan demand or to help offset reductions in our deposit funding base. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the Federal Home Loan Bank of Des Moines (the "FHLB") and the FRB. As of September 30, 2017, we have borrowing capacity of $1.9 billion from the FHLB and $679.9 million from the FRB based on the amount of collateral pledged.

Our core deposits have historically provided us with a long term source of stable and relatively lower cost of funding. Our core deposits, defined as all deposits exclusive of time deposits exceeding $250,000, totaled $14.2 billion as of September 30, 2017 and December 31, 2016, which represented 80% and 85%, respectively, of our total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company. While we consider core deposits to be less volatile, deposit levels could decrease if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances.

The Company's routine funding requirements are expected to consist primarily of general corporate needs and dividends to be paid to our stockholders. We expect to meet these obligations from dividends paid by First Hawaiian Bank to the Parent. Additional sources of liquidity available to us include selling residential real estate loans in the secondary market, short term borrowings and the issuance of long term debt and equity securities.

Investment Securities

Table 13 presents the book value, which is also the estimated fair value, of our available-for-sale investment securities portfolio as of September 30, 2017 and December 31, 2016:

Investment Securities **Table 13**

(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
U.S. Treasury securities	**$ 396,766**	$ 392,473
Government-sponsored enterprises debt securities	**245,138**	242,667
Government agency mortgage-backed securities	**159,787**	185,663
Government-sponsored enterprises mortgage-backed securities	**184,139**	204,385
Non-government asset-backed securities	**101**	12,583
Collateralized mortgage obligations:		
Government agency	**3,513,904**	3,351,822
Government-sponsored enterprises	**815,138**	687,921
Total available-for-sale securities	**$ 5,314,973**	$ 5,077,514

Table 14 presents the maturity distribution at amortized cost and weighted-average yield to maturity of our available-for-sale investment securities portfolio as of September 30, 2017:

Maturities and Weighted-Average Yield on Securities [1] **Table 14**

(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 September 30, 2017											
Available-for-Sale Securities											
U.S. Treasury securities	$ —	— %	$ 280.8	1.13 %	$ 123.9	1.73 %	$ —	— %	$ 404.7	1.32 %	$ 396.8
Government-sponsored enterprises debt securities	35.0	2.80	50.0	1.69	164.7	2.04	—	—	249.7	2.08	245.1
Mortgage-Backed Securities: [2]											
Government agency	23.7	2.20	66.4	2.20	42.4	2.20	30.8	2.19	163.3	2.20	159.8
Government-sponsored enterprises	32.0	2.18	92.8	2.18	43.0	2.14	19.1	2.10	186.9	2.17	184.1
Asset-Backed Securities: [2]											
Non-government	0.1	0.95	—	—	—	—	—	—	0.1	0.95	0.1
Collateralized mortgage obligations: [2]											
Government agency	659.5	1.96	1,941.9	2.01	809.4	2.08	140.9	2.11	3,551.7	2.02	3,513.9
Government-sponsored enterprises	166.4	1.90	494.0	1.95	160.4	1.91	3.9	1.45	824.7	1.93	815.1
Total available-for-sale securities as of September 30, 2017	$ 916.7	1.99 %	$ 2,925.9	1.92 %	$ 1,343.8	2.03 %	$ 194.7	2.11 %	$ 5,381.1	1.97 %	$ 5,314.9

(1) Weighted-average yields were computed on a fully taxable-equivalent basis.

(2) Maturities for mortgage-backed securities, asset-backed securities and collateralized mortgage obligations anticipate future prepayments.

The carrying value of our available-for-sale investment securities portfolio was $5.3 billion as of September 30, 2017, an increase of $237.5 million or 5% compared to December 31, 2016. Our available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income, unless a security is deemed to be other-than-temporarily impaired (“OTTI”).

As of September 30, 2017, we maintained all of our investment securities in the available-for-sale category recorded at fair value in the unaudited consolidated balance sheets, with $4.3 billion invested in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. Our available-for-sale portfolio also included $396.8 million in U.S. Treasury securities, $245.1 million in debt securities issued by government-sponsored enterprises (FHLB and Federal Farm Credit Banks Funding Corporation callable bonds), $343.9 million in mortgage backed securities issued by Ginnie Mae, Freddie Mac and Fannie Mae and $0.1 million in automobile asset-backed securities.

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 and change the composition of our investment securities portfolio.

Gross unrealized gains in our investment securities portfolio were $2.9 million and $2.0 million as of September 30, 2017 and December 31, 2016, respectively. Gross unrealized losses in our investment securities portfolio were $69.0 million and $101.1 million as of September 30, 2017 and December 31, 2016, respectively. Higher unrealized gains and lower unrealized losses in our investment securities portfolio were primarily due to lower mid-term market interest rates. The higher gross unrealized gain positions were primarily related to our collateralized mortgage obligations, the fair value of which is sensitive to changes in market interest rates.

We conduct a regular assessment of our investment securities portfolio to determine whether any securities are OTTI. When assessing unrealized losses for OTTI, we consider the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized losses, expected cash flows of underlying assets and market conditions. As of September 30, 2017, we had no plans to sell investment securities with unrealized losses, and believe it is more likely than not that we would not be required to sell such securities before recovery of their amortized cost, which may be at maturity.

We are required to hold non-marketable equity securities, comprised of FHLB stock, as a condition of our membership in the FHLB system. Our FHLB stock is accounted for at cost, which equals par or redemption value. As of September 30, 2017 and December 31, 2016, we held FHLB stock of $10.1 million which is recorded as a component of other assets in our unaudited consolidated balance sheets.

See “Note 2. Investment Securities” contained in our unaudited interim consolidated financial statements for more information on our investment securities portfolio.

Loans and Leases

Table 15 presents the composition of our loan and lease portfolio by major categories as of September 30, 2017 and December 31, 2016:

Loans and Leases **Table 15**

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	**$ 3,190,237**	$ 3,239,600
Real estate:		
Commercial	**2,625,688**	2,343,495
Construction	**598,763**	450,012
Residential	**4,001,478**	3,796,459
Total real estate	**7,225,929**	6,589,966
Consumer	**1,562,172**	1,510,772
Lease financing	**171,373**	180,040
Total loans and leases	**$ 12,149,711**	$ 11,520,378

Total loans and leases were $12.1 billion as of September 30, 2017, an increase of $629.3 million or 6% from December 31, 2016 with increases in all categories except commercial and industrial 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. We also offer a variety of automobile dealer flooring lines to our customers in Hawaii and California to assist with the financing of their inventory. Commercial and industrial loans were $3.2 billion as of September 30, 2017, a decrease of $49.4 million or 2% from December 31, 2016. This decrease was primarily due to reductions in dealer flooring balances and paydowns in our Shared National Credits portfolio.

Commercial real estate loans are secured by first mortgages on commercial real estate at loan to value ("LTV") ratios generally not exceeding 75% and a minimum debt service coverage ratio of 1.20 to 1. 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. Commercial real estate loans were $2.6 billion as of September 30, 2017, an increase of $282.2 million or 12% from December 31, 2016. Strong demand for commercial real estate lending activities was reflective of a strong real estate market in Hawaii and the demand by both investors and owner occupants to refinance and/or to acquire new real estate assets.

Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. Loans in this portfolio are primarily for the purchase of land, as well as for the development of commercial properties, single family homes and condominiums. We classify loans as construction until the completion of the construction phase. Following construction, if a loan is retained by the Bank, the loan is reclassified to the commercial real estate or residential real estate classes of loans. Construction loans were $598.8 million as of September 30, 2017, an increase of $148.8 million or 33% from December 31, 2016 as new lending opportunities continue to result from strong construction activity.

Residential real estate loans are generally secured by 1-4 unit residential properties 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 fixed rate mortgage products and variable rate mortgage products with interest rates that are subject to change every year after the first, third, fifth or tenth year, depending on the product and are based on the London Interbank Offered Rate. Variable rate residential mortgage loans are underwritten at fully-indexed interest rates. We generally do not offer interest-only, payment-option facilities, Alt-A loans or any product with negative amortization. Residential real estate loans were $4.0 billion as of September 30, 2017, an increase of $205.0 million or 5% from December 31, 2016. Our portfolio of residential real estate loans continues to benefit from Hawaii's strong real estate market and continued demand for new housing developments in the current low interest rate environment.

Consumer loans consist primarily of open- and closed-end direct and indirect credit facilities for personal, automobile and household purchases as well as credit card loans. We seek to maintain reasonable levels of risk in consumer lending by following prudent underwriting guidelines, which include an evaluation of personal credit history, cash flow and collateral values based on existing market conditions. Consumer loans were $1.6 billion as of September 30, 2017, an increase of $51.4 million or 3% from December 31, 2016. High levels of consumer outstanding balances were reflective of a strong Hawaii economy, higher statewide personal income and lower unemployment trends. These factors contributed to higher levels of consumer spending.

Lease financing consists of commercial single investor leases and leveraged leases. Underwriting of new lease transactions is based on our lending policy, including but not limited to an analysis of customer cash flows and secondary sources of repayment, including the value of leased equipment, the guarantors' cash flows and/or other credit enhancements. No new leveraged leases are being added to the portfolio and all remaining leveraged leases are running off. Lease financing was $171.4 million as of September 30, 2017, a decrease of $8.7 million or 5% from December 31, 2016.

See "Note 3. Loans and Leases" contained in our unaudited interim consolidated financial statements and the discussion in "Analysis of Financial Condition — Allowance for Loan and Lease Losses" in MD&A for more information on our loan and lease portfolio.

Tables 16 and 17 present the geographic distribution of our loan and lease portfolio as of September 30, 2017 and December 31, 2016:

Geographic Distribution of Loan and Lease Portfolio **Table 16**

	September 30, 2017				
(dollars in thousands)	Hawaii	U.S. Mainland (1)	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	**$1,294,415**	**$1,650,794**	**$ 159,496**	**$ 85,532**	**$ 3,190,237**
Real estate:					
Commercial	**1,783,711**	**470,436**	**369,628**	**1,913**	**2,625,688**
Construction	**395,109**	**170,943**	**32,711**	**—**	**598,763**
Residential	**3,851,759**	**3,000**	**146,719**	**—**	**4,001,478**
Total real estate	**6,030,579**	**644,379**	**549,058**	**1,913**	**7,225,929**
Consumer	**1,136,001**	**25,066**	**399,207**	**1,898**	**1,562,172**
Lease financing	**51,129**	**103,273**	**6,650**	**10,321**	**171,373**
Total Loans and Leases	**$8,512,124**	**$2,423,512**	**$1,114,411**	**$ 99,664**	**$12,149,711**
Percentage of Total Loans and Leases	**70%**	**20%**	**9%**	**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.

Geographic Distribution of Loan and Lease Portfolio **Table 17**

	December 31, 2016				
(dollars in thousands)	Hawaii	U.S. Mainland (1)	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	$1,301,866	$1,679,681	$144,130	$113,923	$ 3,239,600
Real estate:					
Commercial	1,670,718	361,157	311,620	—	2,343,495
Construction	306,138	128,583	15,291	—	450,012
Residential	3,649,844	6,650	139,965	—	3,796,459
Total real estate	5,626,700	496,390	466,876	—	6,589,966
Consumer	1,107,002	28,355	372,759	2,656	1,510,772
Lease financing	53,814	106,783	8,566	10,877	180,040
Total Loans and Leases	$8,089,382	$2,311,209	$992,331	$127,456	$11,520,378
Percentage of Total Loans and Leases	70%	20%	9%	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.

Our lending activities are concentrated primarily in Hawaii. However, we also have lending activities on the U.S. mainland, Guam and Saipan. Our commercial lending activities on the U.S. mainland include automobile dealer flooring activities in California, limited participation in Shared National Credits and selective commercial real estate projects based on existing customer relationships. Our lease financing portfolio includes leveraged lease financing activities on the U.S. mainland, but this portfolio continues to run off as no new leveraged leases are being added to the portfolio. Our consumer lending activities are concentrated primarily in Hawaii and to a smaller extent Guam and Saipan.

Table 18 presents contractual loan maturity categories normally not subject to regular periodic principal reductions and sensitivities of those loans to changes in interest rates as of September 30, 2017:

Maturities for Selected Loan Categories (1) **Table 18**

	September 30, 2017			
(dollars in thousands)	**Due in One Year or Less**	**Due After One to Five Years**	**Due After Five Years**	**Total**
Commercial and industrial	**$ 1,189,569**	**$ 1,621,123**	**$ 379,545**	**$ 3,190,237**
Real estate - construction	**109,207**	**244,822**	**244,734**	**598,763**
Total Loans and Leases	**$ 1,298,776**	**$ 1,865,945**	**$ 624,279**	**$ 3,789,000**
Total of loans due after one year with:				
Fixed interest rates		**$ 222,019**	**$ 125,810**	**$ 347,829**
Variable interest rates		**1,643,926**	**498,469**	**2,142,395**
Total Loans and Leases		**$ 1,865,945**	**$ 624,279**	**$ 2,490,224**

(1) Based on contractual maturities.

Credit Quality

We evaluate certain loans and leases, including commercial and industrial loans, commercial real estate loans and construction loans, individually for impairment and non-accrual status. A loan is considered to be impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. We generally place a loan on non-accrual status when management believes that collection of principal or interest has become doubtful or when a loan or lease becomes 90 days past due as to principal or interest, unless it is well secured and in the process of collection. Loans on non-accrual status are generally classified as impaired, but not all impaired loans are necessarily placed on non-accrual status. See "Note 4. Allowance for Loan and Lease Losses" contained in our unaudited interim consolidated financial statements for more information about our credit quality indicators.

For purposes of managing credit risk and estimating the Allowance, management has identified three categories of loans (commercial, residential real estate and consumer) that we use to develop our systematic methodology to determine the Allowance. The categorization of loans for the evaluation of credit risk is specific to our credit risk evaluation process and these loan categories are not necessarily the same as the loan categories used for other evaluations of our loan portfolio. See "Note 4. Allowance for Loan and Lease Losses" contained in our unaudited interim consolidated financial statements for more information about our approach to estimating the Allowance.

The following tables and discussion address non-performing assets, loans and leases that are 90 days past due but are still accruing interest, impaired loans and loans modified in a troubled debt restructuring ("TDR").

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

Table 19 presents information on our non-performing assets and accruing loans and leases past due 90 days or more as of September 30, 2017 and December 31, 2016:

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More — **Table 19**

(dollars in thousands)	September 30, 2017	December 31, 2016
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial Loans:		
Commercial and industrial	**$ 2,312**	$ 2,730
Lease financing	**—**	153
Total Commercial Loans	**2,312**	2,883
Residential	**5,562**	6,547
Total Non-Accrual Loans and Leases	**7,874**	9,430
Other Real Estate Owned	**564**	329
Total Non-Performing Assets	**$ 8,438**	$ 9,759
Accruing Loans and Leases Past Due 90 Days or More		
Commercial Loans:		
Commercial and industrial	**$ 1,751**	$ 449
Real estate - commercial	**3,247**	—
Lease financing	**—**	83
Total Commercial Loans	**4,998**	532
Residential	**1,055**	866
Consumer	**1,894**	1,870
Total Accruing Loans and Leases Past Due 90 Days or More	**$ 7,947**	$ 3,268
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	**36,728**	44,496
Total Loans and Leases	**$ 12,149,711**	$ 11,520,378
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	**0.06 %**	0.08 %
Ratio of Non-Performing Assets to Total Loans and Leases and Other Real Estate Owned	**0.07 %**	0.08 %
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Other Real Estate Owned	**0.13 %**	0.11 %

Table 20 presents the activity in Non-Performing Assets ("NPAs") for nine months ended September 30, 2017 and for the year ended December 31, 2016:

Non-Performing Assets — **Table 20**

(dollars in thousands)	Nine Months Ended 2017	September 30, 2016
Balance at beginning of period	**$ 9,759**	$ 16,775
Additions	**2,405**	2,406
Reductions		
Payments	**(1,467)**	(6,566)
Return to accrual status	**(996)**	(1,591)
Sales of other real estate owned	**(539)**	(359)
Charge-offs/write-downs	**(724)**	(441)
Total Reductions	**(3,726)**	(8,957)
Balance at End of Period	**$ 8,438**	$ 10,224

The level of NPAs represents an indicator of the potential for future credit losses. NPAs consist of non-accrual loans and leases and other real estate owned. 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 other real estate owned or are no longer classified as non-accrual because they have returned to accrual status as a result of continued performance and an improvement in the borrower's condition and loan repayment capabilities.

Total NPAs were $8.4 million as of September 30, 2017, a decrease of $1.3 million or 14% from December 31, 2016. The ratio of our NPAs to total loans and leases and other real estate owned was 0.07% as of September 30, 2017, a decrease of one basis point from December 31, 2016. The decrease in total NPAs was primarily due to a $1.0 million decrease in residential real estate non-accrual loans and a $0.4 million decrease in commercial and industrial non-accrual loans.

The largest component of our NPAs continues to be residential real estate loans. The level of these NPAs can remain elevated due to a lengthy judicial foreclosure process in Hawaii. As of September 30, 2017, residential real estate non-accrual loans were $5.6 million, a decrease of $1.0 million or 15% from December 31, 2016. As of September 30, 2017, our residential real estate non-accrual loans were comprised of 38 loans with a weighted average current loan-to-value ("LTV") ratio of 69%.

Commercial and industrial non-accrual loans were $2.3 million as of September 30, 2017, a decrease of $0.4 million or 15% from December 31, 2016. All of our remaining commercial and industrial non-accrual loans were individually evaluated for impairment and we have already taken $0.8 million in charge-offs related to these loans.

Other real estate owned represents property acquired as the result of borrower defaults on loans. Other real estate owned 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. Other real estate owned was $0.6 million and $0.3 million as of September 30, 2017 and December 31, 2016, respectively, and was comprised of two residential real estate properties as of September 30, 2017 and one residential real estate property as of December 31, 2016.

We attribute the lower level of NPAs to strong general economic conditions in Hawaii, led by strong tourism and construction industries, relatively low unemployment and rising real estate prices. We have also continued to remain diligent in our collection and recovery efforts and have continued to seek new lending opportunities while maintaining sound judgment and underwriting practices.

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 and are reasonably expected to result in repayment.

Loans and leases past due 90 days or more and still accruing interest were $7.9 million as of September 30, 2017, an increase of $4.7 million or 143% as compared to December 31, 2016. Commercial and industrial loans that were past due 90 days or more and still accruing interest increased by $1.3 million and commercial real estate loans that were past due 90 days or more and still accruing interest increased by $3.2 million during the nine months ended September 30, 2017.

Impaired Loans. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For a loan that has been modified in a TDR, the contractual terms of the loan agreement refers to the contractual terms specified by the original loan agreement, not the contractual terms specified by the modified loan agreement.

Impaired loans were $45.3 million and $59.4 million as of September 30, 2017 and December 31, 2016, respectively. These impaired loans had a related Allowance of $0.6 million and $1.1 million as of September 30, 2017 and December 31, 2016, respectively. The decrease in impaired loans during the nine months ended September 30, 2017 was primarily due a net decrease of four commercial and industrial loans totaling $8.3 million, a decrease of one commercial real estate loan of $3.5 million and a net decrease of eight residential real estate loans totaling $2.1 million. The impaired loan balance is further decreased by charge-offs and paydowns. As of September 30, 2017 and December 31, 2016, we recorded charge-offs of $1.7 million and $2.0 million, respectively, 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 September 30, 2017 had been accrued under the original terms, approximately nil and $0.2 million in additional interest income would have been recorded in the three and nine months ended September 30, 2017, respectively, compared to $0.5 million and $1.8 million actually recorded as interest income on those loans, respectively. If interest due on the balances of all non-accrual loans as of September 30, 2016 had been accrued under the original terms, approximately nil and $0.2 million in additional interest income would have been recorded for the three and nine months ended September 30, 2016, compared to $0.8 million and $2.6 million, respectively, actually recorded as interest income on those loans.

Loans Modified in a Troubled Debt Restructuring

Table 21 presents information on loans whose terms have been modified in a TDR as of September 30, 2017 and December 31, 2016:

Loans Modified in a Troubled Debt Restructuring **Table 21**

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	**$ 16,911**	$ 24,842
Real estate - commercial	**9,061**	12,546
Total commercial	**25,972**	37,388
Residential	**12,470**	13,813
Total	**$ 38,442**	$ 51,201

Loans modified in a TDR were $38.4 million as of September 30, 2017, a decrease of $12.8 million or 25% from December 31, 2016. This decrease was primarily due to the net decrease of three commercial and industrial loans of $6.9 million, a decrease of one commercial real estate loan of $2.9 million and the net decrease of four residential real estate loans of $1.0 million. As of September 30, 2017, $36.7 million or 96% of our 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 six consecutive payments. See ‘‘Note 4. Allowance for Loan and Lease Losses’’ contained in our unaudited interim consolidated financial statements for more information and a description of the modification programs that we currently offer to our customers.

Allowance for Loan and Lease Losses

We maintain the Allowance at a level which, in our judgment, is adequate to absorb probable losses that have been incurred in our loan and lease portfolio as of the balance sheet date. The Allowance consists of two components, allocated and unallocated. The allocated portion of the Allowance includes reserves that are allocated based on impairment analyses of specific loans or pools of loans. The unallocated component of the Allowance incorporates our judgment of the determination of the risks inherent in the loan and lease portfolio, economic uncertainties and imprecision in the estimation process. Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of September 30, 2017 and December 31, 2016 based on our ongoing analysis of estimated probable loan and lease losses, credit risk profiles, economic conditions, coverage ratios and other relevant factors.

Table 22 presents an analysis of our Allowance for the periods indicated:

Allowance for Loan and Lease Losses **Table 22**

(dollars in thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Balance at Beginning of Period	**$ 136,883**	$ 136,360	**$ 135,494**	$ 135,484
Loans and Leases Charged-Off				
Commercial Loans:				
Commercial and industrial	**(408)**	(210)	**(1,338)**	(348)
Lease financing	**(1)**	—	**(147)**	—
Total Commercial Loans	**(409)**	(210)	**(1,485)**	(348)
Residential	**(293)**	(268)	**(315)**	(796)
Consumer	**(6,263)**	(4,878)	**(17,086)**	(13,379)
Total Loans and Leases Charged-Off	**(6,965)**	(5,356)	**(18,886)**	(14,523)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial Loans:				
Commercial and industrial	**582**	6	**825**	228
Real estate - commercial	**336**	42	**468**	3,288
Lease financing	**—**	—	**—**	1
Total Commercial Loans	**918**	48	**1,293**	3,517
Residential	**139**	350	**610**	1,116
Consumer	**1,852**	1,523	**5,416**	4,731
Total Recoveries on Loans and Leases Previously Charged-Off	**2,909**	1,921	**7,319**	9,364
Net Loans and Leases Charged-Off	**(4,056)**	(3,435)	**(11,567)**	(5,159)
Provision for Loan and Lease Losses	**4,500**	2,100	**13,400**	4,700
Balance at End of Period	**$ 137,327**	$ 135,025	**$ 137,327**	$ 135,025
Average Loans and Leases Outstanding	**$ 12,115,001**	$ 11,261,710	**$ 11,868,917**	$ 11,055,522
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding [(1)]	**0.13 %**	0.12 %	**0.13 %**	0.06 %
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	**1.13 %**	1.18 %	**1.13 %**	1.18 %

(1) Annualized for the three and nine months ended September 30, 2017 and 2016.

Tables 23 and 24 present the allocation of the Allowance by loan and lease category, in both dollars and as a percentage of total loans and leases outstanding as of September 30, 2017 and December 31, 2016:

Allocation of the Allowance by Loan and Lease Category **Table 23**

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	**$ 31,838**	$ 33,129
Real estate - commercial	**20,581**	18,448
Real estate - construction	**5,824**	4,513
Lease financing	**820**	847
Total commercial	**59,063**	56,937
Residential	**44,877**	43,436
Consumer	**28,599**	28,388
Unallocated	**4,788**	6,733
Total Allowance for Loan and Lease Losses	**$ 137,327**	$ 135,494

Allocation of the Allowance by Loan and Lease Category (as a percentage of total loans and leases outstanding) **Table 24**

	September 30, 2017		December 31, 2016	
	Allocated Allowance as % of loan or lease category	**Loan category as % of total loans and leases**	**Allocated Allowance as % of loan or lease category**	**Loan category as % of total loans and leases**
Commercial and industrial	1.00 %	26.26 %	1.02 %	28.12 %
Real estate - commercial	0.78	21.61	0.79	20.34
Real estate - construction	0.97	4.93	1.00	3.91
Lease financing	0.48	1.41	0.47	1.56
Total commercial	0.90	54.21	0.92	53.93
Residential	1.12	32.93	1.14	32.96
Consumer	1.83	12.86	1.88	13.11
Total	1.13 %	100.00 %	1.18 %	100.00 %

As of September 30, 2017, the Allowance was $137.3 million or 1.13% of total loans and leases outstanding, compared with an Allowance of $135.5 million or 1.18% of total loans and leases outstanding as of December 31, 2016. The level of the Allowance was commensurate with our stable credit risk profile, loan portfolio growth and composition and a strong Hawaii economy.

Net charge-offs of loans and leases were $4.0 million or 0.13% of total average loans and leases, on an annualized basis, for the three months ended September 30, 2017 compared to $3.4 million or 0.12% of total average loans and leases, on an annualized basis, for the three months ended September 30, 2016. Net recoveries in our commercial lending portfolio were $0.5 million for the three months ended September 30, 2017 compared to net charge-offs of $0.2 million for the three months ended September 30, 2016. Net charge-offs in our residential lending portfolio were $0.2 million for the three months ended September 30, 2017 compared to nominal net recoveries for the three months ended September 30, 2016. Net charge-offs in our consumer lending portfolio were $4.4 million for the three months ended September 30, 2017 compared to net charge-offs of $3.4 million for the three months ended September 30, 2016. These higher loss rates reflect the inherent risk related to our consumer lending portfolio.

Net charge-offs of loans and leases were $11.6 million or 0.13% of total average loans and leases, on an annualized basis, for the nine months ended September 30, 2017 compared to $5.2 million or 0.06% of total average loans and leases, on an annualized basis, for the nine months ended September 30, 2016. Net charge-offs in our commercial lending portfolio were $0.2 million for the nine months ended September 30, 2017 compared to net recoveries of $3.2 million for the nine months ended September 30, 2016. Our net recovery position for the nine months ended September 30, 2016 was primarily due to a $3.2 million recovery on a previously charged-off commercial real estate loan. Net recoveries in our residential lending portfolio were $0.3 million for both the nine months ended September 30, 2017 and 2016. Our net recovery position in this portfolio segment is largely attributable to rising real estate prices in Hawaii. Net charge-offs in our consumer lending portfolio were $11.7 million for the nine months ended September 30, 2017 compared to $8.6 million for the nine months ended September 30, 2016. These higher loss rates reflect the inherent risk related to our consumer lending portfolio.

As of September 30, 2017, the allocation of the Allowance to our commercial, residential and consumer loans was comparable to the respective allocations as of December 31, 2016. See “Note 4. Allowance for Loan and Lease Losses” contained in our unaudited interim consolidated financial statements for more information on the Allowance.

Goodwill

Goodwill was $995.5 million as of September 30, 2017 and December 31, 2016. Our goodwill originates from the acquisition of BancWest by BNPP in December of 2001. Goodwill generated in that acquisition was recorded on the balance sheet of First Hawaiian Bank, as a result of push down accounting treatment, and remains on our consolidated balance sheets. Goodwill is not amortized but is subject, at a minimum, to annual tests for impairment at a reporting unit level. Determining the amount of goodwill impairment, if any, includes assessing the current implied fair value of the reporting unit as if it were being acquired in a business combination and comparing it to the carrying amount of the reporting unit’s goodwill. There was no impairment in our goodwill for the three and nine months ended September 30, 2017. Future events that could cause a significant decline in our expected future cash flows or a significant adverse change in our business or the business climate may necessitate taking charges in future reporting periods related to the impairment of our goodwill and other intangible assets.

Other Assets

Other assets were $343.8 million as of September 30, 2017, a decrease of $18.9 million or 5% from December 31, 2016. This decrease was primarily due to a $23.4 million decrease in current taxes receivable and deferred tax assets. Also contributing to the decrease in other assets was a $7.6 million decrease in prepaid expenses and a $6.1 million decrease in clearing and suspense account balances, a result of normal banking operations. This was partially offset by a $15.6 million increase in affordable housing and other tax credit investment partnership interest and a $4.1 million increase in the fair value of our customer-related interest rate swap agreements.

Deposits

Deposits are the primary funding source for the Company and are acquired from a broad base of local markets, including both individual and corporate customers. We obtain funds from depositors by offering a range of deposit types, including demand, savings, money market and time.

Table 25 presents the composition of our deposits as of September 30, 2017 and December 31, 2016:

Deposits **Table 25**

(dollars in thousands)	September 30, 2017	December 31, 2016
Demand	**$ 5,907,634**	$ 5,992,617
Savings	**4,411,411**	4,609,306
Money Market	**2,631,311**	2,454,013
Time	**4,645,127**	3,738,596
Total Deposits	**$ 17,595,483**	$ 16,794,532

Total deposits were $17.6 billion as of September 30, 2017, an increase of $801.0 million or 5% from December 31, 2016. Increases in time and money market deposits were partially offset by decreases in savings and demand deposit balances as customers shifted balances to higher earning products.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (“repurchase agreements”), which are reflected as short-term borrowings in the unaudited consolidated balance sheets, were nil as of September 30, 2017, a decrease of $9.2 million or 100% from December 31, 2016. Balances in repurchase agreements fluctuate throughout the year based on the liquidity needs of our customers. All of our repurchase agreements at December 31, 2016 were either with the State of Hawaii or counties within the State of Hawaii.

The table below provides selected information for short-term borrowings for the nine months ended September 30, 2017 and 2016:

Table 26

(dollars in thousands)	Nine Months Ended September 30, 2017	2016
Federal funds purchased:		
Weighted-average interest rate at September 30,	**— %**	— %
Highest month-end balance	**$ 6,000**	$ —
Average outstanding balance	**$ 927**	$ 168
Weighted-average interest rate paid	**0.64 %**	0.17 %
Securities sold under agreements to repurchase:		
Weighted-average interest rate at September 30,	**— %**	0.54 %
Highest month-end balance	**$ 5,951**	$ 235,451
Average outstanding balance	**$ 1,194**	$ 147,784
Weighted-average interest rate paid	**0.41 %**	0.12 %

Pension and Postretirement Plan Obligations

We have a qualified noncontributory defined benefit pension plan, an unfunded supplemental executive retirement plan, a directors' retirement plan, a non-qualified pension plan for eligible directors and a postretirement benefit plan providing life insurance and healthcare benefits that we offer to our directors and employees, as applicable. The qualified noncontributory defined benefit pension plan, the unfunded supplemental executive retirement plan and the directors' retirement plan are all frozen plans. To calculate annual pension costs, we use the following key variables: (1) size of the employee population, length of service and estimated compensation increases; (2) actuarial assumptions and estimates; (3) expected long-term rate of return on plan assets; and (4) discount rate.

Pension and postretirement benefit plan obligations, net of pension plan assets, were $125.3 million as of September 30, 2017, an increase of $4.0 million or 3% from December 31, 2016. This increase was primarily due to net periodic benefit costs for the nine months ended September 30, 2017 of $9.7 million, partially offset by payments of $5.7 million.

See ''Note 13. Benefit Plans'' contained in our unaudited interim 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 September 30, 2017, aggregate cross-border outstandings in countries which amounted to 0.75% to 1% of our total consolidated assets was approximately $169.6 million to Japan. As of December 31, 2016, aggregate cross-border outstandings in countries which amounted to 0.75% to 1% of our total consolidated assets was approximately $151.9 million to Canada. There were no cross-border outstandings in excess of 1% of our total consolidated assets as of both September 30, 2017 and December 31, 2016.

Capital

In July 2013, the federal bank regulators approved final rules (the ''New Capital Rules''), implementing the Basel Committee on Banking Supervision's December 2010 final capital framework for strengthening international capital standards, known as Basel III, and various provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Subject to a phase-in period for various provisions, the New Capital Rules became effective for us and for the Bank on January 1, 2015. The New Capital Rules require bank holding companies and their bank subsidiaries to maintain substantially more capital than previously required, with a greater emphasis on common equity. The New Capital Rules, among other things, (i) introduce a new capital measure called ''Common Equity Tier 1'' (''CET1''), (ii) specify that Tier 1 capital consists of CET1 and ''Additional Tier 1 capital'' instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments to capital as compared to prior regulations.

The phase-in period became effective for the Company on January 1, 2015 when banks were required to maintain 4.5% of CET1 to risk-weighted assets, 6.0% of Tier 1 Capital to risk-weighted assets, and 8.0% of Total Capital to risk-weighted assets. On that date, the deductions from CET1 capital were limited to 40% of the final phased-in deductions. Implementation of the deductions and other adjustments to CET1 is being phased-in over a five year period which began on January 1, 2015. Implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and is being phased-in over a four year period (increasing each subsequent January 1st by the same amount until it reaches 2.5% on January 1, 2019).

As of September 30, 2017, our capital levels remained characterized as ''well capitalized'' under the New Capital Rules. Our regulatory capital ratios, calculated in accordance with the New Capital Rules, are presented in Table 27 below.

There have been no conditions or events since September 30, 2017 that management believes have changed either the Company's or the Bank's capital classifications.

Regulatory Capital		**Table 27**
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Stockholders' Equity	**$ 2,581,858**	$ 2,476,485
Less:		
Goodwill	**995,492**	995,492
Accumulated other comprehensive loss, net	**(67,114)**	(88,011)
Common Equity Tier 1 Capital and Tier 1 Capital	**$ 1,653,480**	$ 1,569,004
Add:		
Allowable Reserve for Loan and Lease Losses	**137,927**	136,094
Total Capital	**$ 1,791,407**	$ 1,705,098
Risk-Weighted Assets	**$ 13,007,473**	$ 12,307,895
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	**12.71 %**	12.75 %
Tier 1 Capital Ratio	**12.71 %**	12.75 %
Total Capital Ratio	**13.77 %**	13.85 %
Tier 1 Leverage Ratio	**8.66 %**	8.36 %

Total stockholders' equity was $2.6 billion as of September 30, 2017, an increase of $105.4 million or 4% from December 31, 2016. The change in stockholders' equity was primarily due to earnings for the nine months ended September 30, 2017 of $172.0 million, partially offset by dividends declared and paid of $92.1 million during the nine months ended September 30, 2017 to the Company's shareholders.

In October 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.22 per share on our outstanding shares. The dividend will be paid on December 8, 2017 to shareholders of record at the close of business on November 27, 2017.

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. 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. Based on our analysis, we have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs.

Guarantees

We sell residential mortgage loans in the secondary market primarily to Fannie Mae or Freddie Mac. The agreements under which we sell residential mortgage loans to Fannie Mae or Freddie Mac 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 September 30, 2017 and December 31, 2016, the unpaid principal balance of our portfolio of residential mortgage loans sold was $2.4 billion and $2.7 billion, respectively. The agreements under which we sell 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, we 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 in the origination of those loans. Upon receipt of a repurchase request, we work with investors 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 to determine if a contractually required repurchase event has occurred. We manage the risk associated with potential repurchases or other forms of settlement through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. For the nine months ended September 30, 2017, there were no repurchases of residential mortgage loans, nor were there any pending repurchase requests as of September 30, 2017.

In addition to servicing loans in our portfolio, substantially all of the loans we sell to investors are sold with servicing rights retained. We also service loans originated by other mortgage loan originators. As servicer, our 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 loan modifications or short sales. Each agreement under which we act as servicer generally specifies a standard of responsibility for actions taken by us in such capacity 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 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 nine months ended September 30, 2017, we had no repurchase requests related to loan servicing activities, nor were there any pending repurchase requests as of September 30, 2017.

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 September 30, 2017, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of September 30, 2017, 99% of our residential mortgage loans serviced for investors were current. We maintain ongoing communications with investors and continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in our loans sold to investors.

Contractual Obligations

Our contractual obligations have not changed materially since previously reported as of December 31, 2016. However, as noted above, in connection with our transition to a stand-alone public company and our continued separation from BNPP, we expect to incur higher costs, resulting in higher purchase obligations, in future periods from higher pricing of services by third-party vendors whose future contracts with us do not reflect BOW's volumes or the benefits of BNPP bargaining power. Currently, we are not able to reasonably estimate the future amount and timing of these higher purchase obligations.

Future Application of Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of September 30, 2017, see "Note 1. Organization and Basis of Presentation - Recent Accounting Pronouncements" to the unaudited interim consolidated financial statements for more information.

Risk Governance and Quantitative and Qualitative Disclosures About Market Risk

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. See "Analysis of Financial Condition — Liquidity" and "—Capital" sections of MD&A for further discussions of liquidity risk management and capital management, respectively.

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, real estate 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.

Management has identified three categories of loans that we use to develop our systematic methodology to determine the Allowance: commercial, residential real estate and consumer.

Commercial lending is further categorized into four distinct classes based on characteristics relating to the borrower, transaction and collateral. These classes are: commercial and industrial, commercial real estate, construction and lease financing. Commercial and industrial loans are primarily for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes by medium to larger Hawaii based corporations, as well as U.S. mainland and international companies. Commercial and industrial loans are typically secured by non-real estate assets whereby the collateral is trading assets, enterprise value or inventory. As with many of our customers, our commercial and industrial loan customers are heavily dependent on tourism, government expenditures and real estate values. Commercial real estate loans are secured by real estate, including but not limited to structures and facilities to support activities designated as retail, health care, general office space, warehouse and industrial space. Our bank's underwriting policy generally requires that net cash flows from the property be sufficient to service the debt while still maintaining an appropriate amount of reserves. Commercial real estate loans in Hawaii are characterized by having a limited supply of real estate at commercially attractive locations, long delivery time frames for development and high interest rate sensitivity. Our construction lending portfolio consists primarily of land loans, single family and condominium development loans. Financing of construction loans is subject to a high degree of credit risk given the long delivery time frames for such projects. Construction lending activities are underwritten on a project financing basis whereby the cash flows or lease rents from the underlying real estate collateral or the sale of the finished inventory is the primary source of repayment. Market feasibility analysis is typically performed by assessing market comparables, market conditions and demand in the specific lending area and general community. We require presales of finished inventory prior to loan funding. However, because this analysis is typically performed on a forward looking basis, real estate construction projects typically present a higher risk profile in our lending activities. Lease financing activities include commercial single investor leases and leveraged leases used to purchase items ranging from computer equipment to transportation equipment. Underwriting of new leasing arrangements typically includes analyzing customer cash flows, evaluating secondary sources of repayment such as the value of the leased asset, the guarantors' net cash flows as well as other credit enhancements provided by the lessee.

Residential real estate is not further categorized into classes, but consists of loans secured by 1-4 family residential properties and home equity lines of credit and loans. Our bank's underwriting standards typically require LTV ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk. Residential mortgage loan production is added to our loan portfolio or is sold in the secondary market, based on management's evaluation of our liquidity, capital and loan portfolio mix as well as market conditions. Changes in interest rates, the economic environment and other market factors have impacted, and will likely continue to impact, the marketability and value of collateral and the financial condition of our borrowers which impacts the level of credit risk inherent in this portfolio, although we remain a supply constrained housing environment in Hawaii. Geographic concentrations exist for this portfolio as nearly all residential mortgage loans and home equity lines of credit and loans outstanding are for residences located in Hawaii, Guam or Saipan. These island locales are susceptible to a wide array of potential natural disasters including, but not limited to, hurricanes, floods, tsunamis and earthquakes. 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 repayment ability via debt to income ratios, LTV ratios and credit scores.

Consumer lending is further categorized into the following classes of loans: credit cards, automobile loans and other consumer-related installment loans. Consumer loans are either unsecured or secured by the borrower's personal assets. The average loan size is generally small and risk is diversified among many borrowers. We offer a wide array of credit cards for business and personal use. In general, our customers are attracted to our credit card offerings on the basis of price, credit limit, reward programs and other product features. Credit card underwriting decisions are generally based on repayment ability of our borrower via DTI ratios, credit bureau information, including payment history, debt burden and credit scores, such as FICO, and analysis of financial capacity. Automobile lending activities include loans and leases secured by new or used automobiles. We originate the majority of our automobile loans and leases on an indirect basis through selected dealerships. 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 or lease. 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. Installment loans consist of open and closed end facilities for personal and household purchases. We seek to maintain reasonable levels of risk in installment lending by following prudent underwriting guidelines which include an evaluation of personal credit history and cash flow.

In addition to geographic concentration risk, we also monitor our exposure to industry risk. While the Bank and our customers could be adversely impacted by events affecting the tourism industry, we also monitor our other industry exposures, including but not limited to our exposures in the oil, gas and energy industries. As of September 30, 2017 and December 31, 2016, we did not have material exposures to customers in the oil, gas and energy industries.

Market Risk

Market risk is the potential of loss arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices, including the correlation among these factors and their volatility. When the value of an instrument is tied to such external factors, the holder faces market risk. We are exposed to market risk primarily from interest rate risk, which is defined as the risk of loss of net interest income or net interest margin because of changes in interest rates.

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. In the banking industry, changes in interest rates can significantly impact earnings and the safety and soundness of an entity.

Interest rate risk arises primarily from our core business activities of extending loans and accepting deposits. This occurs when our interest earning loans and interest bearing deposits mature or reprice at different times, on a different basis or in unequal amounts. Interest rates may also affect loan demand, credit losses, mortgage origination volume, pre- payment speeds and other items affecting earnings.

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 United States and its agencies, particularly the Federal Reserve. The monetary policies of the Federal Reserve can influence the overall growth of loans, investment securities and deposits and the level of interest rates earned on assets and paid for liabilities.

Market Risk Measurement

We primarily use net interest income simulation analysis to measure and analyze interest rate risk. We run various hypothetical interest rate scenarios at least monthly and compare these results against a measured base case scenario. Our net interest income simulation analysis incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results. These assumptions include: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market rate sensitive instruments on and off balance sheet, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios and (6) overall increase or decrease in the size of the balance sheet and product mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset liability management strategies to manage our interest rate risk.

Table 28 presents, for the twelve months subsequent to September 30, 2017 and December 31, 2016, an estimate of the change in net interest income that would result from an immediate change in market interest rates, moving in a parallel fashion over the entire yield curve, relative to the base case scenario. The base case scenario assumes that interest rates are generally unchanged. We evaluate the sensitivity by using: 1) a dynamic forecast, incorporating expected changes in the balance sheet, and 2) a static forecast, where the balance sheet as of September 30, 2017 and December 31, 2016 is held constant.

Net Interest Income Sensitivity Profile - Estimated Percentage Change Over 12 Months				Table 28
	Dynamic Forecast as of September 30, 2017	**Static Forecast as of September 30, 2017**	**Dynamic Forecast as of December 31, 2016**	**Static Forecast as of December 31, 2016**
Immediate Change in Interest Rates (basis points)				
+200	**7.4 %**	**11.3 %**	8.6 %	11.9 %
+100	**4.5**	**5.7**	4.5	5.8
(100)	**(5.5)**	**(6.4)**	(6.0)	(6.8)

The table above shows the effects of a simulation which estimates the effect of an immediate and sustained parallel shift in the yield curve of −100, +100 and +200 basis points in market interest rates over a 12 month period on our net interest income. One declining interest rate scenario and two rising interest rate scenarios were selected as shown in the table and net interest income was calculated and compared to the base case scenario, as described above.

Under the dynamic balance sheet forecasts, the change in net interest income from the base case scenario as of September 30, 2017 was generally lower or less sensitive as compared to similar projections made as of December 31, 2016. This was, in part, due to our larger investment securities portfolio as well as our larger fixed rate residential real estate loan portfolio as of September 30, 2017 compared to December 31, 2016.

Under the static balance sheet forecasts, larger sensitivities are experienced under all scenarios as expected changes in the deposit mix are not reflected in the forecast over the next 12 months.

We also have longer term interest rate risk exposures which may not be appropriately measured by net interest income simulation analysis. We use market value of equity (“MVE”) sensitivity analysis to study the impact of long term cash flows on earnings and capital. MVE involves discounting present values of all cash flows of on balance sheet and off balance sheet items under different interest rate scenarios. The discounted present value of all cash flows represents our MVE. MVE analysis requires modifying the expected cash flows in each interest rate scenario, which will impact the discounted present value. The amount of base case measurement and its sensitivity to shifts in the yield curve allows management to measure longer term repricing option risk in the balance sheet.

We also analyze the historical sensitivity of our interest bearing transaction accounts to determine the portion that it classifies as interest rate sensitive versus the portion classified over one year. This analysis divides interest bearing assets and liabilities into maturity categories and measures the “GAP” between maturing assets and liabilities in each category.

Limitations of Market Risk Measures

The results of our simulation analyses are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short term liabilities re-price faster than expected or faster than our assets re-price. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposits or if our mix of assets and liabilities otherwise changes. For example, while we maintain relatively large cash balances with the FRB, a faster than expected withdrawal of deposits out of the bank may cause us to seek higher cost sources of funding. Actual results could also differ from those projected if we experience substantially different prepayment speeds in our loan portfolio than those assumed in the simulation analyses. Finally, these simulation results do not consider all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding or hedging strategies.

Market Risk Governance

We seek to achieve consistent growth in net interest income and capital while managing volatility arising from changes in market interest rates. The objective of our interest rate risk management process is to increase net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

To manage the impact on net interest income, we manage our exposure to changes in interest rates through our asset and liability management activities within guidelines established by our ALCO and approved by our board of directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO management policies, including interest rate risk exposures. 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.

Through review and oversight by the ALCO, we attempt to engage in strategies that neutralize interest rate risk as much as possible. Our use of derivative financial instruments, as detailed in “Note 10. Derivative Financial Instruments” to the unaudited interim 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.

Management uses the results of its various simulation analyses to formulate strategies to achieve a desired risk profile within the parameters of our capital and liquidity guidelines.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (such as natural disasters), or compliance, reputational or legal matters, including the risk of loss resulting from fraud, litigation and breaches in data security. Operational risk is inherent in all of our business ventures and the management of that risk is important to the achievement of our objectives. We have a framework in place that includes the reporting and assessment of any operational risk events, and the assessment of our mitigating strategies within our key business lines. This framework is implemented through our policies, processes and reporting requirements. We measure and report operational risk using the seven operational risk event types projected by the Basel Committee on Banking Supervision in Basel II: (1) external fraud; (2) internal fraud; (3) employment practices and workplace safety; (4) clients, products and business practices; (5) damage to physical assets; (6) business disruption and system failures; and (7) execution, delivery and process management. Our operational risk review process is also a core part of our assessment of material new products or activities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Risk Governance and Quantitative and Qualitative Disclosures About Market Risk.”

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2017. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’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 Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company operates in a highly regulated environment. From time to time, the Company is party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows, or capital levels. For additional information, see the discussion related to contingencies in “Note 11. Commitments and Contingent Liabilities” in our consolidated financial statements under “Part I, Item 1. Financial Statements.”

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 5. OTHER INFORMATION

Information Required Pursuant to Section 13(r) of the Securities Exchange Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 amended Section 13 of the Securities Exchange Act of 1934 (the “Exchange Act”) to add new subsection (r), which requires disclosure if, during the reporting period, the issuer or any of its affiliates has knowingly engaged in certain specified activities involving Iran or other persons targeted by the United States sanctions programs related to terrorism (Executive Order 13224) or the proliferation of weapons of mass destruction (Executive Order 13382). Disclosure is generally required even if the activities were conducted outside the United States by non-U.S. entities in compliance with applicable law. First Hawaiian, Inc. and its Subsidiary (the “Company”) have not engaged in any activities that would require reporting under Section 13(r) of the Exchange Act. However, the Company is controlled by BNP Paribas and under common control with BNP Paribas’ affiliates (collectively “BNPP”). To help the Company comply with Section 13(r) of the Exchange Act, BNPP has requested relevant information from its affiliates globally, and it has provided the following information to the Company:

BNPP is committed to economic sanctions compliance, the prevention of money laundering and the fight against corruption and terrorist financing. As part of these efforts, BNPP has adopted and maintains a risk-based compliance program reasonably designed to ensure conformity with applicable anti-money laundering, anti-corruption, counter-terrorist financing, and sanctions laws and regulations in the territories in which BNPP operates.

Legacy agreements: In the past, BNPP has issued and participates in legacy guarantees and other financing arrangements that supported various projects, including the construction of petrochemical plants in Iran. Some of these financing arrangements had counterparties that were entities or instrumentalities of the Government of Iran, involved Iranian banks that were subsequently sanctioned pursuant to Executive Orders 13224 or 13382, or involved a Syrian entity that was subsequently sanctioned pursuant to Executive Order 13382. BNPP continues to have obligations under these arrangements and has made efforts to close the positions which remain outstanding in accordance with applicable law. BNPP received gross revenues of approximately EUR 12.5 million for the three months ended September 30, 2017 in connection with these projects, with a net profit of less than that amount, which were mainly comprised of repayments and fees on those legacy guarantees and other financing arrangements.

Other relationships with Iranian banks: Until August 1, 2017, BNPP maintained a safe deposit box in Italy for the Rome branch of an Iranian government-owned bank. There was no gross revenue to BNPP during the reporting period for this activity.

Clearing systems: As part of its operations and in conformance with applicable law, BNPP participates in various local clearing and settlement exchange systems. Iranian government-owned banks also participate in some of these clearing systems and may act as counterparty banks. BNPP intends to continue to participate in the local clearing and settlement exchange systems in various countries. There was no measurable gross revenue or net profit generated by this activity for BNPP during the reporting period.

Restricted accounts and transactions: BNPP maintains various accounts that are blocked or restricted for sanctions-related reasons, for which no activity took place during the reporting period, except for the crediting of interest or the deduction of standard account charges, in accordance with applicable law. During the fourth quarter of 2016, BNPP froze payments where required under relevant sanctions programs. BNPP will continue to hold these assets in a blocked or restricted status, as applicable laws may require or permit.

ITEM 6. EXHIBITS

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

Exhibit Index

Exhibit Number	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of 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.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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: October 26, 2017		First Hawaiian, Inc.
	By:	/s/ Robert S. Harrison
		Robert S. Harrison Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Michael Ching
		Michael Ching Chief Financial Officer and Treasurer (Principal Financial Officer)

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, Robert S. Harrison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Hawaiian, Inc.;

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)) 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) 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

   c) 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 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 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: October 26, 2017

/s/ Robert S. Harrison
Robert S. Harrison
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

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, Michael Ching, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Hawaiian, Inc.;

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)) 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) 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

    c) 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 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 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: October 26, 2017

/s/ Michael Ching
Michael Ching
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of First Hawaiian, Inc. (the "Company") for the quarter ended September 30, 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: October 26, 2017

/s/ Robert S. Harrison
Robert S. Harrison
Chairman of the Board and Chief Executive Officer
(Principal Executive 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 U.S. Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of First Hawaiian, Inc. (the "Company") for the quarter ended September 30, 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: October 26, 2017

/s/ Michael Ching
Michael Ching
Chief Financial Officer and Treasurer
(Principal 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 U.S. Securities and Exchange Commission or its staff upon request.