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 March 31, 2019

or

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

For the transition period from ______ to ______

Commission File Number 001-14585

FIRST HAWAIIAN, INC.

(Exact Name of Registrant as Specified in its 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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☐	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: 135,012,015 shares of Common Stock, par value $0.01 per share, were outstanding as of April 18, 2019.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(dollars in thousands, except per share amounts)	Three Months Ended March 31, 2019	2018
Interest income		
Loans and lease financing	**$ 144,406**	$ 123,551
Available-for-sale securities	**24,486**	28,993
Other	**3,669**	2,392
Total interest income	**172,561**	154,936
Interest expense		
Deposits	**23,197**	15,264
Short-term and long-term borrowings	**4,275**	—
Total interest expense	**27,472**	15,264
Net interest income	**145,089**	139,672
Provision for loan and lease losses	**5,680**	5,950
Net interest income after provision for loan and lease losses	**139,409**	133,722
Noninterest income		
Service charges on deposit accounts	**8,060**	7,955
Credit and debit card fees	**16,655**	15,497
Other service charges and fees	**9,129**	9,342
Trust and investment services income	**8,618**	8,231
Bank-owned life insurance	**3,813**	2,044
Investment securities losses, net	**(2,613)**	—
Other	**3,410**	5,631
Total noninterest income	**47,072**	48,700
Noninterest expense		
Salaries and employee benefits	**44,860**	42,160
Contracted services and professional fees	**13,645**	12,287
Occupancy	**6,986**	6,484
Equipment	**4,284**	4,588
Regulatory assessment and fees	**1,447**	3,973
Advertising and marketing	**1,966**	951
Card rewards program	**6,732**	5,718
Other	**12,703**	14,426
Total noninterest expense	**92,623**	90,587
Income before provision for income taxes	**93,858**	91,835
Provision for income taxes	**23,934**	23,877
Net income	**$ 69,924**	$ 67,958
Basic earnings per share	**$ 0.52**	$ 0.49
Diluted earnings per share	**$ 0.52**	$ 0.49
Basic weighted-average outstanding shares	**134,879,336**	139,600,712
Diluted weighted-average outstanding shares	**135,198,345**	139,732,100

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

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

(dollars in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	**$ 69,924**	$ 67,958
Other comprehensive income (loss), net of tax:		
Net change in investment securities	**53,441**	(48,777)
Net change in cash flow derivative hedges	**—**	544
Other comprehensive income (loss)	**53,441**	(48,233)
Total comprehensive income	**$ 123,365**	$ 19,725

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

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

(dollars in thousands, except share amount)	March 31, 2019	December 31, 2018
Assets		
Cash and due from banks	**$ 336,555**	$ 396,836
Interest-bearing deposits in other banks	**281,312**	606,801
Investment securities	**4,485,660**	4,498,342
Loans held for sale	**—**	432
Loans and leases	**13,197,454**	13,076,191
Less: allowance for loan and lease losses	**141,546**	141,718
Net loans and leases	**13,055,908**	12,934,473
Premises and equipment, net	**310,902**	304,996
Other real estate owned and repossessed personal property	**124**	751
Accrued interest receivable	**49,489**	48,920
Bank-owned life insurance	**447,936**	446,076
Goodwill	**995,492**	995,492
Mortgage servicing rights	**15,399**	16,155
Other assets	**462,359**	446,404
Total assets	**$ 20,441,136**	$ 20,695,678
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	**$ 10,951,764**	$ 11,142,127
Noninterest-bearing	**5,843,480**	6,007,941
Total deposits	**16,795,244**	17,150,068
Long-term borrowings	**600,028**	600,026
Retirement benefits payable	**127,845**	127,909
Other liabilities	**304,817**	292,836
Total liabilities	**17,827,934**	18,170,839
Commitments and contingent liabilities (Note 12)		
Stockholders' equity		
Common stock ($0.01 par value; authorized 300,000,000 shares; issued/outstanding: 139,851,508 / 135,012,015 as of March 31, 2019; issued/outstanding: 139,656,674 / 134,874,302 as of December 31, 2018)	**1,399**	1,397
Additional paid-in capital	**2,497,770**	2,495,853
Retained earnings	**326,451**	291,919
Accumulated other comprehensive loss, net	**(78,754)**	(132,195)
Treasury stock (4,839,493 shares as of March 31, 2019 and 4,782,372 shares as of December 31, 2018)	**(133,664)**	(132,135)
Total stockholders' equity	**2,613,202**	2,524,839
Total liabilities and stockholders' equity	**$ 20,441,136**	$ 20,695,678

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

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

(dollars in thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance as of December 31, 2017	139,588,782	$ 1,396	$ 2,488,643	$ 139,177	$ (96,383)	$ (282)	$ 2,532,551
Net income	—	—	—	67,958	—	—	67,958
Cash dividends declared ($0.24 per share)	—	—	—	(33,504)	—	—	(33,504)
Common stock issued under Employee Stock Purchase Plan	12,341	—	342	—	—	—	342
Equity-based awards	—	—	1,925	(177)	—	—	1,748
Adoption of Accounting Standards Update No. 2018-02	—	—	—	20,068	(20,068)	—	—
Other comprehensive loss, net of tax	—	—	—	—	(48,233)	—	(48,233)
Balance as of March 31, 2018	139,601,123	$ 1,396	$ 2,490,910	$ 193,522	$ (164,684)	$ (282)	$ 2,520,862
Balance as of December 31, 2018	134,874,302	$ 1,397	$ 2,495,853	$ 291,919	$ (132,195)	$ (132,135)	$ 2,524,839
Net income	—	—	—	**69,924**	—	—	**69,924**
Cash dividends declared ($0.26 per share)	—	—	—	**(35,067)**	—	—	**(35,067)**
Equity-based awards	**137,713**	**2**	**1,917**	**(325)**	—	**(1,529)**	**65**
Other comprehensive income, net of tax	—	—	—	—	**53,441**	—	**53,441**
Balance as of March 31, 2019	**135,012,015**	**$ 1,399**	**$ 2,497,770**	**$ 326,451**	**$ (78,754)**	**$ (133,664)**	**$ 2,613,202**

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

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

(dollars in thousands)	Three Months Ended March 31, 2019	2018
Cash flows from operating activities		
Net income	**$ 69,924**	$ 67,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**5,680**	5,950
Depreciation, amortization and accretion, net	**14,588**	13,220
Deferred income taxes	**16,461**	7,511
Stock-based compensation	**1,594**	1,748
Other gains	**(26)**	(13)
Originations of loans held for sale	**(745)**	(862)
Proceeds from sales of loans held for sale	**1,199**	465
Net gains on sales of loans held for sale	**(22)**	—
Net losses on investment securities	**2,613**	—
Change in assets and liabilities:		
Net increase in other assets	**(1,293)**	(4,869)
Net decrease in other liabilities	**(46,569)**	(37,891)
Net cash provided by operating activities	**63,404**	53,217
Cash flows from investing activities		
Available-for-sale securities:		
Proceeds from maturities and principal repayments	**142,954**	218,941
Proceeds from sales	**863,053**	—
Purchases	**(927,606)**	(130,252)
Other investments:		
Proceeds from sales	**2,063**	2,285
Purchases	**(2,211)**	(4,403)
Loans:		
Net increase in loans and leases resulting from originations and principal repayments	**(51,823)**	(189,496)
Proceeds from sales of loans originated for investment	**—**	570
Purchases of loans	**(76,451)**	—
Proceeds from bank-owned life insurance	**1,953**	—
Purchases of premises, equipment and software	**(9,571)**	(3,446)
Purchases of mortgage servicing rights	**—**	(6,444)
Proceeds from sales of other real estate owned	**653**	332
Other	**(768)**	(594)
Net cash used in investing activities	**(57,754)**	(112,507)
Cash flows from financing activities		
Net decrease in deposits	**(354,824)**	(249,700)
Dividends paid	**(35,067)**	(33,504)
Stock tendered for payment of withholding taxes	**(1,529)**	—
Proceeds from employee stock purchase plan	**—**	342
Net cash used in financing activities	**(391,420)**	(282,862)
Net decrease in cash and cash equivalents	**(385,770)**	(342,152)
Cash and cash equivalents at beginning of period	**1,003,637**	1,034,644
Cash and cash equivalents at end of period	**$ 617,867**	$ 692,492
Supplemental disclosures		
Interest paid	**$ 27,398**	$ 15,100
Income taxes paid, net of income tax refunds	**4,883**	189
Noncash investing and financing activities:		
Transfers from loans and leases to loans held for sale	**—**	4

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

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

1. Organization and Basis of Presentation

First Hawaiian, Inc. (“FHI” or the “Parent”), 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. FHB offers a comprehensive suite of banking services to consumer and commercial customers including loans, deposit products, wealth management, insurance, trust, retirement planning, credit card and merchant processing services.

The accompanying unaudited interim 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 interim 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, 2018.

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.

Transition to an Independent Public Company

On July 1, 2016, FHI became a direct wholly owned subsidiary of BancWest Corporation (“BWC”), a Delaware corporation and an indirect wholly owned subsidiary of BNP Paribas (“BNPP”). In connection with FHI’s initial public offering (“IPO”) in August 2016, BNPP announced its intent to sell its interest in FHI, including FHI’s wholly owned subsidiary, FHB, over time, subject to market conditions and other considerations. BNPP, through FHI’s IPO completed on August 9, 2016 and secondary offerings completed on February 17, 2017, May 10, 2018, August 1, 2018 and September 10, 2018, sold, in the aggregate (inclusive of sales pursuant to the underwriters’ exercise of overallotment options in connection with such secondary sales), 109,830,000 shares of FHI common stock to the public. Concurrently with two of the secondary offerings in 2018, FHI entered into share repurchase agreements with BWC, to repurchase, in the aggregate, 4,769,870 shares of FHI common stock.

On February 1, 2019, BWC completed the sale of its remaining 24,859,750 shares of FHI common stock in a public offering. FHI did not receive any of the proceeds from the sales of shares of FHI common stock in that offering, in any of the secondary offerings described above or the IPO. As a result of the completion of the February 1, 2019 public offering, BNPP (through BWC, the selling stockholder) fully exited its ownership interest in FHI common stock.

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 2019

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. This guidance provides that lessees will be required to recognize the following for all operating 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. The Company adopted the provisions of ASU No. 2016-02 on January 1, 2019 and elected several practical expedients made available by the FASB. Specifically, the Company elected the transition practical expedient to not recast comparative periods upon the adoption of the new guidance. In addition, the Company elected the package of practical expedients which among other things, requires no reassessment of whether existing contracts are or contain leases as well as no reassessment of lease classification for existing leases and the practical expedient which permits the Company to not separate nonlease components from lease components in determining the consideration in the lease agreement when the Company is a lessee and a lessor. The Company identified the primary lease agreements in scope of this new guidance as those relating to branch premises. As a result, the Company recognized a lease liability of $50.3 million and a related right-of-use asset of $50.6 million on its consolidated balance sheet on January 1, 2019. See "Note 15. Leases" for required disclosures related to this new guidance.

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*. Prior to the adoption of ASU No. 2017-08, entities typically amortized 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. The Company adopted the provisions of ASU No. 2017-08 on January 1, 2019, and it did not 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*. The objectives of the new guidance are to: (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities, and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. Historically, the Company has participated in limited activities in fair value and cash flow hedging relationships. As a result, the adoption of ASU No. 2017-12 on January 1, 2019, did not have a material impact on the Company's consolidated financial statements. See "Note 11. Derivative Financial Instruments" for required disclosures related to this new guidance.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This guidance aligns the accounting for implementation costs related to a hosting arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Common examples of hosting arrangements include software as a service, platform or infrastructure as a service and other similar types of hosting arrangements. While capitalized costs related to internal-use software is generally considered an intangible asset, costs incurred to implement a cloud computing arrangement that is a service contract would typically be characterized in the company's financial statements in the same manner as other service costs (e.g., prepaid expense). The new guidance provides that an entity would be required to amortize capitalized implementation costs over the term of the hosting arrangement on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from access to the hosted software. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with earlier adoption permitted in any annual or interim period for which financial statements have not yet been issued or made available for issuance. The Company early adopted the provisions of ASU No. 2018-15 on January 1, 2019 due to the Company's shift towards utilizing more hosting arrangements that are service contracts. The adoption of ASU No. 2018-15 did not have a material impact on the Company's consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-16, *Derivatives and Hedging (Topic 815), Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. This update expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting by adding the OIS rate based on the SOFR. Due to concerns about the sustainability of the London Interbank Offered Rate ("LIBOR"), a committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York initiated an effort to introduce an alternative reference rate in the U.S. The committee identified SOFR as the preferred alternative reference rate to LIBOR. The OIS rate based on SOFR was added as a U.S. benchmark interest rate to facilitate broader use in the marketplace and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies. The Company adopted the provisions of ASU No. 2018-16 on January 1, 2019 and it 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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This guidance eliminates the probable recognition threshold for credit losses on financial assets measured at amortized cost. 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. CECL 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 guidance requires entities to record a cumulative effect adjustment to the consolidated 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 new guidance will require significant operational changes, particularly in data collection and analysis. The Company has formed a working group comprised of teams from different disciplines, including credit, finance and information technology, to evaluate the requirements of the new standard and the impact it will have on the Company's current processes. Management has evaluated the Company's existing credit loss forecasting models to determine their appropriateness for CECL, has performed a data gap analysis, and is developing analytical approaches to determine CECL model inputs. The Company has also engaged a software vendor and is in the final stages of implementing a CECL production platform. However, as the impact of adopting the new guidance is expected to be heavily influenced by an assessment of the composition, characteristics, and credit quality of the Company's loan and investment securities portfolio as well as the economic conditions in effect at the adoption date, management is currently unable to reasonably estimate the impact of adopting the new standard.

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 August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance is a part of the FASB's disclosure framework project to improve disclosure effectiveness. This guidance eliminates certain disclosure requirements for fair value measurements: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, an entity's policy for the timing of transfers between levels of the fair value hierarchy and an entity's valuation processes for Level 3 fair value measurements. This guidance also adds new disclosure requirements for public entities: changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements of instruments held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop recurring and nonrecurring Level 3 fair value measurements, including how the weighted average is calculated. Furthermore, this guidance modifies certain requirements which will involve disclosing: transfers into and out of Level 3 of the fair value hierarchy, purchases and issuances of Level 3 assets and liabilities, and information about the measurement uncertainty of Level 3 fair value measurements as of the reporting date. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

2. Investment Securities

As of March 31, 2019 and December 31, 2018, 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 agencies and government-sponsored enterprises.

Mortgage-backed securities – includes securities backed by notes or receivables secured by mortgage 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.

Debt securities issued by states and political subdivisions – includes general obligation bonds issued by state and local governments.

As of March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019				December 31, 2018			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ 389,470	$ —	$ —	$ 389,470
Government agency debt securities	**24,778**	—	**(13)**	**24,765**	—	—	—	—
Government-sponsored enterprises debt securities	**164,718**	—	**(3,123)**	**161,595**	248,372	—	(6,778)	241,594
Government agency mortgage-backed securities	**377,960**	—	**(6,925)**	**371,035**	426,710	—	(15,174)	411,536
Government-sponsored enterprises mortgage-backed securities	**131,884**	**71**	**(4,059)**	**127,896**	156,056	85	(5,294)	150,847
Collateralized mortgage obligations:								
Government agency	**2,778,862**	**1,404**	**(50,100)**	**2,730,166**	2,779,620	—	(97,171)	2,682,449
Government-sponsored enterprises	**1,076,399**	**4,607**	**(10,803)**	**1,070,203**	620,337	—	(17,745)	602,592
Debt securities issued by states and political subdivisions	—	—	—	—	19,854	—	—	19,854
Total available-for-sale securities	**$ 4,554,601**	**$ 6,082**	**$ (75,023)**	**$ 4,485,660**	$ 4,640,419	$ 85	$ (142,162)	$ 4,498,342

Proceeds from calls and sales of investment securities were nil and $863.1 million, respectively, for the three months ended March 31, 2019. Proceeds from both calls and sales of investment securities were nil for the three months ended March 31, 2018. The Company recorded gross realized gains of nil and gross realized losses of $2.6 million for the three months ended March 31, 2019. The Company recorded no gross realized gains and no gross realized losses for the three months ended March 31, 2018. The income tax benefit related to the Company's net realized loss on the sale of investment securities was $0.7 million and nil for the three months ended March 31, 2019 and 2018, respectively. Gains and losses realized on sales of securities are determined using the specific identification method.

Interest income from taxable investment securities was $24.5 million and $28.9 million for the three months ended March 31, 2019 and 2018, respectively. Interest income from non-taxable investment securities was nil and $0.1 million during the three months ended March 31, 2019 and 2018, respectively.

The amortized cost and fair value of debt securities issued by government-sponsored enterprises as of March 31, 2019, by contractual maturity, are shown below. Debt securities issued by government agencies, mortgage-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)	March 31, 2019 Amortized Cost	March 31, 2019 Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	99,992	98,193
Due after five years through ten years	64,726	63,402
Due after ten years	—	—
	164,718	161,595
Government agency debt securities	24,778	24,765
Government agency mortgage-backed securities	377,960	371,035
Government-sponsored enterprises mortgage-backed securities	131,884	127,896
Collateralized mortgage obligations:		
Government agency	2,778,862	2,730,166
Government-sponsored enterprises	1,076,399	1,070,203
Total mortgage-backed securities and collateralized mortgage obligations	4,389,883	4,324,065
Total available-for-sale securities	$ 4,554,601	$ 4,485,660

At March 31, 2019, pledged securities totaled $2.0 billion, of which $1.8 billion was pledged to secure public deposits and $209.5 million was pledged to secure other financial transactions. At December 31, 2018, pledged securities totaled $2.0 billion, of which $1.7 billion was pledged to secure public deposits and $232.7 million was pledged to secure other financial transactions.

The Company held no securities of any single issuer, other than debt securities issued by the U.S. government, government agencies and government-sponsored enterprises, taken in the aggregate, which were in excess of 10% of stockholders' equity as of March 31, 2019 and December 31, 2018.

The following table presents the unrealized gross losses and fair values of securities in the available-for-sale portfolio by length of time that the 160 and 154 individual securities in each category have been in a continuous loss position as of March 31, 2019 and December 31, 2018, respectively. The unrealized losses on investment securities were 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 March 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Government agency debt securities	$ (13)	$ 24,765	$ —	$ —	$ (13)	$ 24,765
Government-sponsored enterprises debt securities	—	—	(3,123)	161,595	(3,123)	161,595
Government agency mortgage-backed securities	—	—	(6,925)	371,035	(6,925)	371,035
Government-sponsored enterprises mortgage-backed securities	—	—	(4,059)	123,430	(4,059)	123,430
Collateralized mortgage obligations:						
Government agency	(327)	99,455	(49,773)	2,417,727	(50,100)	2,517,182
Government-sponsored enterprises	(450)	138,465	(10,353)	449,284	(10,803)	587,749
Total available-for-sale securities with unrealized losses	$ (790)	$ 262,685	$ (74,233)	$ 3,523,071	$ (75,023)	$ 3,785,756

	Time in Continuous Loss as of December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Government-sponsored enterprises debt securities	$ —	$ —	$ (6,778)	$ 157,939	$ (6,778)	$ 157,939
Government agency mortgage-backed securities	—	—	(15,174)	373,891	(15,174)	373,891
Government-sponsored enterprises mortgage-backed securities	(1)	172	(5,293)	125,869	(5,294)	126,041
Collateralized mortgage obligations:						
Government agency	—	—	(97,171)	2,475,532	(97,171)	2,475,532
Government-sponsored enterprises	—	—	(17,745)	486,175	(17,745)	486,175
Total available-for-sale securities with unrealized losses	$ (1)	$ 172	$ (142,161)	$ 3,619,406	$ (142,162)	$ 3,619,578

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 March 31, 2019, 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 December 31, 2018, the Company had the intent to sell 48 securities with an aggregated amortized cost basis of $898.2 million. As a result, the Company recorded an OTTI write-down of $24.1 million in December 2018. The OTTI write-down represented the difference between the amortized cost basis and the fair value of the securities as of December 31, 2018. In January 2019, the Company completed its sale of the 48 securities and recorded an additional loss of $2.6 million.

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.

In 2016, the Company recorded a $22.7 million net realized gain related to the sale of 274,000 Visa Class B restricted shares. 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 rate to unrestricted Class A common shares. On June 28, 2018, Visa additionally funded its litigation escrow account, thereby reducing each member bank's Class B conversion rate to unrestricted Class A common shares. Accordingly, on July 5, 2018, Visa announced a decrease in conversion rate from 1.6483 to 1.6298 effective June 28, 2018. In July 2018, the Company made a payment of approximately $0.7 million to the buyer as a result of the reduction in the Visa Class B conversion rate. See "Note 11. Derivative Financial Instruments" for more information.

The Company held approximately 120,000 Visa Class B restricted shares as of both March 31, 2019 and December 31, 2018. These shares continued to be carried at $0 cost basis during each of the respective periods.

3. Loans and Leases

As of March 31, 2019 and December 31, 2018, loans and leases were comprised of the following:

(dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	**$ 3,203,770**	$ 3,208,760
Commercial real estate	**3,147,304**	2,990,783
Construction	**595,491**	626,757
Residential:		
Residential mortgage	**3,543,964**	3,527,101
Home equity line	**907,829**	912,517
Total residential	**4,451,793**	4,439,618
Consumer	**1,653,109**	1,662,504
Lease financing	**145,987**	147,769
Total loans and leases	**$ 13,197,454**	$ 13,076,191

Outstanding loan balances are reported net of net deferred loan costs of $37.3 million and $36.3 million at March 31, 2019 and December 31, 2018, respectively.

As of March 31, 2019, residential real estate loans totaling $2.6 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 $937.4 million were pledged to collateralize the Company's borrowing capacity at the Federal Reserve Bank of San Francisco ("FRB"). As of December 31, 2018, residential real estate loans totaling $2.5 billion were pledged to collateralize the Company's borrowing capacity at the FHLB, and consumer and commercial and industrial loans totaling $957.0 million were pledged to collateralize the Company's borrowing capacity at the FRB. Residential real estate loans collateralized by properties that were in the process of foreclosure totaled $4.9 million and $4.6 million at March 31, 2019 and December 31, 2018, 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 Company's 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 March 31, 2019 and December 31, 2018, remaining loan and lease commitments were comprised of the following:

(dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	**$ 2,384,738**	$ 2,484,857
Commercial real estate	**132,701**	114,186
Construction	**529,679**	526,938
Residential:		
Residential mortgage	**479**	121
Home equity line	**894,162**	913,636
Total residential	**894,641**	913,757
Consumer	**1,527,217**	1,509,853
Total loan and lease commitments	**$ 5,468,976**	$ 5,549,591

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 classes 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 residential mortgages including 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 and class taking into consideration portfolio segment-specific and class-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 interim

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 March 31, 2019							
	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	**$ 34,501**	**$ 19,725**	**$ 5,813**	**$ 432**	**$ 44,906**	**$ 35,813**	**$ 528**	**$ 141,718**
Charge-offs	**—**	**—**	**—**	**(24)**	**—**	**(8,598)**	**—**	**(8,622)**
Recoveries	**37**	**31**	**—**	**—**	**250**	**2,452**	**—**	**2,770**
Increase (decrease) in Provision	**(2,745)**	**1,441**	**(432)**	**3**	**(245)**	**5,432**	**2,226**	**5,680**
Balance at end of period	**$ 31,793**	**$ 21,197**	**$ 5,381**	**$ 411**	**$ 44,911**	**$ 35,099**	**$ 2,754**	**$ 141,546**

	Three Months Ended March 31, 2018							
	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	$ 34,006	$ 18,044	$ 6,817	$ 611	$ 42,852	$ 31,249	$ 3,674	$ 137,253
Charge-offs	(475)	—	—	—	—	(6,625)	—	(7,100)
Recoveries	64	122	—	—	182	2,103	—	2,471
Increase (decrease) in Provision	770	1,088	(841)	(26)	186	4,271	502	5,950
Balance at end of period	$ 34,365	$ 19,254	$ 5,976	$ 585	$ 43,220	$ 30,998	$ 4,176	$ 138,574

The disaggregation of the Allowance and recorded investment in loans by impairment methodology as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Individually evaluated for impairment	**$ 429**	**$ 26**	**$ —**	**$ —**	**$ 430**	**$ —**	**$ —**	**$ 885**
Collectively evaluated for impairment	**31,364**	**21,171**	**5,381**	**411**	**44,481**	**35,099**	**2,754**	**140,661**
Balance at end of period	**$ 31,793**	**$ 21,197**	**$ 5,381**	**$ 411**	**$ 44,911**	**$ 35,099**	**$ 2,754**	**$ 141,546**
Loans and leases:								
Individually evaluated for impairment	**$ 10,073**	**$ 3,907**	**$ —**	**$ —**	**$ 15,529**	**$ —**	**$ —**	**$ 29,509**
Collectively evaluated for impairment	**3,193,697**	**3,143,397**	**595,491**	**145,987**	**4,436,264**	**1,653,109**	**—**	**13,167,945**
Balance at end of period	**$ 3,203,770**	**$ 3,147,304**	**$ 595,491**	**$ 145,987**	**$ 4,451,793**	**$ 1,653,109**	**$ —**	**$ 13,197,454**

	December 31, 2018							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Individually evaluated for impairment	$ 108	$ 32	$ —	$ —	$ 396	$ —	$ —	$ 536
Collectively evaluated for impairment	34,393	19,693	5,813	432	44,510	35,813	528	141,182
Balance at end of period	$ 34,501	$ 19,725	$ 5,813	$ 432	$ 44,906	$ 35,813	$ 528	$ 141,718
Loans and leases:								
Individually evaluated for impairment	$ 8,719	$ 5,743	$ —	$ —	$ 16,114	$ —	$ —	$ 30,576
Collectively evaluated for impairment	3,200,041	2,985,040	626,757	147,769	4,423,504	1,662,504	—	13,045,615
Balance at end of period	$ 3,208,760	$ 2,990,783	$ 626,757	$ 147,769	$ 4,439,618	$ 1,662,504	$ —	$ 13,076,191

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, credit cards, home equity lines of credit and residential mortgage loans.

Residential real estate 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 March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019				
(dollars in thousands)	**Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Lease Financing**	**Total**
Grade:					
Pass	**$ 3,102,106**	**$ 3,000,806**	**$ 594,368**	**$ 144,874**	**$ 6,842,154**
Special mention	**60,275**	**101,393**	**185**	**947**	**162,800**
Substandard	**41,389**	**45,105**	**938**	**166**	**87,598**
Total	**$ 3,203,770**	**$ 3,147,304**	**$ 595,491**	**$ 145,987**	**$ 7,092,552**

	December 31, 2018				
(dollars in thousands)	**Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Lease Financing**	**Total**
Grade:					
Pass	$ 3,069,546	$ 2,876,907	$ 625,607	$ 146,356	$ 6,718,416
Special mention	57,012	91,298	200	1,223	149,733
Substandard	82,010	22,578	950	190	105,728
Doubtful	192	—	—	—	192
Total	$ 3,208,760	$ 2,990,783	$ 626,757	$ 147,769	$ 6,974,069

There were no loans and leases graded as Loss as of March 31, 2019 and December 31, 2018.

The credit risk profiles based on payment activity for loans and leases that were not subject to loan grading as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019					
(dollars in thousands)	Residential Mortgage	Home Equity Line	Consumer	Consumer - Auto	Credit Cards	Total
Performing	$ 3,538,122	$ 901,821	$ 234,539	$ 1,056,907	$ 325,656	$ 6,057,045
Non-performing and delinquent	5,842	6,008	5,121	26,036	4,850	47,857
Total	$ 3,543,964	$ 907,829	$ 239,660	$ 1,082,943	$ 330,506	$ 6,104,902

	December 31, 2018					
(dollars in thousands)	Residential Mortgage	Home Equity Line	Consumer	Consumer - Auto	Credit Cards	Total
Performing	$ 3,519,172	$ 903,284	$ 234,458	$ 1,044,393	$ 339,162	$ 6,040,469
Non-performing and delinquent	7,929	9,233	5,448	33,739	5,304	61,653
Total	$ 3,527,101	$ 912,517	$ 239,906	$ 1,078,132	$ 344,466	$ 6,102,122

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 March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019							
	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	$ 1,415	$ 307	$ 350	$ 2,072	$ 3,201,508	$ 3,203,580	$ 190	$ 3,203,770
Commercial real estate	225	129	—	354	3,146,950	3,147,304	—	3,147,304
Construction	—	—	89	89	595,402	595,491	—	595,491
Lease financing	—	—	—	—	145,987	145,987	—	145,987
Residential mortgage	1,353	399	—	1,752	3,538,122	3,539,874	4,090	3,543,964
Home equity line	3,083	477	2,448	6,008	901,821	907,829	—	907,829
Consumer	25,640	6,829	3,538	36,007	1,617,102	1,653,109	—	1,653,109
Total	$ 31,716	$ 8,141	$ 6,425	$ 46,282	$ 13,146,892	$ 13,193,174	$ 4,280	$ 13,197,454

	December 31, 2018							
	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	$ 1,293	$ —	$ 141	$ 1,434	$ 3,207,052	$ 3,208,486	$ 274	$ 3,208,760
Commercial real estate	—	—	—	—	2,989,125	2,989,125	1,658	2,990,783
Construction	91	—	—	91	626,666	626,757	—	626,757
Lease financing	47	—	—	47	147,722	147,769	—	147,769
Residential mortgage	2,274	1,012	32	3,318	3,519,172	3,522,490	4,611	3,527,101
Home equity line	5,616	775	2,842	9,233	903,284	912,517	—	912,517
Consumer	32,406	8,712	3,373	44,491	1,618,013	1,662,504	—	1,662,504
Total	$ 41,727	$ 10,499	$ 6,388	$ 58,614	$ 13,011,034	$ 13,069,648	$ 6,543	$ 13,076,191

The total carrying amounts and the total unpaid principal balances of impaired loans and leases as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial and industrial	$ 2,387	$ 2,421	$ —
Commercial real estate	3,188	3,188	—
Residential mortgage	8,220	8,534	—
Total	$ 13,795	$ 14,143	$ —
Impaired loans with a related allowance recorded:			
Commercial and industrial	$ 7,686	$ 7,686	$ 429
Commercial real estate	719	719	26
Residential mortgage	7,309	7,695	430
Total	$ 15,714	$ 16,100	$ 885
Total impaired loans:			
Commercial and industrial	$ 10,073	$ 10,107	$ 429
Commercial real estate	3,907	3,907	26
Residential mortgage	15,529	16,229	430
Total	$ 29,509	$ 30,243	$ 885

	December 31, 2018		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial and industrial	$ 4,449	$ 4,498	$ —
Commercial real estate	5,016	5,016	—
Residential mortgage	9,112	9,426	—
Total	$ 18,577	$ 18,940	$ —
Impaired loans with a related allowance recorded:			
Commercial and industrial	$ 4,270	$ 4,270	$ 108
Commercial real estate	727	727	32
Residential mortgage	7,002	7,387	396
Total	$ 11,999	$ 12,384	$ 536
Total impaired loans:			
Commercial and industrial	$ 8,719	$ 8,768	$ 108
Commercial real estate	5,743	5,743	32
Residential mortgage	16,114	16,813	396
Total	$ 30,576	$ 31,324	$ 536

The following tables provide information with respect to the Company's average balances, and of interest income recognized from, impaired loans for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:		
Commercial and industrial	**$ 3,418**	**$ 29**
Commercial real estate	**4,102**	**171**
Residential mortgage	**8,666**	**100**
Total	**$ 16,186**	**$ 300**
Impaired loans with a related allowance recorded:		
Commercial and industrial	**$ 5,978**	**$ 108**
Commercial real estate	**723**	**10**
Residential mortgage	**7,156**	**96**
Total	**$ 13,857**	**$ 214**
Total impaired loans:		
Commercial and industrial	**$ 9,396**	**$ 137**
Commercial real estate	**4,825**	**181**
Residential mortgage	**15,822**	**196**
Total	**$ 30,043**	**$ 514**

	Three Months Ended March 31, 2018	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:		
Commercial and industrial	$ 17,469	$ 181
Commercial real estate	9,502	55
Construction	1,001	—
Residential mortgage	8,763	130
Total	$ 36,735	$ 366
Impaired loans with a related allowance recorded:		
Commercial and industrial	$ 145	$ 2
Commercial real estate	887	10
Residential mortgage	7,685	84
Total	$ 8,717	$ 96
Total impaired loans:		
Commercial and industrial	$ 17,614	$ 183
Commercial real estate	10,389	65
Construction	1,001	—
Residential mortgage	16,448	214
Total	$ 45,452	$ 462

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. 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 loan 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 months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
(dollars in thousands)	Number of Contracts	Recorded Investment[1]	Related Allowance	Number of Contracts	Recorded Investment[1]	Related Allowance
Commercial and industrial	4	$ 916	$ 24	—	$ —	$ —
Residential mortgage	1	352	14	—	—	—
Total	**5**	**$ 1,268**	**$ 38**	**—**	**$ —**	**$ —**

(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 an extension of maturity dates, temporary interest-only payments, reduced payments, or below-market interest rates.

The Company had commitments to extend credit, standby letters of credit, and commercial letters of credit totaling $5.7 billion and $5.8 billion as of March 31, 2019 and December 31, 2018, respectively. Of the $5.7 billion at March 31, 2019, there were commitments of $1.1 million related to borrowers who had loan terms modified in a TDR. Of the $5.8 billion at December 31, 2018, there were commitments of $1.8 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 March 31,			
	2019		2018	
(dollars in thousands)	Number of Contracts	Recorded Investment[1]	Number of Contracts	Recorded Investment[1]
Commercial and industrial[2]	—	$ —	2	$ 564
Total	—	$ —	2	$ 564

(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 three months ended March 31, 2018, the maturity dates for the commercial and industrial loans that subsequently defaulted were extended.

Foreclosure Proceedings

There was one residential mortgage loan collateralized by real estate property of $0.3 million that was modified in a TDR that was in process of foreclosure as of March 31, 2019. As of December 31, 2018, there was one residential mortgage loan collateralized by real estate property of $0.3 million that was modified in a TDR that was in process of foreclosure.

Foreclosed Property

Residential real estate property held from one foreclosed residential mortgage loan included in other real estate owned and repossessed personal property shown in the unaudited interim consolidated balance sheets was $0.1 million as of March 31, 2019. Residential real estate properties held from one foreclosed residential mortgage loan and one foreclosed home equity line included in other real estate owned and repossessed personal property shown in the unaudited interim consolidated balance sheets was $0.8 million as of December 31, 2018.

5. Mortgage Servicing Rights

Mortgage servicing activities include collecting principal, interest, tax, and insurance payments from borrowers while accounting for and remitting payments to investors, taxing authorities, and insurance companies. The Company also monitors delinquencies and administers foreclosure proceedings.

Mortgage loan servicing income is recorded in noninterest income as a part of other service charges and fees and amortization of the servicing assets is recorded in noninterest income as part of other income. The unpaid principal amount of residential real estate loans serviced for others was $2.6 billion and $2.7 billion as of March 31, 2019 and December 31, 2018, respectively. Servicing fees include contractually specified fees, late charges, and ancillary fees, and were $1.6 million and $1.7 million for the three months ended March 31, 2019 and 2018, respectively.

Amortization of mortgage servicing rights ("MSRs") was $0.8 million and $1.0 million for the three months ended March 31, 2019 and 2018, respectively. The estimated future amortization expenses for MSRs over the next five years are as follows:

(dollars in thousands)	Estimated Amortization
Under one year	**$ 2,236**
One to two years	**1,968**
Two to three years	**1,733**
Three to four years	**1,523**
Four to five years	**1,339**

The details of the Company's MSRs are presented below:

(dollars in thousands)	March 31, 2019	December 31, 2018
Gross carrying amount	**$ 63,350**	$ 63,342
Less: accumulated amortization	**47,951**	47,187
Net carrying value	**$ 15,399**	$ 16,155

The following table presents changes in amortized MSRs for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Three Months Ended March 31, 2019	2018
Balance at beginning of period	**$ 16,155**	$ 13,196
Originations	**8**	7
Purchases	**—**	6,444
Amortization	**(764)**	(988)
Balance at end of period	**$ 15,399**	$ 18,659
Fair value of amortized MSRs at beginning of period	**$ 27,662**	$ 21,697
Fair value of amortized MSRs at end of period	**$ 26,383**	$ 29,048

MSRs are evaluated for impairment if events and circumstances indicate a possible impairment. No impairment of MSRs was recorded for the three months ended March 31, 2019 and 2018.

The quantitative assumptions used in determining the lower of cost or fair value of the Company's MSRs as of March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019		December 31, 2018	
	Range	Weighted Average	Range	Weighted Average
Conditional prepayment rate	**8.00 % - 20.28 %**	**8.47 %**	7.86 % - 19.26 %	8.31 %
Life in years (of the MSR)	**3.18 - 7.56**	**7.08**	3.43 - 7.68	7.19
Weighted-average coupon rate	**3.97 % - 6.67 %**	**4.02 %**	3.97 % - 6.70 %	4.02 %
Discount rate	**10.00 % - 10.01 %**	**10.00 %**	10.00 % - 10.02 %	10.00 %

The sensitivities surrounding MSRs are expected to have an immaterial impact on fair value.

6. 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 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 March 31, 2019 and December 31, 2018 were as follows:

(dollars in thousands)	March 31, 2019	December 31, 2018
Public deposits	**$ 1,759,692**	$ 1,749,726
Federal Home Loan Bank	**2,589,411**	2,497,030
Federal Reserve Bank	**937,390**	957,017
ACH transactions	**152,579**	150,903
Interest rate swaps	**30,665**	28,843
Total	**$ 5,469,737**	$ 5,383,519

As the Company did not enter into reverse repurchase agreements, no collateral was accepted as of March 31, 2019 and December 31, 2018. In addition, no debt was extinguished by in-substance defeasance.

The Company did not have any repurchase agreements as of March 31, 2019 and December 31, 2018.

7. Deposits

As of March 31, 2019 and December 31, 2018, deposits were categorized as interest-bearing or noninterest-bearing as follows:

(dollars in thousands)	March 31, 2019	December 31, 2018
U.S.:		
Interest-bearing	**$ 10,158,299**	$ 10,393,449
Noninterest-bearing	**5,184,816**	5,368,729
Foreign:		
Interest-bearing	**793,465**	748,678
Noninterest-bearing	**658,664**	639,212
Total deposits	**$ 16,795,244**	$ 17,150,068

The following table presents the maturity distribution of time certificates of deposit as of March 31, 2019:

(dollars in thousands)	Under $250,000	$250,000 or More	Total
Three months or less	$ 306,984	$ 658,915	$ 965,899
Over three through six months	149,913	486,994	636,907
Over six through twelve months	383,212	401,934	785,146
One to two years	118,264	86,489	204,753
Two to three years	112,532	48,892	161,424
Three to four years	54,408	21,947	76,355
Four to five years	67,061	13,691	80,752
Thereafter	54	—	54
Total	$ 1,192,428	$ 1,718,862	$ 2,911,290

Time certificates of deposit in denominations of $250,000 or more, in the aggregate, were $1.7 billion and $1.9 billion as of March 31, 2019 and December 31, 2018, respectively. Overdrawn deposit accounts are classified as loans and totaled $2.7 million and $2.4 million as of March 31, 2019 and December 31, 2018, respectively.

8. Long-Term Borrowings

Long-term borrowings consisted of the following as of March 31, 2019 and December 31, 2018:

(dollars in thousands)	March 31, 2019	December 31, 2018
Finance lease(1)	$ 28	$ 26
FHLB fixed-rate advances(1)	600,000	600,000
Total long-term borrowings	$ 600,028	$ 600,026

(1) Interest is payable monthly.

As of March 31, 2019 and December 31, 2018, the Company's long-term borrowings included $600.0 million in FHLB fixed-rate advances with a weighted average interest rate of 2.80% and maturity dates ranging from 2020 to 2024. The FHLB fixed-rate advances require monthly interest-only payments with the principal amount due on the maturity date. As of March 31, 2019 and December 31, 2018, the available remaining borrowing capacity with the FHLB was $1.4 billion and $1.3 billion, respectively. The FHLB fixed-rate advances and remaining borrowing capacity were secured by residential real estate loan collateral as of March 31, 2019 and December 31, 2018. See "Note 6. Transfers of Financial Assets" for more information.

As of March 31, 2019 and December 31, 2018, the Company's long-term borrowings included a finance lease obligation with a 6.78% annual interest rate that matures in 2022.

As of March 31, 2019, future contractual principal payments and maturities on long-term borrowings were as follows:

(dollars in thousands)	Principal Payments
2019	$ 9
2020	400,009
2021	10
2022	—
2023	100,000
Thereafter	100,000
Total	$ 600,028

9. 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 months ended March 31, 2019 and 2018 are presented below:

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2018	$ (180,915)	$ 48,720	$ (132,195)
Three months ended March 31, 2019			
Investment securities:			
Unrealized net gains arising during the period	**70,523**	**(18,991)**	**51,532**
Reclassification of net losses to net income:			
Investment securities losses, net	**2,613**	**(704)**	**1,909**
Net change in investment securities	**73,136**	**(19,695)**	**53,441**
Other comprehensive income	**73,136**	**(19,695)**	**53,441**
Accumulated other comprehensive loss at March 31, 2019	**$ (107,779)**	**$ 29,025**	**$ (78,754)**

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2017	$ (159,423)	$ 63,040	$ (96,383)
Three months ended March 31, 2018			
Early adoption of ASU No. 2018-02	—	(20,068)	(20,068)
Investment securities:			
Unrealized net losses arising during the period	(66,700)	17,923	(48,777)
Net change in investment securities	(66,700)	17,923	(48,777)
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the period	738	(194)	544
Net change in cash flow derivative hedges	738	(194)	544
Other comprehensive loss	(65,962)	17,729	(48,233)
Accumulated other comprehensive loss at March 31, 2018	$ (225,385)	$ 60,701	$ (164,684)

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

(dollars in thousands)	Pensions and Other Benefits	Investment Securities	Cash Flow Derivative Hedges	Total Accumulated Other Comprehensive Loss
Three Months Ended March 31, 2019				
Balance at beginning of period	**$ (28,379)**	**$ (103,816)**	**$ —**	**$ (132,195)**
Other comprehensive income	**—**	**53,441**	**—**	**53,441**
Balance at end of period	**$ (28,379)**	**$ (50,375)**	**$ —**	**$ (78,754)**
Three Months Ended March 31, 2018				
Balance at beginning of period	$ (25,946)	$ (74,117)	$ 3,680	$ (96,383)
Early adoption of ASU No. 2018-02	(5,393)	(15,440)	765	(20,068)
Other comprehensive (loss) income	—	(48,777)	544	(48,233)
Balance at end of period	$ (31,339)	$ (138,334)	$ 4,989	$ (164,684)

10. 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") capital, Tier 1 capital and total capital to risk-weighted assets, as well as a minimum leverage ratio.

The table below sets forth those ratios at March 31, 2019 and December 31, 2018:

	First Hawaiian, Inc.		First Hawaiian Bank		Minimum Capital Ratio[1]	Well-Capitalized Ratio[1]
(dollars in thousands)	Amount	Ratio	Amount	Ratio		
March 31, 2019:						
Common equity tier 1 capital to risk-weighted assets	**$ 1,696,464**	**12.05 %**	**$ 1,695,844**	**12.05 %**	**4.50 %**	**6.50 %**
Tier 1 capital to risk-weighted assets	**1,696,464**	**12.05 %**	**1,695,844**	**12.05 %**	**6.00 %**	**8.00 %**
Total capital to risk-weighted assets	**1,838,610**	**13.06 %**	**1,837,990**	**13.06 %**	**8.00 %**	**10.00 %**
Tier 1 capital to average assets (leverage ratio)	**1,696,464**	**8.71 %**	**1,695,844**	**8.70 %**	**4.00 %**	**5.00 %**
December 31, 2018:						
Common equity tier 1 capital to risk-weighted assets	$ 1,661,542	11.97 %	$ 1,658,172	11.94 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,661,542	11.97 %	1,658,172	11.94 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,803,860	12.99 %	1,800,490	12.97 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,661,542	8.72 %	1,658,172	8.70 %	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 CET1 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 increased each subsequent year by an additional 0.625% until reaching 2.5% on January 1, 2019. As of March 31, 2019, 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 March 31, 2019, to change the capital adequacy category of the Company or the Bank.

11. 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 interim 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 March 31, 2019 and December 31, 2018:

(dollars in thousands)	March 31, 2019			December 31, 2018		
		Fair Value			Fair Value	
	Notional Amount	Asset Derivatives[1]	Liability Derivatives[2]	Notional Amount	Asset Derivatives[1]	Liability Derivatives[2]
Derivatives designated as hedging instruments:						
Interest rate swaps	**$ 23,892**	**$ —**	**$ (352)**	$ 41,317	$ 31	$ (44)
Derivatives not designated as hedging instruments:						
Interest rate swaps	**2,334,559**	**29,034**	**(1,897)**	2,269,247	12,305	(12,007)
Funding swap	**64,395**	**—**	**(1,839)**	62,039	—	(2,607)
Foreign exchange contracts	**2,473**	**3**	**(2)**	1,191	—	(34)

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

Certain interest rate swaps noted above, are cleared through clearinghouses, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and variation margin payments depending on the contracts being in a net asset or liability position. The amount of initial margin cash collateral posted by the Company was $29.2 million and $2.1 million as of March 31, 2019 and December 31, 2018, respectively.

Effective January 3, 2017, the Chicago Mercantile Exchange ("CME") amended its rulebook to legally characterize variation margin payments, for derivative contracts that are referred to as settled-to-market ("STM"), as settlements of the derivative's mark-to-market exposure and not collateral. Based on these changes, the Company has treated the CME variation margin as a settlement, which has resulted in a decrease in our cash collateral, and a corresponding decrease in our derivative asset and liability. The change was applied prospectively effective January 3, 2017. As of March 31, 2019 and December 31, 2018, the CME variation margin was $0.8 million and $0.5 million, respectively.

Effective January 16, 2018, the London Clearing House ("LCH") also amended its rulebook to legally characterize variation margin payments, for derivative contracts that are referred to as STM, as settlements of the derivative's mark-to-market exposure and not collateral. Consistent with the CME's amended requirements discussed above, the Company has treated the LCH variation margin as a settlement, which has resulted in a decrease in our cash collateral, and a corresponding decrease in our derivative asset and liability. The change was applied prospectively effective January 16, 2018. As of March 31, 2019 and December 31, 2018, the LCH variation margin was $26.3 million and $0.6 million, respectively.

As of March 31, 2019, the Company pledged nil in financial instruments and $30.7 million in cash as collateral for interest rate swaps. As of December 31, 2018, the Company pledged $26.2 million in financial instruments and $2.6 million in cash as collateral for interest rate swaps. As of March 31, 2019 and December 31, 2018, the cash collateral includes the excess initial margin for interest rate swaps cleared through clearinghouses and cash collateral for interest rate swaps with financial institution counterparties.

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 March 31, 2019, the Company carried one interest rate swap with a notional amount of $23.9 million with a negative fair value of $0.4 million that was categorized as a fair value hedge for a commercial and industrial loan. The Company received a USD Prime floating rate and paid a fixed rate of 2.90%. The swap matures in 2023. At December 31, 2018, the Company carried interest rate swaps with notional amounts totaling $41.3 million with a positive fair value of nil and a negative fair value of nil that were categorized as fair value hedges for commercial and industrial loans and commercial real estate loans.

The following table shows the gains and losses recognized in income related to derivatives in fair value hedging relationships for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Gains (losses) recognized in the consolidated statements of income line item	March 31, 2019	March 31, 2018
Gains (losses) on fair value hedging relationships recognized in Interest Income[1]:			
Recognized on interest rate swap	Loans and lease financing	**$ (342)**	$ —
Recognized on hedged item	Loans and lease financing	**262**	—
Gains (losses) on fair value hedging relationships recognized in Noninterest Income[2]:			
Recognized on interest rate swap	Other	**$ —**	$ 550
Recognized on hedged item	Other	**—**	(763)

(1) In connection with the adoption of ASU 2017-12, beginning January 1, 2019, gain (loss) amounts for the interest rate swap qualifying as fair value hedging and the hedged item are included in Loans and Lease Financing Interest Income.
(2) Prior to January 1, 2019, gain (loss) amounts for the interest rate swaps qualifying as fair value hedging and the hedged items were included in Other Noninterest Income.

As of March 31, 2019 and December 31, 2018, the following amounts were recorded in the unaudited interim consolidated balance sheets related to the cumulative basis adjustments for fair value hedges:

(dollars in thousands)	Carrying Amount of the Hedged Asset		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Line Item in the Consolidated Balance Sheets in Which the Hedged Item is Included				
Loans and leases	**$ 24,448**	$ 42,496	**$ 544**	$ 293

Cash Flow Hedges

During 2018, the Company carried two interest rate swaps with notional amounts totaling $150.0 million, in order to reduce exposure to interest rate increases associated with short-term fixed-rate liabilities. The Company received 6-month LIBOR and paid fixed rates ranging from 2.98% to 3.03%. The swaps matured in December 2018. As of March 31, 2019 and December 31, 2018, the Company no longer held any cash flow hedges. The interest rate swaps designated as cash flow hedges resulted in net interest expense of $0.5 million during the three months ended March 31, 2018.

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

The interest rate swaps were designated and qualified as cash flow hedges. The effective portion of the gain or loss on the interest rate swaps was 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 during the three months ended March 31, 2018.

The following table summarizes the effect of cash flow hedging relationships for the three months ended March 31, 2018:

(dollars in thousands)	March 31, 2018
Pretax gains recognized in other comprehensive income on derivatives (effective portion)	$ 738

There were no gains or losses reclassified from accumulated other comprehensive loss to earnings during the three months ended March 31, 2018.

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 interim consolidated statements of income for the three months ended March 31, 2019 and 2018.

(dollars in thousands)	Net gains (losses) recognized in the consolidated statements of income line item	March 31, 2019	March 31, 2018
Derivatives Not Designated As Hedging Instruments:			
Interest rate swaps	Other noninterest income	**$ 16**	$ 404
Funding swap	Other noninterest income	**5**	(84)
Foreign exchange contracts	Other noninterest income	**—**	(63)

As of March 31, 2019, the Company carried multiple interest rate swaps with notional amounts totaling $2.3 billion, all of which were related to the Company's customer swap program, with a positive fair value of $29.0 million and a negative fair value of $1.9 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 2.02% to 5.78%. The swaps mature between November 2019 and January 2039. As of December 31, 2018, the Company carried multiple interest rate swaps with notional amounts totaling $2.3 billion, including $2.2 billion related to the Company's customer swap program, with a positive fair value of $12.3 million and a negative fair value of $12.0 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 2.02% to 5.78%. These swaps resulted in net interest expense of nil and $0.2 million for the three months ended March 31, 2019 and 2018, 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 $0.8 million and $3.2 million for the three months ended March 31, 2019 and 2018, respectively. Interest rate swaps related to the program had asset fair values of $29.0 million and $12.3 million as of March 31, 2019 and December 31, 2018, respectively, and liability fair values of $1.9 million and $11.2 million as of March 31, 2019 and December 31, 2018, 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 rate to unrestricted Class A common shares. On June 28, 2018, Visa additionally funded its litigation escrow account, thereby reducing each member bank's Class B conversion rate to unrestricted Class A common shares. Accordingly, on July 5, 2018, Visa announced a decrease in conversion rate from 1.6483 to 1.6298 effective June 28, 2018. In July 2018, the Company made a payment of approximately $0.7 million to the buyer as a result of the reduction in the Visa Class B conversion rate. 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. A derivative liability ("Visa derivative") of $1.8 million and $2.6 million was included in the unaudited interim consolidated balance sheets at March 31, 2019 and December 31, 2018, respectively, to provide for the fair value of this liability. There were no sales of these shares prior to 2016. See "Note 17. 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 asset less loan balance,

requires valuation of the pledged asset. Counterparty credit risk adjustments of $0.1 million were recognized during both the three months ended March 31, 2019 and 2018.

Credit-Risk Related Contingent Features

Certain of our derivative contracts contain provisions whereby if the Company's credit rating were to be downgraded by certain major credit rating agencies as a result of a merger or material adverse change in the Company's financial condition, the counterparty could require an early termination of derivative instruments in a net liability position. The aggregate fair value of all derivative instruments with such credit-risk related contingent features that are in a net liability position was $1.6 million and $0.8 million at March 31, 2019 and December 31, 2018, respectively, for which we posted $1.5 million and $0.5 million, respectively, in collateral in the normal course of business. If the Company's credit rating had been downgraded as of March 31, 2019 and December 31, 2018, we may have been required to settle the contracts in an amount equal to their fair value.

12. Commitments and Contingent Liabilities

Contingencies

On January 27, 2017, a putative class action lawsuit was filed by a Bank customer alleging that FHB improperly charged an overdraft fee in circumstances where an account had sufficient funds to cover the transaction at the time the transaction was authorized but not at the time the transaction was presented for payment, and that this practice constituted an unjust and deceptive trade practice and a breach of contract. The lawsuit further alleged 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 constituted a usurious interest charge and an unfair and deceptive trade practice. On October 2, 2018, the parties reached an agreement in principle to resolve this class action lawsuit. In connection with the anticipated settlement agreement, the Company recorded an expense of approximately $4.1 million during the three months ended September 30, 2018. During the three months ended March 31, 2019, the Court entered an order preliminarily approving the settlement agreement, pursuant to which the Company funded a $4.1 million settlement account. The final approval hearing has been set for August 6, 2019.

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 unaudited interim 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 interim 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 making 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 $85.6 million and $92.3 million at March 31, 2019 and December 31, 2018, 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 that the third parties will receive 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 $17.3 million as of both March 31, 2019 and December 31, 2018. 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 March 31, 2019 have maturities ranging from April 2019 to July 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 March 31, 2019 and December 31, 2018 were as follows:

(dollars in thousands)	March 31, 2019	December 31, 2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 5,468,976**	$ 5,549,591
Standby letters of credit	**186,321**	204,324
Commercial letters of credit	**9,602**	7,535

Guarantees

The Company sells residential mortgage loans in the secondary market primarily to The Federal National Mortgage Association ("Fannie Mae") and The Federal Home Loan Mortgage Corporation ("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 11. Derivative Financial Instruments" for more information.

Reorganization Transactions

On April 1, 2016, a series of reorganization transactions (the "Reorganization Transactions") were undertaken to facilitate FHI's IPO. In connection with the Reorganization Transactions, FHI distributed its interest in BWHI, including Bank of the West ("BOW") to BNPP so that BWHI was held directly by BNPP. 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 BWC, 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.

13. Revenue from Contracts with Customers

Revenue Recognition

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are

promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Disaggregation of Revenue

The following table summarizes the Company's revenues, which includes net interest income on financial instruments and noninterest income, disaggregated by type of service and business segments for the periods indicated:

	Three Months Ended March 31, 2019			
(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Net interest income[(1)]	**$ 113,903**	**$ 27,980**	**$ 3,206**	**$ 145,089**
Service charges on deposit accounts	**7,541**	**3**	**516**	**8,060**
Credit and debit card fees	**—**	**19,707**	**1,727**	**21,434**
Other service charges and fees	**5,333**	**369**	**542**	**6,244**
Trust and investment services income	**8,618**	**—**	**—**	**8,618**
Other	**215**	**1,509**	**208**	**1,932**
Not in scope of Topic 606[(1)]	**2,469**	**(3,507)**	**1,822**	**784**
Total noninterest income	**24,176**	**18,081**	**4,815**	**47,072**
Total revenue	**$ 138,079**	**$ 46,061**	**$ 8,021**	**$ 192,161**

(1) Most of the Company's revenue is not within the scope of ASU No. 2014-09, *Revenue from Contracts with Customers*. The guidance explicitly excludes net interest income from financial assets and liabilities as well as other noninterest income from loans, leases, investment securities and derivative financial instruments.

	Three Months Ended March 31, 2018			
(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Net interest income [(1)]	**$ 109,654**	**$ 27,879**	**$ 2,139**	**$ 139,672**
Service charges on deposit accounts	7,448	4	503	7,955
Credit and debit card fees	—	18,621	1,787	20,408
Other service charges and fees	4,745	898	633	6,276
Trust and investment services income	8,231	—	—	8,231
Other	148	1,807	451	2,406
Not in scope of Topic 606[(1)]	2,160	(1,330)	2,594	3,424
Total noninterest income	22,732	20,000	5,968	48,700
Total revenue	$ **132,386**	$ **47,879**	$ **8,107**	$ **188,372**

(1) Most of the Company's revenue is not within the scope of ASU No. 2014-09, *Revenue from Contracts with Customers*. The guidance explicitly excludes net interest income from financial assets and liabilities as well as other noninterest income from loans, leases, investment securities and derivative financial instruments.

For the three months ended March 31, 2019 and 2018, substantially all of the Company's revenues under the scope of Topic 606 were related to performance obligations satisfied at a point in time.

The following is a discussion of revenues within the scope of Topic 606.

Service Charges on Deposit Accounts

Service charges on deposit accounts relate to fees generated from a variety of deposit products and services rendered to customers. Charges include, but are not limited to, overdraft fees, non-sufficient fund fees, dormant fees and monthly service charges. Such fees are recognized concurrent with the event on a daily basis or on a monthly basis depending upon the customer's cycle date.

Credit and Debit Card Fees

Credit and debit card fees primarily represent revenues earned from interchange fees, ATM fees and merchant processing fees. Interchange and network revenues are earned on credit and debit card transactions conducted with

payment networks. ATM fees are primarily earned as a result of surcharges assessed to non-FHB customers who use a FHB ATM. Merchant processing fees are primarily earned on transactions in which FHB is the acquiring bank. Such fees are generally recognized concurrently with the delivery of services on a daily basis.

Trust and Investment Services Fees

Trust and investment services fees represent revenue earned by directing, holding and managing customers' assets. Fees are generally computed based on a percentage of the previous period's value of assets under management. The transaction price (i.e., percentage of assets under management) is established at the inception of each contract. Trust and investment services fees also include broker dealer fees which represent revenue earned from buying and selling securities on behalf of customers. Such fees are recognized at the end of a valuation period or concurrently with the execution of a buy or sell transaction.

Other Fees

Other fees primarily include revenues generated from wire transfers, lockboxes, bank issuance of checks and insurance commissions. Such fees are recognized concurrent with the event or on a monthly basis.

Contract Balances

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. In prior years, the Company received signing bonuses from two vendors which are being amortized over the term of the respective contracts. As of March 31, 2019 and December 31, 2018, the Company had contract liabilities of $2.4 million and $2.6 million, respectively, which will be recognized over the remaining term of the respective contracts with the vendors. For the three months ended March 31, 2019, the Company recognized revenues and contract liabilities decreased by approximately $0.2 million due to the passage of time. There were no changes in contract liabilities due to changes in transaction price estimates.

A contract asset is the right to consideration for transferred goods or services when the amount is conditioned on something other than the passage of time. As of March 31, 2019 and December 31, 2018, there were no receivables from contracts with customers or contract assets recorded on the Company's consolidated balance sheets.

Other

Except for the contract liabilities noted above, the Company did not have any significant performance obligations as of March 31, 2019 and December 31, 2018. The Company also did not have any material contract acquisition costs or use any significant judgments or estimates in recognizing revenue for financial reporting purposes.

14. Earnings per Share

For the three months ended March 31, 2019 and 2018, 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 months ended March 31, 2019 and 2018, the computations of basic and diluted earnings per share were as follows:

(dollars in thousands, except shares and per share amounts)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Numerator:		
Net income	**$ 69,924**	$ 67,958
Denominator:		
Basic: weighted-average shares outstanding	**134,879,336**	139,600,712
Add: weighted-average equity-based awards	**319,009**	131,388
Diluted: weighted-average shares outstanding	**135,198,345**	139,732,100
Basic earnings per share	**$ 0.52**	$ 0.49
Diluted earnings per share	**$ 0.52**	$ 0.49

15. Leases

The Company, as lessee, is obligated under a number of noncancelable operating leases primarily for branch premises and related real estate. Terms of such leases extend for periods up to 45 years, many of which provide for periodic

adjustment of rent payments based on changes in various economic indicators. Renewal options are included in the Company's lease liabilities and related right-of-use assets to the extent that the Company is reasonably certain to exercise such options. For all of the Company's short-term leases (i.e., leases with an initial term of 12 months or less), the Company recognizes lease expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.

The Company's branch premises leases typically require that the Company is responsible to pay for non-lease variable components, primarily maintenance expense, as well as costs that are not a component of a lease agreement such as real property taxes, property insurance and sales taxes. Maintenance expense is paid to maintain common areas and covers costs including landscaping, cleaning and general maintenance. Such variable costs are typically re-evaluated by the landlord on an annual basis and are charged to the Company based on the portion of the total building premises that is occupied by the Company.

The Company subleases certain premises and real estate to third parties. The sublease portfolio consists of operating leases for space connected with two of the Company's branch properties.

The components of the Company's net lease expense for the three months ended March 31, 2019 were as follows:

(dollars in thousands)	March 31, 2019
Operating lease expense	$ 2,316
Short-term lease expense	185
Variable lease expense	223
Finance lease expense:	
Amortization of right-of-use assets	1
Interest on lease liabilities	—
Total finance lease expense	1
Less: Sublease income	(225)
Net lease expense	$ 2,500

Other information related to the Company's lease liabilities as of and for the three months ended March 31, 2019 was as follows:

(dollars in thousands)	March 31, 2019
Supplemental Cash Flows Information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows paid for operating leases	$ 1,757
Operating cash flows paid for finance leases	28
Financing cash flows paid for finance leases	—
Weighted Average Remaining Lease Term	
Operating leases	15.2 years
Finance leases	3.2 years
Weighted Average Discount Rate	
Operating leases	3.43 %
Finance leases	6.78 %

Operating lease right-of-use assets were $48.7 million and finance lease right-of-use assets were not material as of March 31, 2019. Operating lease right-of-use assets and finance lease right-of use assets were recorded as a component of other assets and premises and equipment, respectively, as of March 31, 2019. Operating lease liabilities were $48.9 million and finance lease liabilities were not material as of March 31, 2019. Operating lease liabilities and finance lease liabilities were recorded as a component of other liabilities and long-term borrowings, respectively, as of March 31, 2019. There were no right-of-use assets obtained in exchange for new lease obligations for the three months ended March 31, 2019.

The most significant assumption related to the Company's application of ASC Topic 842 was the discount rate assumption. As most of the Company's lease agreements do not provide for an implicit interest rate, the Company used the collateralized interest rate that the Company would have to pay to borrow over a similar term to estimate the Company's lease liability as of January 1, 2019.

The following table sets forth future minimum rental payments under noncancelable leases with terms in excess of one year as of March 31, 2019:

(dollars in thousands)	Net Operating Lease Payments
Year ending December 31:	
2019 (excluding the three months ended March 31, 2019)	**$ 7,040**
2020	**8,691**
2021	**7,984**
2022	**5,125**
2023	**2,632**
Thereafter	**34,638**
Total future minimum lease payments	**$ 66,110**
Less: Imputed interest	**(17,172)**
Total	**$ 48,938**

The following table presents future minimum rental payments under leases with terms in excess of one year as of December 31, 2018 presented in accordance with ASC Topic 840, *"Leases"*:

(dollars in thousands)	Operating Lease Payments	Less Sublease Income	Net Operating Lease Payments
Year ending December 31:			
2019	**$ 8,780**	**$ 903**	**$ 7,877**
2020	**8,668**	**903**	**7,765**
2021	**7,961**	**892**	**7,069**
2022	**5,101**	**—**	**5,101**
2023	**2,632**	**—**	**2,632**
Thereafter	**34,638**	**—**	**34,638**
Total future minimum lease payments	**$ 67,780**	**$ 2,698**	**$ 65,082**

The Company has several operating leases with related parties associated with its branch premises. The lease payments to related parties were $0.2 million for the three months ended March 31, 2019. The future minimum rental payments due to related parties are $0.2 million (remainder of 2019), $0.3 million (2020), $0.3 million (2021), $0.2 million (2022), $0.2 million (2023), and $7.5 million thereafter.

The Company, as lessor, rents office space in its headquarters office building as well as office space located primarily in Hawaii to third party lessees. The cost and accumulated depreciation related to leased properties were $288.7 million and $135.4 million, respectively, as of March 31, 2019, and $289.2 million and $133.7 million, respectively, as of December 31, 2018. Terms of such leases, including renewal options, may be extended for up to ten years, many of which provide for periodic adjustment of rent payments based on changes in consumer or other price indices. The Company recognizes lease income on a straight-line basis over the lease term. Non-lease components, primarily consisting of costs incurred by the Company for maintenance and utilities, are recognized as income in the period in which the payments are due.

The Company recognized operating lease income related to lease payments of $1.5 million for the three months ended March 31, 2019. In addition, the Company recognized $1.1 million of lease income related to variable lease payments for the three months ended March 31, 2019.

Certain of the Company's leases are with related parties for the use of space at the Company's headquarters office building. The rental income paid by the related parties for the three months ended March 31, 2019 and the future minimum rental income from related parties as of March 31, 2019 was not material.

The following table sets forth future minimum rental income under noncancelable operating leases with terms in excess of one year as of March 31, 2019:

(dollars in thousands)	Minimum Rental Income
Year ending December 31:	
2019 (excluding the three months ended March 31, 2019)	**$ 4,492**
2020	**5,747**
2021	**5,439**
2022	**3,719**
2023	**2,795**
Thereafter	**5,837**
Total	**$ 28,029**

16. Benefit Plans

The Company sponsors an unfunded supplemental executive retirement plan ("SERP") for certain key executives. On March 11, 2019, the Company's board of directors approved an amendment to the SERP to freeze the SERP. As a result of such amendment, effective July 1, 2019, there will be no new accruals of benefits, including service accruals. Existing benefits under the SERP, as of the effective date of the amendment described above, will otherwise continue in accordance with the terms of the SERP.

The following table sets forth the components of net periodic benefit cost for the Company's pension and postretirement benefit plans for the three months ended March 31, 2019 and 2018:

(dollars in thousands)	Income line item where recognized in the consolidated statements of income	Pension Benefits		Other Benefits	
		2019	2018	2019	2018
Three Months Ended March 31,					
Service cost	Salaries and employee benefits	**$ 17**	$ 174	**$ 159**	$ 212
Interest cost	Other noninterest expense	**2,044**	1,794	**206**	185
Expected return on plan assets	Other noninterest expense	**(1,195)**	(1,240)	**—**	—
Prior service credit	Other noninterest expense	**—**	—	**(107)**	(107)
Recognized net actuarial loss	Other noninterest expense	**1,564**	1,611	**(76)**	—
Total net periodic benefit cost		**$ 2,430**	$ 2,339	**$ 182**	$ 290

17. 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 unobservable inputs to 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, 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, deposit liabilities with no defined or contractual maturity, 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 March 31, 2019 and December 31, 2018, 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.

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.

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 rate to unrestricted Class A common shares. On July 5, 2018, Visa announced a decrease in conversion rate from 1.6483 to 1.6298 effective

June 28, 2018. The Visa derivative of $1.8 million and $2.6 million was included in the unaudited interim consolidated balance sheets at March 31, 2019 and December 31, 2018, 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 rate, 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 March 31, 2019 and December 31, 2018 are summarized below:

	Fair Value Measurements as of March 31, 2019			
(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				
Government agency debt securities	$ —	$ 24,765	$ —	$ 24,765
Government-sponsored enterprises debt securities	—	161,595	—	161,595
Government agency mortgage-backed securities[1]	—	371,035	—	371,035
Government-sponsored enterprises mortgage-backed securities[1]	—	127,896	—	127,896
Collateralized mortgage obligations:				
Government agency	—	2,730,166	—	2,730,166
Government-sponsored enterprises	—	1,070,203	—	1,070,203
Total available-for-sale securities	—	4,485,660	—	4,485,660
Other assets[2]	—	29,037	—	29,037
Liabilities				
Other liabilities[3]	—	(2,251)	(1,839)	(4,090)
Total	$ —	$ 4,512,446	$ (1,839)	$ 4,510,607

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

	Fair Value Measurements as of December 31, 2018			
(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	$ —	$ 389,470	$ —	$ 389,470
Government-sponsored enterprises debt securities	—	241,594	—	241,594
Government agency mortgage-backed securities[1]	—	411,536	—	411,536
Government-sponsored enterprises mortgage-backed securities[1]	—	150,847	—	150,847
Collateralized mortgage obligations:				
Government agency	—	2,682,449	—	2,682,449
Government-sponsored enterprises	—	602,592	—	602,592
Debt securities issued by states and political subdivisions	—	19,854	—	19,854
Total available-for-sale securities	—	4,498,342	—	4,498,342
Other assets[2]	—	12,336	—	12,336
Liabilities				
Other liabilities[3]	—	(12,085)	(2,607)	(14,692)
Total	$ —	$ 4,498,593	$ (2,607)	$ 4,495,986

(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 months ended March 31, 2019, 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 months ended March 31, 2019 and 2018 are summarized below.

(dollars in thousands)	Visa Derivative 2019	Visa Derivative 2018
Three Months Ended March 31,		
Balance as of January 1,	**$ (2,607)**	$ (5,439)
Total net gains (losses) included in other noninterest income	**5**	(84)
Settlements	**763**	678
Balance as of March 31,	**$ (1,839)**	$ (4,845)
Total net gains (losses) included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of March 31,	**$ 5**	$ (84)

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 deposit liabilities with no defined or contractual maturity.

	March 31, 2019				
		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	**$ 617,867**	**$ 336,555**	**$ 281,312**	**$ —**	**$ 617,867**
Loans[1]	**13,051,467**	**—**	**—**	**13,031,566**	**13,031,566**
Financial liabilities:					
Time deposits[2]	**$ 2,911,290**	**$ —**	**$ 2,883,440**	**$ —**	**$ 2,883,440**
Long-term borrowings[3]	**600,000**	**—**	**603,665**	**—**	**603,665**

	December 31, 2018				
		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	$ 1,003,637	$ 396,836	$ 606,801	$ —	$ 1,003,637
Loans held for sale	432	—	432	—	432
Loans[1]	12,928,422	—	—	12,664,170	12,664,170
Financial liabilities:					
Time deposits[2]	$ 3,092,164	$ —	$ 3,058,792	$ —	$ 3,058,792
Long-term borrowings[3]	600,000	—	602,088	—	602,088

(1) Excludes financing leases of $146.0 million at March 31, 2019 and $147.8 million at December 31, 2018.
(2) Excludes deposit liabilities with no defined or contractual maturity of $13.9 billion and $14.1 billion as of March 31, 2019 and December 31, 2018, respectively.
(3) Excludes capital lease obligations of $28 thousand and $26 thousand at March 31, 2019 and December 31, 2018, respectively.

Unfunded loan and lease commitments and letters of credit are not included in the tables above. As of March 31, 2019 and December 31, 2018, the Company had $5.7 billion and $5.8 billion of unfunded loan and lease commitments and

letters of credit. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related reserve for unfunded commitments, which totaled $13.8 million and $14.2 million at March 31, 2019 and December 31, 2018, respectively. No active trading market exists for these instruments, and the estimated fair value does not include value associated with the borrower relationship. The Company does not estimate the fair values of certain unfunded loan and lease commitments that can be canceled by providing notice to the borrower. As Company-level data is incorporated into the fair value measurement, unfunded loan and lease commitments and letters of credit are classified as Level 3.

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 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 March 31, 2019 and December 31, 2018:

(dollars in thousands)	Level 1	Level 2	Level 3
March 31, 2019			
Impaired loans	**$ —**	**$ —**	**$ 357**
December 31, 2018			
Impaired loans	$ —	$ —	$ 402

Total losses on impaired loans were $0.5 million for the three months ended March 31, 2018. No losses were recognized on impaired loans for the three months ended March 31, 2019.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of March 31, 2019 and

December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

	Quantitative Information about Level 3 Fair Value Measurements at March 31, 2019			
(dollars in thousands)	**Fair value**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted Average)**
Impaired loans	**$ 357**	**Appraisal Value**	**Appraisal Value**	**n/m[(1)]**
Visa derivative	**$ (1,839)**	**Discounted Cash Flow**	**Expected Conversion Rate**	**1.6298**
			Expected Term	**4 years**
			Growth Rate	**15%**

	Quantitative Information about Level 3 Fair Value Measurements at December 31, 2018			
(dollars in thousands)	**Fair value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Impaired loans	$ 402	Appraisal Value	Appraisal Value	n/m[(1)]
Visa derivative	$ (2,607)	Discounted Cash Flow	Expected Conversion Rate	1.6298
			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.

18. 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 60 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, automobile loans and auto dealer financing, business 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	Total
Three Months Ended March 31, 2019				
Net interest income	**$ 113,903**	**$ 27,980**	**$ 3,206**	**$ 145,089**
Provision for loan and lease losses	**(2,572)**	**(3,108)**	**—**	**(5,680)**
Net interest income after provision for loan and lease losses	**111,331**	**24,872**	**3,206**	**139,409**
Noninterest income	**24,176**	**18,081**	**4,815**	**47,072**
Noninterest expense	**(57,166)**	**(19,485)**	**(15,972)**	**(92,623)**
Income (loss) before (provision) benefit for income taxes	**78,341**	**23,468**	**(7,951)**	**93,858**
(Provision) benefit for income taxes	**(19,927)**	**(6,041)**	**2,034**	**(23,934)**
Net income (loss)	**$ 58,414**	**$ 17,427**	**$ (5,917)**	**$ 69,924**

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Three Months Ended March 31, 2018				
Net interest income	$ 109,654	$ 27,879	$ 2,139	$ 139,672
Provision for loan and lease losses	(2,348)	(3,602)	—	(5,950)
Net interest income after provision for loan and lease losses	107,306	24,277	2,139	133,722
Noninterest income	22,732	20,000	5,968	48,700
Noninterest expense	(56,461)	(19,648)	(14,478)	(90,587)
Income (loss) before (provision) benefit for income taxes	73,577	24,629	(6,371)	91,835
(Provision) benefit for income taxes	(19,207)	(6,328)	1,658	(23,877)
Net income (loss)	$ 54,370	$ 18,301	$ (4,713)	$ 67,958

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 United States generally or in Hawaii, Guam and Saipan in particular; concentrated exposures to certain asset classes and individual obligors; the effect of the current low interest rate environment or changes in interest rates on our business including our net interest income, net interest margin, the fair value of our investment securities, and our mortgage loan originations, mortgage servicing rights and mortgage loans held for sale; changes in the method pursuant to which LIBOR and other benchmark rates are determined; the possibility we might underestimate the credit losses inherent in our loan and lease portfolio; our inability to receive dividends from the 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 the 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; the effect of a material breach of, or disruption to, the security of any of our or our vendors' systems; the failure to properly use and protect our customer and employee information and data; 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; our use of the secondary mortgage market as a source of liquidity; risks associated with the sale of loans and with our use of appraisals in valuing and monitoring loans; the possibility that actual results may differ from estimates and forecasts; the potential for environmental liability; 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, including the enactment of the Tax Cut and Jobs Act (Public Law 115-97) on December 22, 2017; 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; our ability to continue to pay dividends on our common stock; contingent liabilities and unexpected tax liabilities that may be applicable to us as a result of the reorganization transactions effected by 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, 2018. 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

FHI is a bank holding company, which owns 100% of the outstanding common stock of FHB, its only direct, wholly owned subsidiary. FHB 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. 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.

Transition to an Independent Public Company

On July 1, 2016, FHI became a direct wholly owned subsidiary of BWC, a Delaware corporation and an indirect wholly owned subsidiary of BNPP. In connection with FHI's initial public offering in August 2016, BNPP announced its intent to sell its interest in FHI, including FHI's wholly owned subsidiary FHB, over time, subject to market conditions and other considerations. BNPP, through FHI's IPO completed on August 9, 2016 and secondary offerings completed on February 17, 2017, May 10, 2018, August 1, 2018 and September 10, 2018 sold, in the aggregate (inclusive of sales pursuant to the underwriters' exercise of overallotment options in connection with such secondary sales), 109,830,000 shares of FHI common stock to the public. Concurrently with two of the secondary offerings in 2018, FHI entered into share repurchase agreements with BWC, to repurchase, in the aggregate, 4,769,870 shares of FHI common stock.

On February 1, 2019, BWC completed the sale of its remaining 24,859,750 shares of FHI common stock in a public offering. FHI did not receive any of the proceeds from the sales of shares of FHI common stock in that offering, any of the secondary offerings described above or the IPO. As a result of the completion of the February 1, 2019 public offering, BNPP (through BWC, the selling stockholder) fully exited its ownership interest in FHI common stock.

Following the completion of the February 2019 offering, each of the remaining BNPP designees to the FHI board of directors, resigned from the board of directors. As a result, all directors designated by BNPP have resigned from the FHI board of directors.

Contractual Arrangements with BNPP and/or its Affiliates

The Company and/or Bank entered into contractual arrangements with BNPP and/or its affiliates to provide a framework for our ongoing relationship with BNPP, including a Stockholder Agreement, a Transitional Services Agreement, a Registration Rights Agreement, a License Agreement and an Insurance Agreement. Among other things, the Stockholder Agreement set forth certain agreements that governed the relationship between the Company and BNPP following the IPO until the "Non-Control Date", which is defined in the Stockholder Agreement as the date on which BNPP ceases to control the Company for purposes of the Bank Holding Company Act of 1956 as provided for in a written determination from the Board of Governors of the Federal Reserve System or such earlier date as BNPP may designate in writing to the Company. On February 12, 2019, following the completion of BNPP's divestiture of the Company's common stock on February 1, 2019 and the resignation from the Company's board of directors of all remaining directors nominated by BNPP, under the terms of the Stockholder Agreement, the non-control date under the Stockholder Agreement occurred. As a result, BNPP's governance and consent rights under the Stockholder Agreement, and its substantive rights under the Registration Rights Agreement, have terminated. See "Our Relationship with BNPP and Certain Other Related Party Transactions" in our Definitive Proxy Statement on Schedule 14A filed with the SEC on March 25, 2019 for further information.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company reflect the results of operations, financial position and cash flows of FHI and its wholly owned subsidiary, FHB. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with 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, 2018 and filed with the U.S. Securities and Exchange Commission (the "SEC").

Hawaii Economy

Hawaii's economy continued to perform well during the three months ended March 31, 2019, led in large part by a strong tourism industry and real estate market. Visitor arrivals for the first two months in 2019 increased slightly by 0.5% compared to the same period in 2018, while total visitor spending for the first two months in 2019 decreased by 2.7% compared to the same period in 2018, according to the Hawaii Tourism Authority. The statewide seasonally-adjusted unemployment rate was 2.8% in March 2019 compared to 2.1% in March 2018, according to the Hawaii State Department of Labor & Industrial Relations. The national seasonally-adjusted unemployment rate was 3.8% in March 2019 compared to 4.1% in March 2018. With regards to housing, the volume of single-family home sales and condominium sales on Oahu decreased by 5.7% and 10.5%, respectively, for the three months ended March 31, 2019 compared to the same period in 2018 according to the Honolulu Board of Realtors. The median price of single-family home sales on Oahu was $780,000, or an increase of 2.0% for the three months ended March 31, 2019 as compared to the same period in 2018. However, the median price of condominium sales was $411,250, or a decrease of 3.2% for the three months ended March 31, 2019 as compared to the same period in 2018. As of March 31, 2019, months of inventory of single family homes and condominiums on Oahu remained low at approximately 3.4 and 3.6 months, respectively.

Hawaii's economy continued to reflect positive growth during the three months ended March 31, 2019, but is significantly dependent on U.S. mainland economic conditions as well as key international economies, particularly Japan. We continue to monitor construction activity in Hawaii and the local economy's ability to absorb further planned expansion given deteriorating home affordability, tourism in Hawaii, rising interest rates in the U.S., the agenda of the U.S. administration and its impact on existing banking regulations, changes in Japan's economic conditions including the exchange rate of its currency, and the economic and regulatory conditions of the European Union, as such factors could impact our profitability in future reporting periods.

Selected Financial Data

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 March 31, 2019	2018
Income Statement Data:		
Interest income	**$ 172,561**	$ 154,936
Interest expense	**27,472**	15,264
Net interest income	**145,089**	139,672
Provision for loan and lease losses	**5,680**	5,950
Net interest income after provision for loan and lease losses	**139,409**	133,722
Noninterest income	**47,072**	48,700
Noninterest expense	**92,623**	90,587
Income before provision for income taxes	**93,858**	91,835
Provision for income taxes	**23,934**	23,877
Net income	**$ 69,924**	$ 67,958
Basic earnings per share	**$ 0.52**	$ 0.49
Diluted earnings per share	**$ 0.52**	$ 0.49
Basic weighted-average outstanding shares	**134,879,336**	139,600,712
Diluted weighted-average outstanding shares	**135,198,345**	139,732,100
Dividends declared per share	**$ 0.26**	$ 0.24
Dividend payout ratio	**50.00 %**	48.98 %
Supplemental Income Statement Data (non-GAAP)[1]:		
Core net interest income	**$ 145,089**	$ 139,672
Core noninterest income	**49,685**	48,700
Core noninterest expense	**92,362**	90,180
Core net income	**72,052**	68,259
Core basic earnings per share	**0.53**	0.49
Core diluted earnings per share	**0.53**	0.49
Other Financial Information / Performance Ratios[2]:		
Net interest margin	**3.23 %**	3.13 %
Core net interest margin (non-GAAP)[1],[3]	**3.23 %**	3.13 %
Efficiency ratio	**48.20 %**	48.08 %
Core efficiency ratio (non-GAAP)[1],[4]	**47.42 %**	47.86 %
Return on average total assets	**1.38 %**	1.35 %
Core return on average total assets (non-GAAP)[1],[5]	**1.43 %**	1.36 %
Return on average tangible assets (non-GAAP)[11]	**1.45 %**	1.42 %
Core return on average tangible assets (non-GAAP)[1],[6]	**1.50 %**	1.43 %
Return on average total stockholders' equity	**11.16 %**	11.02 %
Core return on average total stockholders' equity (non-GAAP)[1],[7]	**11.50 %**	11.07 %
Return on average tangible stockholders' equity (non-GAAP)[11]	**18.35 %**	18.32 %
Core return on average tangible stockholders' equity (non-GAAP)[1],[8]	**18.91 %**	18.40 %
Noninterest expense to average assets	**1.83 %**	1.80 %
Core noninterest expense to average assets (non-GAAP)[1],[9]	**1.83 %**	1.79 %

	March 31, 2019	December 31, 2018
Balance Sheet Data:		
Cash and cash equivalents	**$ 617,867**	$ 1,003,637
Investment securities	**4,485,660**	4,498,342
Loans and leases	**13,197,454**	13,076,191
Allowance for loan and lease losses	**141,546**	141,718
Goodwill	**995,492**	995,492
Total assets	**20,441,136**	20,695,678
Total deposits	**16,795,244**	17,150,068
Long-term borrowings	**600,028**	600,026
Total liabilities	**17,827,934**	18,170,839
Total stockholders' equity	**2,613,202**	2,524,839
Book value per share	**$ 19.36**	$ 18.72
Tangible book value per share (non-GAAP)(11)	**$ 11.98**	$ 11.34
Asset Quality Ratios:		
Non-accrual loans and leases / total loans and leases	**0.03 %**	0.05 %
Allowance for loan and lease losses / total loans and leases	**1.07 %**	1.08 %
Net charge-offs / average total loans and leases(10)	**0.18 %**	0.14 %

Capital Ratios:	March 31, 2019	December 31, 2018
Common Equity Tier 1 Capital Ratio	**12.05 %**	11.97 %
Tier 1 Capital Ratio	**12.05 %**	11.97 %
Total Capital Ratio	**13.06 %**	12.99 %
Tier 1 Leverage Ratio	**8.71 %**	8.72 %
Total stockholders' equity to total assets	**12.78 %**	12.20 %
Tangible stockholders' equity to tangible assets (non-GAAP)(11)	**8.32 %**	7.76 %

(1) We present net interest income, noninterest income, noninterest expense, net income, basic earnings per share, diluted 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**

	For the Three Months Ended March 31,	
(dollars in thousands, except per share data)	**2019**	**2018**
Net interest income	**$ 145,089**	$ 139,672
Core net interest income (non-GAAP)	**$ 145,089**	$ 139,672
Noninterest income	**$ 47,072**	$ 48,700
Loss on sale of securities	**2,613**	—
Core noninterest income (non-GAAP)	**$ 49,685**	$ 48,700
Noninterest expense	**$ 92,623**	$ 90,587
One-time items[(a)]	**(261)**	(407)
Core noninterest expense (non-GAAP)	**$ 92,362**	$ 90,180
Net income	**$ 69,924**	$ 67,958
Loss on sale of securities	**2,613**	—
One-time noninterest expense items[(a)]	**261**	407
Tax adjustments[(b)]	**(746)**	(106)
Total core adjustments	**2,128**	301
Core net income (non-GAAP)	**$ 72,052**	$ 68,259
Basic earnings per share	**$ 0.52**	$ 0.49
Diluted earnings per share	**$ 0.52**	$ 0.49
Efficiency ratio	**48.20 %**	48.08 %
Core basic earnings per share (non-GAAP)	**$ 0.53**	$ 0.49
Core diluted earnings per share (non-GAAP)	**$ 0.53**	$ 0.49
Core efficiency ratio (non-GAAP)	**47.42 %**	47.86 %

(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 months ended March 31, 2019 and 2018.

(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, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from our 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.

(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 total 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) Net charge-offs / average total loans and leases are annualized for the three months ended March 31, 2019.

(11) Return on average tangible assets, return on average tangible stockholders' equity, tangible book value per share and tangible stockholders' equity to tangible assets are non-GAAP financial measures. We compute our return on average tangible assets as the ratio of net income to average tangible assets. We compute our return on average tangible stockholders' equity as the ratio of net income to average tangible stockholders' equity. We compute our tangible book value per share as the ratio of tangible stockholders' equity to outstanding shares. We compute our tangible stockholders' equity to tangible assets as the ratio of tangible stockholders' equity to tangible assets. 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 shareholders 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 March 31,	
(dollars in thousands, except per share data)	**2019**	**2018**
Income Statement Data:		
Net income	**$ 69,924**	$ 67,958
Average total stockholders' equity	**$ 2,540,600**	$ 2,500,299
Less: average goodwill	**995,492**	995,492
Average tangible stockholders' equity	**$ 1,545,108**	$ 1,504,807
Average total assets	**$ 20,494,837**	$ 20,407,718
Less: average goodwill	**995,492**	995,492
Average tangible assets	**$ 19,499,345**	$ 19,412,226
Return on average total stockholders' equity[a]	**11.16 %**	11.02 %
Return on average tangible stockholders' equity (non-GAAP)[a]	**18.35 %**	18.32 %
Return on average total assets[a]	**1.38 %**	1.35 %
Return on average tangible assets (non-GAAP)[a]	**1.45 %**	1.42 %

	As of March 31, 2019	As of December 31, 2018
Balance Sheet Data:		
Total stockholders' equity	**$ 2,613,202**	$ 2,524,839
Less: goodwill	**995,492**	995,492
Tangible stockholders' equity	**$ 1,617,710**	$ 1,529,347
Total assets	**$ 20,441,136**	$ 20,695,678
Less: goodwill	**995,492**	995,492
Tangible assets	**$ 19,445,644**	$ 19,700,186
Shares outstanding	**135,012,015**	134,874,302
Total stockholders' equity to total assets	**12.78 %**	12.20 %
Tangible stockholders' equity to tangible assets (non-GAAP)	**8.32 %**	7.76 %
Book value per share	**$ 19.36**	$ 18.72
Tangible book value per share (non-GAAP)	**$ 11.98**	$ 11.34

(a) Annualized for the three months ended March 31, 2019 and 2018.

Financial Highlights

Net income was $69.9 million for the three months ended March 31, 2019, an increase of $2.0 million or 3% as compared to the same period in 2018. Basic and diluted earnings per share were $0.52 per share for the three months ended March 31, 2019, an increase of $0.03 per share or 6% as compared to the same period in 2018. The increase was primarily due to a $5.4 million increase in net interest income, partially offset by a $2.0 million increase in noninterest expense and a $1.6 million decrease in noninterest income for the three months ended March 31, 2019.

Our return on average total assets was 1.38% for the three months ended March 31, 2019 and our return on average total stockholders’ equity was 11.16% for the three months ended March 31, 2019. Our return on average tangible assets was 1.45% for the three months ended March 31, 2019, an increase of three basis points from the same period in 2018, and our return on average tangible stockholders’ equity was 18.35% for the three months ended March 31, 2019, an increase of three basis points from the same period in 2018. We continued to prudently manage our expenses as our efficiency ratio was 48.20% for the three months ended March 31, 2019 compared to 48.08% for the same period in 2018. The increase in the efficiency ratio during the three months ended March 31, 2019 included the nonrecurring net loss on available-for-sale debt securities of $2.6 million.

Our results for the three months ended March 31, 2019 were highlighted by the following:

- Net interest income was $145.1 million for the three months ended March 31, 2019, an increase of $5.4 million or 4% as compared to the same period in 2018. Our net interest margin was 3.23% for the three months ended March 31, 2019, an increase of ten basis points as compared to the same period in 2018. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our loan categories, partially offset by higher deposit funding costs and lower average balances in our investment securities portfolio during the quarter ended March 31, 2019.

- The provision for loan and lease losses (the “Provision”) was $5.7 million for the three months ended March 31, 2019, a decrease of $0.3 million or 5%, as compared to the same period in 2018. The Provision is recorded to maintain 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 $47.1 million for the three months ended March 31, 2019, a decrease of $1.6 million or 3% as compared to the same period in 2018. The decrease was primarily due to a $2.6 million net loss on available-for-sale debt securities and a $2.2 million decrease in other noninterest income, partially offset by a $1.8 million increase in bank-owned life insurance (“BOLI”) income and a $1.2 million increase in credit and debit card fees.

- Noninterest expense was $92.6 million for the three months ended March 31, 2019, an increase of $2.0 million or 2% as compared to the same period in 2018. The increase in noninterest expense was primarily due to a $2.7 million increase in salaries and employee benefits expense, a $1.4 million increase in contracted services and professional fees, a $1.0 million increase in advertising and marketing expenses and a $1.0 million increase in card rewards program expense. This was partially offset by a $2.5 million decrease in regulatory assessment and fees and a $1.7 million decrease in other noninterest expense.

During the three months ended March 31, 2019, we continued to benefit from a strong Hawaii economy as reflected in the continued growth of our loan portfolio. 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 capital.

- Total loans and leases were $13.2 billion as of March 31, 2019, an increase of $121.3 million or 1% from December 31, 2018. We continued to experience strong growth in our commercial real estate and residential real estate portfolios. This was a reflection of a strong real estate market in Hawaii and the demand by both investors and owner occupants to acquire new real estate assets in a low interest rate environment.

- The Allowance was $141.5 million as of March 31, 2019, a decrease of $0.2 million from December 31, 2018. The ratio of our Allowance to total loans and leases outstanding was 1.07% as of March 31, 2019, a decrease of one basis point compared to December 31, 2018. 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"), Fannie Mae and Freddie Mac. The total fair value of our investment securities portfolio was $4.5 billion as of March 31, 2019, a decrease of $12.7 million compared to December 31, 2018. This decrease was primarily due to the sale of U.S. Treasury securities.

- Total deposits were $16.8 billion as of March 31, 2019, a decrease of $354.8 million or 2% as compared to December 31, 2018. The decrease in total deposits was primarily due to a $197.8 million decrease in non-public demand deposit balances and a $174.7 million decrease in public time deposit balances.

- Total stockholders' equity was $2.6 billion as of March 31, 2019, an increase of $88.4 million or 3% from December 31, 2018. The increase in stockholders' equity was primarily due to earnings for the period of $69.9 million and a net change in the fair value of our investment securities of $51.5 million. This was partially offset by dividends declared and paid to the Company's stockholders of $35.1 million for the three months ended March 31, 2019.

Analysis of Results of Operations

Net Interest Income

For the three months ended March 31, 2019 and 2018, 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 March 31, 2019			Three Months Ended March 31, 2018		
(dollars in millions)	Average Balance	Income/ Expense	Average Yield/ Rate	Average Balance	Income/ Expense	Average Yield/ Rate
Earning Assets						
Interest-Bearing Deposits in Other Banks	**$ 507.3**	**$ 3.2**	**2.56 %**	$ 616.8	$ 2.3	1.53 %
Available-for-Sale Investment Securities	**4,417.8**	**24.5**	**2.22**	5,160.3	29.0	2.28
Loans Held for Sale	**0.3**	**—**	**2.79**	0.1	—	2.99
Loans and Leases [(1)]						
Commercial and industrial	**3,166.4**	**33.2**	**4.25**	3,104.4	27.7	3.62
Commercial real estate	**3,005.2**	**35.4**	**4.77**	2,799.9	26.5	3.83
Construction	**636.7**	**7.5**	**4.77**	621.2	5.7	3.74
Residential:						
Residential mortgage	**3,535.2**	**36.0**	**4.07**	3,147.1	33.4	4.30
Home equity line	**915.7**	**8.7**	**3.85**	862.7	7.7	3.61
Consumer	**1,667.3**	**22.5**	**5.48**	1,599.6	21.3	5.41
Lease financing	**147.2**	**1.1**	**2.99**	161.8	1.2	3.10
Total Loans and Leases	**13,073.7**	**144.4**	**4.46**	12,296.7	123.5	4.07
Other Earning Assets	**92.3**	**0.5**	**2.06**	14.4	0.1	1.68
Total Earning Assets [(2)]	**18,091.4**	**172.6**	**3.85**	18,088.3	154.9	3.47
Cash and Due from Banks	**360.3**			318.9		
Other Assets	**2,043.1**			2,000.5		
Total Assets	**$ 20,494.8**			$ 20,407.7		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Savings	**$ 4,815.8**	**$ 4.2**	**0.36 %**	$ 4,543.1	$ 1.7	0.15 %
Money Market	**3,181.3**	**7.7**	**0.98**	2,710.9	1.7	0.26
Time	**3,041.8**	**11.3**	**1.51**	4,252.3	11.8	1.13
Total Interest-Bearing Deposits	**11,038.9**	**23.2**	**0.85**	11,506.3	15.2	0.54
Short-Term Borrowings	**12.8**	**0.1**	**2.45**	—	—	—
Long-Term Borrowings	**600.0**	**4.2**	**2.84**	—	—	—
Total Interest-Bearing Liabilities	**11,651.7**	**27.5**	**0.96**	11,506.3	15.2	0.54
Net Interest Income		**$ 145.1**			$ 139.7	
Interest Rate Spread			**2.89 %**			2.93 %
Net Interest Margin			**3.23 %**			3.13 %
Noninterest-Bearing Demand Deposits	**5,826.8**			5,997.8		
Other Liabilities	**475.7**			403.3		
Stockholders' Equity	**2,540.6**			2,500.3		
Total Liabilities and Stockholders' Equity	**$ 20,494.8**			$ 20,407.7		

(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 March 31, 2019 and 2018, 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 March 31, 2019 Compared to March 31, 2018		
	Volume	Rate	Total [1]
Change in Interest Income:			
Interest-Bearing Deposits in Other Banks	$ (0.5)	$ 1.4	$ 0.9
Available-for-Sale Investment Securities	(3.8)	(0.7)	(4.5)
Loans and Leases			
Commercial and industrial	0.6	4.9	5.5
Commercial real estate	2.0	6.9	8.9
Construction	0.1	1.6	1.7
Residential:			
Residential mortgage	4.4	(1.8)	2.6
Home equity line	0.5	0.5	1.0
Consumer	0.9	0.3	1.2
Lease financing	(0.1)	—	(0.1)
Total Loans and Leases	8.4	12.4	20.8
Other Earning Assets	0.4	—	0.4
Total Change in Interest Income	4.5	13.1	17.6
Change in Interest Expense:			
Interest-Bearing Deposits			
Savings	0.1	2.4	2.5
Money Market	0.3	5.6	5.9
Time	(3.9)	3.4	(0.5)
Total Interest-Bearing Deposits	(3.5)	11.4	7.9
Short-term Borrowings	0.1	—	0.1
Long-term Borrowings	4.2	—	4.2
Total Change in Interest Expense	0.8	11.4	12.2
Change in Net Interest Income	$ 3.7	$ 1.7	$ 5.4

(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 $145.1 million for the three months ended March 31, 2019, an increase of $5.4 million or 4% compared to the same period in 2018. Our net interest margin was 3.23% for the three months ended March 31, 2019, an increase of 10 basis points from the same period in 2018. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our loan categories, partially offset by higher deposit funding costs and lower average balances in our investment securities portfolio during the quarter ended March 31, 2019. For the three months ended March 31, 2019, the average balance of our loans and leases was $13.1 billion, an increase of $777.0 million or 6% compared to the same period in 2018. The higher average balance in loans and leases was primarily due to growth in our residential real estate and commercial real estate portfolios. Yields on our loans and leases were 4.46% for the three months ended March 31, 2019, an increase of 39 basis points as compared to the same period in 2018. We experienced an increase in our yields from total loans primarily due to increases in adjustable rate commercial loans, which are typically based on LIBOR. Average balances of our investment securities portfolio were $4.4 billion for the three months ended March 31, 2019, a decrease of $742.5 million or 14% from the same period in 2018. The lower average balance of investment securities was primarily due to the sale of 48 securities in January 2019. Deposit funding costs were $23.2 million for the three months ended March 31, 2019, an increase of $8.0 million compared to the same period in 2018. Rates paid on our interest-bearing deposits were 85 basis points for the three months ended March 31, 2019, an increase of 31 basis points compared to the same period in 2018. While we experienced higher rates paid on all interest-bearing deposit categories in the three months ended March 31, 2019, particularly high rates were paid on our money market deposits with an increase of 72 basis points compared to the same period in 2018.

Provision for Loan and Lease Losses

The Provision was $5.7 million for the three months ended March 31, 2019, which represented a decrease of $0.3 million compared to the same period in 2018. We recorded net charge-offs of loans and leases of $5.9 million and $4.6 million for the three months ended March 31, 2019 and 2018, respectively. This represented net charge-offs of 0.18% and 0.15% of average loans and leases, on an annualized basis, for the three months ended March 31, 2019 and 2018,

respectively. The Allowance was $141.5 million as of March 31, 2019, a decrease of $0.2 million or less than 1.0% from December 31, 2018 and represented 1.07% of total outstanding loans and leases as of March 31, 2019. 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 6 presents the major components of noninterest income for the three months ended March 31, 2019 and 2018:

Noninterest Income **Table 6**

(dollars in thousands)	Three Months Ended March 31, 2019	2018	Dollar Change	Percent Change
Service charges on deposit accounts	**$ 8,060**	$ 7,955	$ 105	1 %
Credit and debit card fees	**16,655**	15,497	1,158	7
Other service charges and fees	**9,129**	9,342	(213)	(2)
Trust and investment services income	**8,618**	8,231	387	5
Bank-owned life insurance	**3,813**	2,044	1,769	87
Investment securities losses, net	**(2,613)**	—	(2,613)	n.m
Other	**3,410**	5,631	(2,221)	(39)
Total noninterest income	**$ 47,072**	$ 48,700	$ (1,628)	(3)%

n.m. – Denotes a variance that is not a meaningful metric to inform the change in noninterest income for the three months ended March 31, 2019 to the same period in 2018.

Total noninterest income was $47.1 million for the three months ended March 31, 2019, a decrease of $1.6 million or 3% as compared to the same period in 2018.

Service charges on deposit accounts were $8.1 million for the three months ended March 31, 2019, an increase of $0.1 million or 1% as compared to the same period in 2018.

Credit and debit card fees were $16.7 million for the three months ended March 31, 2019, an increase of $1.2 million or 7% as compared to the same period in 2018. The increase was due to a $0.6 million increase in merchant service revenues, a $0.5 million increase in interchange settlement fees and a $0.1 million decrease in network association dues.

Other service charges and fees were $9.1 million for the three months ended March 31, 2019, a decrease of $0.2 million or 2% as compared to the same period in 2018.

Trust and investment services income was $8.6 million for the three months ended March 31, 2019, an increase of $0.4 million or 5% as compared to the same period in 2018. This increase was primarily due to a $0.7 million increase in business cash management fees, partially offset by a $0.1 million decrease in irrevocable trust fees and a $0.1 million decrease in tax services.

BOLI income was $3.8 million for the three months ended March 31, 2019, an increase of $1.8 million or 87% as compared to the same period in 2018. This increase was due to a $1.4 million increase in BOLI earnings and a $0.4 million increase in death benefit proceeds from a life insurance policy.

Net losses on the sale of investment securities were $2.6 million for the three months ended March 31, 2019, a decrease of $2.6 million as compared to the same period in 2018. The net loss was due to the investment portfolio restructuring and sale of the 48 investment securities for which a non-credit related OTTI write-down was recorded in December 2018 as a result of our intent to sell as of December 31, 2018.

Other noninterest income was $3.4 million for the three months ended March 31, 2019, a decrease of $2.2 million or 39% as compared to the same period in 2018. This decrease was primarily due to a $2.4 million decrease in customer-related interest rate swap fees, partially offset by a $0.2 million decrease in the amortization of mortgage servicing rights.

Noninterest Expense

Table 7 presents the major components of noninterest expense for the three months ended March 31, 2019 and 2018:

Noninterest Expense **Table 7**

(dollars in thousands)	Three Months Ended March 31, 2019	2018	Dollar Change	Percentage Change
Salaries and employee benefits	**$ 44,860**	$ 42,160	$ 2,700	6 %
Contracted services and professional fees	**13,645**	12,287	1,358	11
Occupancy	**6,986**	6,484	502	8
Equipment	**4,284**	4,588	(304)	(7)
Regulatory assessment and fees	**1,447**	3,973	(2,526)	(64)
Advertising and marketing	**1,966**	951	1,015	107
Card rewards program	**6,732**	5,718	1,014	18
Other	**12,703**	14,426	(1,723)	(12)
Total noninterest expense	**$ 92,623**	$ 90,587	$ 2,036	2 %

Total noninterest expense was $92.6 million for the three months ended March 31, 2019, an increase of $2.0 million or 2% as compared to the same period in 2018.

Salaries and employee benefits expense was $44.9 million for the three months ended March 31, 2019, an increase of $2.7 million or 6% as compared to the same period in 2018. This increase was primarily due to a $1.4 million increase in base salaries and related payroll taxes, a $0.9 million decrease in deferred loan origination costs, a $0.7 million increase in incentive compensation, and a $0.2 million increase in other compensation, primarily related to bonuses resulting from the initial public offering and related stock-based compensation. This was partially offset by a $0.7 million decrease in retirement plan expenses.

Contracted services and professional fees were $13.6 million for the three months ended March 31, 2019, an increase of $1.4 million or 11% as compared to the same period in 2018. This increase was due to a $1.3 million increase in contracted data processing expenses, primarily related to system upgrades and product enhancements.

Occupancy expense was $7.0 million for the three months ended March 31, 2019, an increase of $0.5 million or 8% as compared to the same period in 2018. This increase was primarily due to a $0.4 million increase in rent expense, a $0.1 million increase in utilities expense and a $0.1 million increase in building maintenance expense, partially offset by a $0.3 million decrease in ATM rent expense.

Regulatory assessment and fees were $1.4 million for the three months ended March 31, 2019, a decrease of $2.5 million or 64% as compared to the same period in 2018. Starting in the third quarter of 2016, there was a change in the calculation of the FDIC insurance assessment and the adoption of an additional surcharge, which resulted in a higher insurance rate. This additional surcharge required by the FDIC ended during the third quarter of 2018. The decrease of the regulatory assessment and fees for the three months ended March 31, 2019 as compared to the same period in 2018 is due to the exclusion of the additional surcharge for the three months ended March 31, 2019 and a $0.8 million decrease in the FDIC insurance assessment rate.

Advertising and marketing expense was $2.0 million for the three months ended March 31, 2019, an increase of $1.0 million or 107% as compared to the same period in 2018. This increase was primarily due to a $0.7 million decrease in vendor reimbursements, a $0.2 million increase in advertising costs and a $0.1 million increase in annual and interim reports expense.

Card rewards program expense was $6.7 million for the three months ended March 31, 2019, an increase of $1.0 million or 18% as compared to the same period in 2018. This increase was primarily due to a $0.7 million increase in priority rewards card redemptions and a $0.3 million increase in credit card cash reward redemptions.

Other noninterest expense was $12.7 million for the three months ended March 31, 2019, a decrease of $1.7 million or 12% as compared to the same period in 2018. This decrease was primarily due to a $0.5 million decrease in operational losses (which includes losses as a result of bank error, fraud, items processing, or theft), a $0.3 million decrease in charitable contributions, a $0.2 million decrease in expenses related to clean-up and repairs from severe weather which

affected the Hawaiian Islands in 2016, a $0.2 million decrease in supplies expense, a $0.2 million decrease in travel expenses and a $0.2 million decrease in other tax expense.

Provision for Income Taxes

The provision for income taxes was $23.9 million (an effective tax rate of 25.50%) for the three months ended March 31, 2019, compared with the provision for income taxes of $23.9 million (an effective tax rate of 26.00%) for the same period in 2018.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking and Treasury and Other. Table 8 summarizes net income from our business segments for the three months ended March 31, 2019 and 2018. Additional information about operating segment performance is presented in "Note 18. Reportable Operating Segments" contained in our unaudited interim consolidated financial statements.

Business Segment Net Income **Table 8**

(dollars in thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Retail Banking	**$ 58,414**	$ 54,370
Commercial Banking	**17,427**	18,301
Treasury and Other	**(5,917)**	(4,713)
Total	**$ 69,924**	$ 67,958

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 $58.4 million for the three months ended March 31, 2019, an increase of $4.0 million or 7% as compared to the same period in 2018. The increase in net income for the Retail Banking segment was primarily due to a $4.2 million increase in net interest income and a $1.4 million increase in noninterest income, partially offset by a $0.7 million increase in the provision for income taxes. The increase in net interest income was primarily due to higher spreads on our deposit portfolio, partially offset by lower spreads on our loan portfolio. The increase in noninterest income was primarily due to increases in trust and investment services income, other service charges and fees and foreign exchange transaction gains.

Commercial Banking. Our Commercial Banking segment includes our corporate banking, residential and commercial real estate loans, commercial lease financing, automobile loans and auto dealer financing, business 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 $17.4 million for the three months ended March 31, 2019, a decrease of $0.9 million or 5% as compared to the same period in 2018. The decrease in net income for the Commercial Banking segment was primarily due to a $1.9 million decrease in noninterest income, partially offset by a $0.5 million decrease in the provision for loan and lease losses. The decrease in noninterest income was primarily due to lower swap fees, partially offset by higher credit and debit card 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 in Hawaii and Guam. 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 $5.9 million for the three months ended March 31, 2019, an increase in loss of $1.2 million or 26% as compared to the same period in 2018. The increase in the net loss was primarily due to a $1.5 million increase in noninterest expense and a $1.2 million decrease in noninterest income, partially offset by a $1.1 million increase in net interest income. The increase in noninterest expense was primarily due to higher contracted data processing and advertising and marketing expenses, partially offset by a decrease in deposit insurance fees. The decrease in noninterest income was primarily due to losses on the sale of investment securities, partially offset by an increase in BOLI income. The increase in net interest income was primarily due to higher earnings credits as a result of higher average balances and yields in our loan portfolio, partially offset by lower average balances and yields in our investment securities portfolio.

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 and internal 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 FRB. As of March 31, 2019 and December 31, 2018, cash and cash equivalents were $0.6 billion and $1.0 billion, respectively. 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 $4.5 billion as of both March 31, 2019 and December 31, 2018. As of March 31, 2019 and December 31, 2018, we maintained our excess liquidity primarily in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. As of March 31, 2019, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 4.0 years. 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 FHLB and the FRB. As of March 31, 2019, we have borrowing capacity of $1.4 billion from the FHLB and $669.6 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 $15.1 billion and $15.3 billion as of March 31, 2019 and December 31, 2018, which represented 90% and 89%, 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 primarily from dividends paid by the Bank

to the Parent. Additional sources of liquidity available to us include selling residential real estate loans in the secondary market, short- and long-term borrowings and the issuance of long-term debt and equity securities.

Investment Securities

Table 9 presents the book value, which is also the estimated fair value, of our available-for-sale investment securities portfolio as of March 31, 2019 and December 31, 2018:

Investment Securities **Table 9**

(dollars in thousands)	March 31, 2019	December 31, 2018
U.S. Treasury securities	$ —	$ 389,470
Government agency debt securities	**24,765**	—
Government-sponsored enterprises debt securities	**161,595**	241,594
Government agency mortgage-backed securities	**371,035**	411,536
Government-sponsored enterprises mortgage-backed securities	**127,896**	150,847
Collateralized mortgage obligations:		
Government agency	**2,730,166**	2,682,449
Government-sponsored enterprises	**1,070,203**	602,592
Debt securities issued by state and political subdivisions	—	19,854
Total available-for-sale securities	**$ 4,485,660**	$ 4,498,342

Table 10 presents the maturity distribution at amortized cost and weighted-average yield to maturity of our available-for-sale investment securities portfolio as of March 31, 2019:

Maturities and Weighted-Average Yield on Securities[1] **Table 10**

	1 Year or Less		After 1 Year - 5 Years		After 5 Years - 10 Years		Over 10 Years		Total		
(dollars in millions)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Fair Value
As of March 31, 2019											
Available-for-Sale Securities											
Government agency debt securities[2]	$ —	— %	$ 9.2	2.93 %	$ 15.6	2.93 %	$ —	— %	$ 24.8	2.93 %	$ 24.8
Government-sponsored enterprises debt securities	—	—	100.0	1.97	64.7	2.15	—	—	164.7	2.04	161.6
Mortgage-Backed Securities[2]:											
Government agency	—	—	168.2	2.87	209.8	2.51	—	—	378.0	2.67	371.0
Government-sponsored enterprises	—	—	131.9	2.30	—	—	—	—	131.9	2.30	127.9
Collateralized mortgage obligations[2]:											
Government agency	—	—	2,241.1	2.20	537.7	2.21	—	—	2,778.8	2.20	2,730.2
Government-sponsored enterprises	—	—	836.4	2.43	240.0	3.03	—	—	1,076.4	2.56	1,070.2
Total available-for-sale securities as of March 31, 2019	$ —	— %	$ 3,486.8	2.28 %	$ 1,067.8	2.46 %	$ —	— %	$ 4,554.6	2.32 %	$ 4,485.7

(1) Weighted-average yields were computed on a fully taxable-equivalent basis.
(2) Maturities for government agency debt securities, mortgage-backed securities and collateralized mortgage obligations anticipate future prepayments.

The fair value of our available-for-sale investment securities portfolio was $4.5 billion as of March 31, 2019, a decrease of $12.7 million compared to December 31, 2018. Our available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss), unless a security is deemed to be OTTI.

As of March 31, 2019, we maintained all of our investment securities in the available-for-sale category recorded at fair value in the unaudited interim consolidated balance sheets, with $3.8 billion invested in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. Our available-for-sale portfolio also included $498.9 million in mortgage backed securities issued by Ginnie Mae, Freddie Mac and Fannie Mae, $161.6 million in debt securities issued by government-sponsored enterprises (FHLB and Federal Farm Credit Banks Funding Corporation callable bonds) and $24.8 million in debt securities issued by government agencies (Small Business Administration).

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 $6.1 million and $0.1 million as of March 31, 2019 and December 31, 2018, respectively. Gross unrealized losses in our investment securities portfolio were $75.0 million and $142.2 million as of March 31, 2019 and December 31, 2018, respectively. Lower unrealized losses in our investment

securities portfolio were primarily due to lower market interest rates as of March 31, 2019, relative to December 31, 2018, resulting in a higher valuation. The lower gross unrealized loss 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 March 31, 2019, 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. As of December 31, 2018, we intended to sell 48 investment securities with an aggregate book value of $898.2 million, primarily comprised of U.S. Treasury securities and longer duration collateralized mortgage obligations. As a result, we recorded a non-credit related OTTI write-down of $24.1 million for the year ended December 31, 2018. In January 2019, the sale of these securities were executed and the proceeds were used to invest in securities to improve portfolio return, reposition interest rate risk, maintain liquidity and to diversify asset allocation.

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 both March 31, 2019 and December 31, 2018, we held $34.1 million in FHLB stock, which is recorded as a component of other assets in our unaudited interim 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 11 presents the composition of our loan and lease portfolio by major categories as of March 31, 2019 and December 31, 2018:

Loans and Leases **Table 11**

(dollars in thousands)	**March 31, 2019**	**December 31, 2018**
Commercial and industrial	**$ 3,203,770**	$ 3,208,760
Commercial real estate	**3,147,304**	2,990,783
Construction	**595,491**	626,757
Residential:		
Residential mortgage	**3,543,964**	3,527,101
Home equity line	**907,829**	912,517
Total residential	**4,451,793**	4,439,618
Consumer	**1,653,109**	1,662,504
Lease financing	**145,987**	147,769
Total loans and leases	**$ 13,197,454**	$ 13,076,191

Total loans and leases were $13.2 billion as of March 31, 2019, an increase of $121.3 million or 1% from December 31, 2018 with increases in commercial real estate and residential real estate loans.

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 March 31, 2019, a decrease of $5.0 million or less than 1% from December 31, 2018. This decrease was primarily due to greater than expected prepayments.

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 apartments, neighborhood and grocery anchored retail, industrial, office, 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 $3.1 billion as of March 31, 2019, an increase of $156.5 million or 5% from December 31, 2018. 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 $595.5 million as of March 31, 2019, a decrease of $31.3 million or 5% from December 31, 2018.

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 LIBOR. 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 $4.5 billion as of March 31, 2019, an increase of $12.2 million or less than 1% from December 31, 2018. 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 relatively 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 $1.7 billion as of March 31, 2019, a decrease of $9.4 million or 1% from December 31, 2018. Decrease in consumer loans was primarily due to lower credit card balances.

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 $146.0 million as of March 31, 2019, a decrease of $1.8 million or 1% from December 31, 2018.

See “Note 3. Loans and Leases” and “Note 4. Allowance for Loan and Lease Losses” contained in our unaudited interim consolidated financial statements and the discussion in “Analysis of Financial Condition — Allowance for Loan and Lease Losses” of this MD&A for more information on our loan and lease portfolio.

The Company’s loan and lease portfolio includes adjustable-rate loans, primarily tied to Prime and LIBOR, hybrid-rate loans, for which the initial rate is fixed for a period from one year to as much as ten years, and fixed rate loans, for which the interest rate does not change through the life of the loan. Table 12 presents the recorded investment in our loan and lease portfolio as of March 31, 2019 by rate type:

Loans and Leases by Rate Type **Table 12**

	March 31, 2019							
	Adjustable Rate					Hybrid	Fixed	
(dollars in thousands)	Prime	LIBOR	Treasury	Other	Total	Rate	Rate	Total
Commercial and industrial	$ 253,208	$ 2,523,971	$ —	$ 1,975	$ 2,779,154	$ 13,125	$ 411,491	$ 3,203,770
Commercial real estate	44,262	1,737,768	356	1,032,781	2,815,167	80,558	251,579	3,147,304
Construction	54,051	379,734	41	60,160	493,986	680	100,825	595,491
Residential:								
Residential mortgage	24,896	200,642	131,185	50,349	407,072	365,038	2,771,854	3,543,964
Home equity line	325,245	—	62,367	—	387,612	520,128	89	907,829
Total residential	350,141	200,642	193,552	50,349	794,684	885,166	2,771,943	4,451,793
Consumer	317,338	24,064	1,821	142	343,365	13,397	1,296,347	1,653,109
Lease financing	—	—	—	—	—	—	145,987	145,987
Total loans and leases	$ 1,019,000	$ 4,866,179	$ 195,770	$ 1,145,407	$ 7,226,356	$ 992,926	$ 4,978,172	$ 13,197,454
% by rate type at March 31, 2019	8 %	37 %	1 %	9 %	55 %	7 %	38 %	100 %

Tables 13 and 14 present the geographic distribution of our loan and lease portfolio as of March 31, 2019 and December 31, 2018:

Geographic Distribution of Loan and Lease Portfolio **Table 13**

	March 31, 2019				
(dollars in thousands)	Hawaii	U.S. Mainland[(1)]	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	$1,262,493	$1,749,077	$ 111,911	$ 80,289	$ 3,203,770
Commercial real estate	2,140,749	635,503	370,678	374	3,147,304
Construction	286,369	280,826	28,296	—	595,491
Residential:					
Residential mortgage	3,421,951	2,856	119,157	—	3,543,964
Home equity line	877,524	—	30,305	—	907,829
Total residential	4,299,475	2,856	149,462	—	4,451,793
Consumer	1,236,585	22,474	391,888	2,162	1,653,109
Lease financing	45,658	93,100	7,229	—	145,987
Total Loans and Leases	$9,271,329	$2,783,836	$1,059,464	$ 82,825	$13,197,454
Percentage of Total Loans and Leases	70%	21%	8%	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 14**

	December 31, 2018				
(dollars in thousands)	Hawaii	U.S. Mainland[(1)]	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	$1,289,171	$1,707,713	$ 130,477	$ 81,399	$ 3,208,760
Commercial real estate	2,003,997	615,364	370,546	876	2,990,783
Construction	326,006	272,709	28,042	—	626,757
Residential:					
Residential mortgage	3,405,867	2,890	118,344	—	3,527,101
Home equity line	882,805	—	29,712	—	912,517
Total residential	4,288,672	2,890	148,056	—	4,439,618
Consumer	1,239,563	23,038	397,783	2,120	1,662,504
Lease financing	46,409	93,954	7,406	—	147,769
Total Loans and Leases	$9,193,818	$2,715,668	$1,082,310	$ 84,395	$13,076,191
Percentage of Total Loans and Leases	70%	21%	8%	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 the Shared National Credits Program 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 and no new leveraged leases are being added to the portfolio. Our consumer lending activities are concentrated primarily in Hawaii and, to a smaller extent, in Guam and Saipan.

Table 15 presents certain contractual loan maturity categories and sensitivities of those loans to changes in interest rates as of March 31, 2019:

Maturities for Selected Loan Categories[(1)] **Table 15**

	March 31, 2019			
(dollars in thousands)	Due in One Year or Less	Due After One to Five Years	Due After Five Years	Total
Commercial and industrial	**$1,278,032**	**$1,577,218**	**$ 348,520**	**$3,203,770**
Construction	**252,084**	**200,991**	**142,416**	**595,491**
Total Loans and Leases	**$1,530,116**	**$1,778,209**	**$ 490,936**	**$3,799,261**
Total of loans with:				
Adjustable interest rates	**$1,443,412**	**$1,475,841**	**$ 353,887**	**$3,273,140**
Hybrid interest rates	**1,670**	**3,823**	**8,312**	**13,805**
Fixed interest rates	**85,034**	**298,545**	**128,737**	**512,316**
Total Loans and Leases	**$1,530,116**	**$1,778,209**	**$ 490,936**	**$3,799,261**

(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 TDR.

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

Table 16 presents information on our non-performing assets and accruing loans and leases past due 90 days or more as of March 31, 2019 and December 31, 2018:

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

(dollars in thousands)	March 31, 2019	December 31, 2018
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial Loans:		
Commercial and industrial	$ 190	$ 274
Commercial real estate	—	1,658
Total Commercial Loans	190	1,932
Residential Loans:		
Residential mortgage	4,090	4,611
Total Residential Loans	4,090	4,611
Total Non-Accrual Loans and Leases	4,280	6,543
Other Real Estate Owned	124	751
Total Non-Performing Assets	$ 4,404	$ 7,294
Accruing Loans and Leases Past Due 90 Days or More		
Commercial Loans:		
Commercial and industrial	$ 350	$ 141
Construction	89	—
Total Commercial Loans	439	141
Residential Loans:		
Residential mortgage	—	32
Home equity line	2,448	2,842
Total Residential Loans	2,448	2,874
Consumer	3,538	3,373
Total Accruing Loans and Leases Past Due 90 Days or More	$ 6,425	$ 6,388
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	25,229	24,033
Total Loans and Leases	$ 13,197,454	$ 13,076,191
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	0.03 %	0.05 %
Ratio of Non-Performing Assets to Total Loans and Leases and Other Real Estate Owned	0.03 %	0.06 %
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	0.08 %	0.10 %

Table 17 presents the activity in Non-Performing Assets (“NPAs”) for the three months ended March 31, 2019:

Non-Performing Assets — **Table 17**

(dollars in thousands)	Three Months Ended March 31, 2019
Balance at beginning of period	$ 7,294
Additions	1,050
Reductions	
Payments	(2,226)
Return to accrual status	(1,087)
Sales of other real estate owned	(627)
Total Reductions	(3,940)
Balance at End of Period	$ 4,404

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 financial condition and loan repayment capabilities.

Total NPAs were $4.4 million as of March 31, 2019, a decrease of $2.9 million or 40% from December 31, 2018. The ratio of our NPAs to total loans and leases and other real estate owned was 0.03% as of March 31, 2019, a decrease of three basis points from December 31, 2018. The decrease in total NPAs was primarily due to a $1.7 million decrease in commercial real estate non-accrual loans, a $0.5 million decrease in residential mortgage non-accrual loans and a $0.6 million decrease in other real estate owned.

The largest component of our NPAs continues to be residential mortgage loans. The level of these NPAs can remain elevated due to a lengthy judicial foreclosure process in Hawaii. As of March 31, 2019, residential mortgage non-accrual loans were $4.1 million, a decrease of $0.5 million or 11% from December 31, 2018. As of March 31, 2019, our residential mortgage non-accrual loans were comprised of 28 loans with a weighted average current LTV ratio of 64%.

There were no commercial real estate non-accrual loans as of March 31, 2019, a decrease of $1.7 million or 100% from December 31, 2018. This decrease was attributable to payoffs of four commercial real estate non-accrual loans during the three months ended March 31, 2019.

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 $0.1 million and $0.8 million as of March 31, 2019 and December 31, 2018, respectively, and was comprised of one residential real estate property as of March 31, 2019 and two residential real estate properties as of December 31, 2018.

NPAs continue to remain at relatively low levels due to strong general economic conditions in Hawaii, led by strong tourism and construction industries, low unemployment and a continued strong real estate market. 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.

Loans and leases past due 90 days or more and still accruing interest were $6.4 million as of March 31, 2019, an increase of nil or 1% as compared to December 31, 2018. Consumer loans and commercial and industrial loans that were past due 90 days or more and still accruing interest increased by $0.4 million during the three months ended March 31, 2019. This was offset by decreases of $0.4 million in home equity lines that were past due 90 days or more and still accruing interest during the three months ended March 31, 2019.

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 $29.5 million and $30.6 million as of March 31, 2019 and December 31, 2018, respectively. These impaired loans had a related Allowance of $0.9 million and $0.5 million as of March 31, 2019 and December 31, 2018. The decrease in impaired loans during the three months ended March 31, 2019 was primarily due to a net decrease of four commercial real estate loans totaling $1.7 million, partially offset by a net increase of three commercial and industrial loans totaling $0.8 million. The impaired loan balance is further decreased by charge-offs and paydowns. As of both March 31, 2019 and December 31, 2018, we recorded charge-offs of $0.7 million related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of March 31, 2019 had been accrued under the original terms, approximately $0.1 million in additional interest income would have been recorded during the three months ended March 31, 2019, respectively, compared to $0.2 million in additional interest income that would have been recorded for the same period in 2018, respectively. Actual interest income recorded on these loans was $0.5 million for both the three months ended March 31, 2019 and 2018.

Loans Modified in a Troubled Debt Restructuring

Table 18 presents information on loans whose terms have been modified in a TDR as of March 31, 2019 and December 31, 2018:

Loans Modified in a Troubled Debt Restructuring **Table 18**

(dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	**$ 9,883**	$ 8,445
Commercial real estate	**3,907**	4,086
Total commercial	**13,790**	12,531
Residential mortgage	**12,414**	12,128
Total residential	**12,414**	12,128
Total	**$ 26,204**	$ 24,659

Loans modified in a TDR were $26.2 million as of March 31, 2019, an increase of $1.5 million or 6% from December 31, 2018. This increase was primarily due to the addition of four commercial and industrial loans of $0.9 million and one residential mortgage loan of $0.4 million. As of March 31, 2019, $25.2 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 timely 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 March 31, 2019 and December 31, 2018 based on our ongoing analysis of estimated probable loan and lease losses, credit risk profiles, economic conditions, coverage ratios and other relevant factors.

Table 19 presents an analysis of our Allowance for the periods indicated:

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

(dollars in thousands)	Three Months Ended March 31, 2019	2018
Balance at Beginning of Period	**$ 141,718**	$ 137,253
Loans and Leases Charged-Off		
Commercial Loans:		
Commercial and industrial	**—**	(475)
Lease financing	**(24)**	—
Total Commercial Loans	**(24)**	(475)
Consumer	**(8,598)**	(6,625)
Total Loans and Leases Charged-Off	**(8,622)**	(7,100)
Recoveries on Loans and Leases Previously Charged-Off		
Commercial Loans:		
Commercial and industrial	**37**	64
Commercial real estate	**31**	122
Total Commercial Loans	**68**	186
Residential	**250**	182
Consumer	**2,452**	2,103
Total Recoveries on Loans and Leases Previously Charged-Off	**2,770**	2,471
Net Loans and Leases Charged-Off	**(5,852)**	(4,629)
Provision for Loan and Lease Losses	**5,680**	5,950
Balance at End of Period	**$ 141,546**	$ 138,574
Average Loans and Leases Outstanding	**$ 13,073,708**	$ 12,296,678
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding[1]	**0.18 %**	0.15 %
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	**1.07 %**	1.11 %

[1] Annualized for the three months ended March 31, 2019 and 2018.

Tables 20 and 21 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 March 31, 2019 and December 31, 2018:

Allocation of the Allowance by Loan and Lease Category **Table 20**

(dollars in thousands)	March 31, 2019	December 31, 2018
Commercial and industrial	**$ 31,793**	$ 34,501
Commercial real estate	**21,197**	19,725
Construction	**5,381**	5,813
Lease financing	**411**	432
Total commercial	**58,782**	60,471
Residential	**44,911**	44,906
Consumer	**35,099**	35,813
Unallocated	**2,754**	528
Total Allowance for Loan and Lease Losses	**$ 141,546**	$ 141,718

Allocation of the Allowance by Loan and Lease Category (as a percentage of total loans and leases outstanding) **Table 21**

	March 31, 2019		December 31, 2018	
	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	**0.99 %**	**24.28 %**	1.08 %	24.54 %
Commercial real estate	**0.67**	**23.85**	0.66	22.87
Construction	**0.90**	**4.51**	0.93	4.79
Lease financing	**0.28**	**1.11**	0.29	1.13
Total commercial	**0.83**	**53.75**	0.87	53.33
Residential	**1.01**	**33.72**	1.01	33.96
Consumer	**2.12**	**12.53**	2.15	12.71
Total	**1.07 %**	**100.00 %**	1.08 %	100.00 %

As of March 31, 2019, the Allowance was $141.5 million or 1.07% of total loans and leases outstanding, compared with an Allowance of $141.7 million or 1.08% of total loans and leases outstanding as of December 31, 2018. 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 $5.9 million or 0.18% of total average loans and leases, on an annualized basis, for the three months ended March 31, 2019 compared to $4.6 million or 0.15% of total average loans and leases, on an annualized basis, for three months ended March 31, 2018. Net recoveries in our commercial lending portfolio were nil for the three months ended March 31, 2019 compared to net charge-offs of $0.3 million for the three months ended March 31, 2018. Net recoveries in our residential lending portfolio were $0.3 million for the three months ended March 31, 2019 compared to $0.2 million net recoveries for the three months ended March 31, 2018. Net charge-offs in our consumer lending portfolio were $6.1 million and $4.5 million for the three months ended March 31, 2019 and 2018, respectively. Net charge-offs in our consumer portfolio segment include those related to credit cards, automobile loans, installment loans and small business lines of credit and reflect the inherent risk associated with these loans.

As of March 31, 2019, the allocation of the Allowance to our commercial, residential and consumer loans was comparable to the respective allocations as of December 31, 2018. 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 both March 31, 2019 and December 31, 2018. Our goodwill originated from the acquisition of BWC by BNPP in December 2001. Goodwill generated in that acquisition was recorded on the balance sheet of the 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 months ended March 31, 2019. 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 $462.4 million as of March 31, 2019, an increase of $16.0 million or 4% from December 31, 2018. This increase was primarily due to Accounting Standard Update No. 2016-02, *Leases (Topic 842)*, which required the Company to record a right-of-use asset of $50.6 million as part of other assets. This was partially offset by a $36.1 million decrease in current tax receivables and deferred tax assets.

Deposits

Deposits are the primary funding source for the Bank 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 22 presents the composition of our deposits as of March 31, 2019 and December 31, 2018:

Deposits **Table 22**

(dollars in thousands)	March 31, 2019	December 31, 2018
Demand	**$ 5,843,480**	$ 6,007,941
Savings	**4,884,418**	4,853,285
Money Market	**3,156,056**	3,196,678
Time	**2,911,290**	3,092,164
Total Deposits[1]	**$ 16,795,244**	$ 17,150,068

(1) Public deposits were $1.5 billion as of March 31, 2019, a decrease of $80.1 million or 5% as compared to December 31, 2018.

Total deposits were $16.8 billion as of March 31, 2019, a decrease of $354.8 million or 2% from December 31, 2018. The decrease in deposit balances stemmed from a $180.9 million or 6% decrease in time deposit balances, primarily from a $174.7 million decrease in public time deposits, and a $164.5 million or 3% decrease in demand deposit balances, primarily from a $197.8 million decrease in non-public demand deposit balances.

Long-term Borrowings

As of March 31, 2019 and December 31, 2018, the Company's long-term borrowings included $600.0 million in FHLB fixed-rate advances with a weighted average interest rate of 2.80% and maturity dates ranging from 2020 to 2024. As of March 31, 2019, the available remaining borrowing capacity with the FHLB was $1.4 billion. The FHLB fixed rate advances and remaining borrowing capacity were secured by residential real estate loan collateral as of March 31, 2019 and December 31, 2018.

Pension and Postretirement Plan Obligations

We have a noncontributory qualified 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 noncontributory qualified defined benefit pension plan, the unfunded supplemental executive retirement plan and the directors' retirement plan are all frozen to new participants. On March 11, 2019, the Company's board of directors approved an amendment to the SERP to freeze the SERP. As a result of such amendment, effective July 1, 2019, there will be no new accruals of benefits, including service accruals. 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 $119.8 million as of March 31, 2019, an increase of $0.6 million from December 31, 2018. This increase was primarily due to net periodic benefit costs for the three months ended March 31, 2019 of $2.6 million, partially offset by payments of $2.0 million.

See ''Note 16. 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 March 31, 2019, aggregate cross-border outstandings in countries which amounted to 0.75% to 1% of our total consolidated assets were approximately $184.8 million to Japan. As of December 31, 2018, aggregate cross-border outstandings in countries which amounted to 0.75% to 1% of our total consolidated assets were approximately $186.3 million to Japan. There were no cross-border outstandings in excess of 1% of our total consolidated assets as of both March 31, 2019 and December 31, 2018.

Capital

In July 2013, the federal bank regulators approved final 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 (the "Capital Rules"). Subject to a phase-in period for various provisions, the Capital Rules became effective for us and for the Bank on January 1, 2015. The 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 Capital Rules, among other things, (i) introduced a capital measure called CET1 capital, (ii) specified that Tier 1 capital consists of CET1 capital and ''Additional Tier 1 capital'' instruments meeting specified requirements, (iii) defined CET1 capital narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 capital and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments to capital as compared to prior regulations.

Under the Capital Rules, the minimum capital ratios that became effective on January 1, 2015 were as follows:

- 4.5% CET1 capital to risk-weighted assets,
- 6.0% Tier 1 capital (that is, CET1 capital plus Additional Tier 1 capital) to risk-weighted assets,
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets, and
- 4.0% Tier 1 capital to average quarterly 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 capital began on January 1, 2015 and were phased-in with full implementation beginning on January 1, 2019. Implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and was phased-in in increments of 0.625% per year until it reached 2.5% on January 1, 2019.

As of March 31, 2019, the Company's capital levels remained characterized as "well capitalized" under the Capital Rules. Our regulatory capital ratios, calculated in accordance with the Capital Rules, are presented in Table 23 below. There have been no conditions or events since March 31, 2019 that management believes have changed either the Company's or the Bank's capital classifications.

Regulatory Capital **Table 23**

(dollars in thousands)	March 31, 2019	December 31, 2018
Stockholders' Equity	**$ 2,613,202**	$ 2,524,839
Less:		
Goodwill	**995,492**	995,492
Accumulated other comprehensive loss, net	**(78,754)**	(132,195)
Common Equity Tier 1 Capital and Tier 1 Capital	**$ 1,696,464**	$ 1,661,542
Add:		
Allowable Reserve for Loan and Lease Losses and Unfunded Commitments	**142,146**	142,318
Total Capital	**$ 1,838,610**	$ 1,803,860
Risk-Weighted Assets	**$ 14,078,578**	$ 13,884,976
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	**12.05 %**	11.97 %
Tier 1 Capital Ratio	**12.05 %**	11.97 %
Total Capital Ratio	**13.06 %**	12.99 %
Tier 1 Leverage Ratio	**8.71 %**	8.72 %

Total stockholders' equity was $2.6 billion as of March 31, 2019, an increase of $88.4 million or 3% from December 31, 2018. The increase in stockholders' equity was primarily due to earnings for the period of $69.9 million and a net change in the fair value of our investment securities of $51.5 million. This was partially offset by dividends declared and paid to the Company's stockholders of $35.1 million for the three months ended March 31, 2019.

In April 2019, the Company's Board of Directors declared a quarterly cash dividend of $0.26 per share on our outstanding shares. The dividend will be paid on June 7, 2019 to shareholders of record at the close of business on May 28, 2019.

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 tax credit investments in partnerships and limited liability companies. Variable interests are defined as contractual ownership or other interest 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 March 31, 2019 and December 31, 2018, the unpaid principal balance of our

portfolio of residential mortgage loans sold was $2.6 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 three months ended March 31, 2019, there was one repurchase of a residential mortgage loan of $0.4 million and there were no pending repurchase requests.

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 the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective servicing agreements. However, if 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 three months ended March 31, 2019, we had no repurchase requests related to loan servicing activities, nor were there any pending repurchase requests as of March 31, 2019.

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 March 31, 2019, 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 March 31, 2019, 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 loans sold to investors.

Contractual Obligations

Our contractual obligations have not changed materially since previously reported as of December 31, 2018.

Future Application of Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of March 31, 2019, 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 this 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 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 further categorized into the following classes: residential mortgages (loans secured by 1-4 family residential properties and home equity loans) and home equity lines of credit. 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, with an average loan size of approximately $337,000. 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 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 home equity lines of credit with variable rates; fixed rate options may be available post-closing. All lines are underwritten at 2% over the fully indexed rate. Our procedures for underwriting home equity lines of credit 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 an evaluation of credit history.

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, our customers and our results of operations 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 March 31, 2019 and December 31, 2018, 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 on a quarterly basis 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 24 presents, for the twelve months subsequent to March 31, 2019 and December 31, 2018, 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 measured base case scenario. The base case scenario assumes that the

balance sheet and interest rates are generally unchanged. We evaluate the sensitivity by using a static forecast, where the balance sheets as of March 31, 2019 and December 31, 2018 are held constant.

Net Interest Income Sensitivity Profile - Estimated Percentage Change Over 12 Months **Table 24**

	Static Forecast As of March 31, 2019	Static Forecast As of December 31, 2018
Immediate Change in Interest Rates (basis points)		
+200	**10.6 %**	11.0 %
+100	**5.6**	5.5
(100)	**(6.9)**	(6.2)

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 twelve 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 static balance sheet forecast as of March 31, 2019, we are slightly less asset sensitive in the +200 bps scenario due to our lower cash position which would reset immediately to changes in interest rates. Also, larger sensitivities are generally experienced in the -100 bps scenario when interest rates fall because prepayment speeds are usually accelerated and reinvestments occur at lower interest rates. Furthermore, lower market interest rates also drive higher premium amortization sensitivity.

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 allow 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 11. 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 March 31, 2019. 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 March 31, 2019.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019 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 12. Commitments and Contingent Liabilities” in our unaudited interim 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, 2018.

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 the Bank (the “Company”) have not engaged in any activities that would require reporting under Section 13(r) of the Exchange Act. However, during the reporting period (until the Non-Control Date), the Company was controlled by BNP Paribas under the Bank Holding Company Act of 1956, as amended, and was 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. Although BNPP fully exited its ownership stake in our common stock on February 1, 2019 and was no longer affiliated with us after February 2019, BNPP has provided the revelant information for the entire reporting period.

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 $1.0 million during the three months ended March 31, 2019, 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	
10.1	Form of First Hawaiian, Inc. 2016 Omnibus Incentive Compensation Plan Restricted Share Award Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on March 5, 2019 (File No. 001-14585))
10.2	Form of First Hawaiian, Inc. Long-Term Incentive Plan Performance Share Award Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on March 5, 2019 (File No. 001-14585))
10.3	First Hawaiian, Inc. Supplemental Executive Retirement Plan Part B (2019 Restatement)
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: April 25, 2019		First Hawaiian, Inc.
	By:	/s/ Robert S. Harrison
		Robert S. Harrison Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Ravi Mallela
		Ravi Mallela Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.3

FIRST HAWAIIAN, INC.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN PART B

(2019 Restatement)

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FIRST HAWAIIAN, INC.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN PART B

INTRODUCTION

The First Hawaiian, Inc. Supplemental Executive Retirement Plan ("SERP") is an unfunded deferred compensation arrangement solely for a select group of management or highly compensated employees of First Hawaiian, Inc. ("Company") and its affiliates. The SERP consists of two parts, the First Hawaiian, Inc. Supplemental Executive Retirement Plan Part A ("Part A") and the First Hawaiian, Inc. Supplemental Executive Retirement Plan Part B ("Part B"). Part A is a standalone plan which governs Pre-2005 Benefits, as defined in Part A. Part B is a standalone plan which governs Post-2004 Benefits, as defined in Part B.

The Company intends that Part A of the SERP not be subject to the requirements of Section 409A of the Internal Revenue Code ("Code") and that Part B be subject to such requirements. Each reference in the SERP to Code Section 409A is also a reference to official guidance and regulations issued with respect to Code Section 409A. In the event of any inconsistency between the SERP and Code Section 409A, the provisions of the SERP shall be applied in a manner consistent with the applicable requirements of Code Section 409A.

Part A and Part B were restated in 2008, effective January 1, 2005, as the BancWest Corporation Supplemental Executive Retirement Plan Part A and BancWest Corporation Supplemental Executive Retirement Plan Part B. At that time, the Company was a subsidiary of BNP Paribas, was itself the parent of both First Hawaiian

Bank and Bank of the West, and was known as BancWest Corporation. On March 31, 2016, resolutions of the Board of Directors of BancWest Corporation were adopted, authorizing the separation of the benefit programs of First Hawaiian Bank from those of Bank of the West. Effective April 1, 2016, the Company was renamed First Hawaiian, Inc. Bank of the West ceased to be a subsidiary of the Company and the Plan was closed to new participants. On August 4, 2016, an initial public offering of the stock of the Company was made, the intent of which was that the Company would cease to be a subsidiary of BNP Paribas and affiliate of Bank of the West.

In 2016, Part A and Part B of the SERP were restated to reflect the above described corporate transactions (the "2016 Restatement"). On March 11, 2019, resolutions of the Board of Directors of the Company were adopted, authorizing the freeze of the SERP and to provide that no new participants will be designated thereunder (this "2019 Restatement"). Except with respect to the exclusion of benefit liabilities arising from the service of Bank of the West employees, a change in performance based compensation plans taken into account under Part B on and after January 1, 2017, and the freeze of the SERP and provision that no new participants will be designated thereunder effective July 1, 2019, neither the 2016 Restatement nor the 2019 Restatement are intended to, do not, and shall not be interpreted to modify the substantive terms of Parts A and B of the SERP, as the same were last restated. The 2016 Restatement was effective April 1, 2016. The Plan was frozen effective as of July 1, 2019 such that there were no new accruals of benefits after such date for any Participant in the Plan.

As used in this instrument, "Plan" means this restatement of Part B of the SERP.

ARTICLE I

DEFINITIONS

As used herein the following terms shall have the following meanings unless the context clearly requires otherwise.

1.1 "Actuarial Equivalent" means equivalence in value between two or more forms and/or times of payment based on the following assumptions:

(a) Converting Offsets To Target Retirement Amount;

(i) Except as provided in Section 1.1(a)(ii), for the purpose of converting required offsets to the Target Retirement Amount of account balances under Section 5.1(a), the factors that shall be used are the Code Section 417(e)(3) mortality table and the interest rate used for FAS 87 net periodic cost for the year of determination.

(ii) For the purpose of converting required offsets to the Target Retirement Amount under Section 5.1(a) that relate to a cash balance arrangement, the factors that shall be used are the mortality table determined in accordance with Code Section 417(e)(3) that is applicable as of the distribution date and the applicable interest rate determined in accordance with Code Section 417(e)(3) for the September immediately prior to the Plan Year in which the distribution occurs.

(b) Converting Value Of A Supplemental Retirement Benefit To A Lump Sum. For the purpose of converting the value of a Participant’s Supplemental Retirement Benefit payable as a single-life annuity to a lump sum, the Code Section 417(e)(3) mortality table and the interest rate used for FAS 87 net periodic cost for the year of determination shall be used.

(c) Converting Value of Supplemental Retirement Benefit Payable As Single Life Annuity To Other Forms of Benefit. The actuarial assumptions that would be used with respect to a Participant under the Retirement Plan to convert the value of a single life annuity to another form of benefit (except for a lump sum) shall be used for the purpose of converting a single life annuity under the Plan to another form of Plan benefit (except for a lump sum).

(d) Other Assumptions. For all other purposes of the Plan, Actuarial Equivalence shall be based on a determination by an actuary chosen by the Committee, using sound actuarial assumptions at the time of such determination, except as otherwise provided in the Plan.

1.2 "Affiliate" means (i) a corporation that is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Company, (ii) an entity under common control (within the meaning of Section 414(c) of the Code) with the Company; (iii) a member of an affiliated service group (within the meaning of Section 414(m) of the Code) with the Company, and (iv) any other entity required to be aggregated with the Company pursuant to Section 414(o) of the Code and the regulations thereunder.

1.3 "Beneficiary" means the person or persons designated by the Participant in writing on a form furnished by and filed with the Committee. If a Participant fails to make any designation, the person so designated shall not survive the Participant, or the legal entity so designated shall no longer be in existence or shall be legally incapable of receiving benefits hereunder, Beneficiary shall mean the estate of the Participant.

1.4 "Board" means the Board of Directors of the Company.

1.5 "Bonus Plan" means the First Hawaiian, Inc. Bonus Plan, as effective for periods on and after January 1, 2017, including both cash and stock awards, if any, made under such plan.

1.6 "Change In Control Of The Company" and "Change In Control Of A Bank Subsidiary" are defined in this Section 1.6.

(a) "Change In Control Of The Company" means:

(i) any Person, other than (i) a trustee or other fiduciary holding shares under an employee benefit plan of the Company or an affiliate thereof, or (ii) BNP Paribas or any affiliate thereof, becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's securities then outstanding;

(ii) a merger or consolidation of the Company with or into another Person or the merger or consolidation of another Person into the Company, as a result of which transaction or series of related transactions

(A) any Person (other than BNP Paribas or any affiliate thereof) becomes the Beneficial Owner of more than 50% of the total voting power of all voting securities of the Company (or, if the Company is not the surviving or transferee company of such transaction or transactions, of such surviving or transferee company) outstanding immediately after such transaction or transactions, or (B) the shares of Company common stock outstanding immediately prior to such transaction or transactions do not represent a majority of the voting power of all voting securities of the Company (or such surviving or transferee company, if not the Company) outstanding immediately after such transaction or transactions; or

(iii) the sale of all or substantially all of the assets of the Company and its subsidiaries.

(b) "Change In Control Of A Bank Subsidiary" means:

(i) Any Person, other than (i) a trustee or other fiduciary holding shares under an employee benefit plan of the Company or an affiliate thereof, or (ii) BNP Paribas or any affiliate thereof, becomes the Beneficial Owner, directly or indirectly, of securities of the Bank Subsidiary representing more than 50% of the combined voting power of the Bank Subsidiary's securities then outstanding;

(ii) a merger or consolidation of the Bank Subsidiary with or into another Person or the merger or consolidation of another Person into the Bank Subsidiary, as a result of which transaction or series of related transactions (A) any Person (other than BNP Paribas or any affiliate thereof) becomes the Beneficial Owner of more than 50% of the total voting power of all voting securities of the Bank Subsidiary (or, if the Bank Subsidiary is not the surviving or transferee company of such transaction or transactions, of such surviving or transferee company) outstanding immediately after such transaction or transactions, or (B) the shares of Bank Subsidiary common stock outstanding immediately prior to such transaction or transactions do not represent a majority of the voting power of all voting securities of the Bank Subsidiary (or such surviving or transferee company, if not the Bank Subsidiary) outstanding immediately after such transaction or transactions; or

(iii) the sale of all or substantially all of the assets of the Bank

Subsidiary and its subsidiaries.

(c) For purposes of the Plan:

(i) "Bank Subsidiary" means Bank of the West or First Hawaiian Bank, provided that, as of the date on which Bank of the West ceases to be an Affiliate of First Hawaiian Bank pursuant to an event or series of events not described in Section 1.6(b), above, "Bank Subsidiary" shall mean First Hawaiian Bank only.

(ii) "Beneficial Owner" has the same definition as in Rule 13d-3 of the Exchange Act.

(iii) "Exchange Act" means the Securities Exchange Act of 1934.

(iv) "Person" has the same definition as in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

1.7 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.8 "Committee" means the Executive Compensation Committee of the Board. With respect to Sections 1.13 and 5.3 of this Plan, "Committee" includes the Human Resources Department of First Hawaiian Bank, as the Committee's delegee.

1.9 "Company" means First Hawaiian, Inc., formerly known as BancWest Corporation.

1.10 "Compensation" means base salary, plus bonuses under the IPKE, Bonus Plan, or other short-term incentive plans involving award cycles of one year or less, that are paid by a Participating Employer to a Participant or deferred by the Participant under the Company's Deferred Compensation Plan. If more than one such annual bonus is paid or so deferred (or deemed paid or deferred by application of this sentence) in any 12-month period, only the annual bonus paid or deferred latest in the 12-month period will be treated as "Compensation" for that period, and such earlier annual bonus will be treated as "Compensation" for purposes of the immediately preceding 12-month period, so as to avoid distorting the level of the Participant's Compensation. Such items of Compensation shall include any amount that is

contributed by a Participating Employer pursuant to a salary reduction agreement and is not includible in the Participant's gross income under Section 125 or 402(e)(3) of the Code, and any salary reduction or bonus deferral elected by a Participant under a nonqualified plan sponsored by a Participating Employer. “Compensation” shall not include any items not specifically defined as Compensation in this Section 1.10. For example, “Compensation” shall not include lump sum vacation cashouts, income received or recognized in connection with option or discounted stock purchase programs, payments under long-term incentive plans, amounts paid as automobile or other allowances, insurance premiums paid on a Participant’s behalf or amounts paid to offset tax liabilities.

1.11 "Credited Service” means the Participant’s years of Credited Service under the Retirement Plan as of December 31, 1995 plus one additional year of Credited Service for each calendar year thereafter during which the Participant is credited with a year of Credited Service under Article II of this Plan; provided that no Credited Service will accrue for Hours of Service performed on or after July 1, 2019. For purposes of calculating a Participant’s Supplemental Retirement Benefit (but without duplication of service otherwise credited in accordance with Section 2.1), “Credited Service” shall also include any prior service credit to be provided pursuant to Section 7.4, whether such prior service relates to periods before or after December 31, 1995.

1.12 “Disability” means totally disabled as determined by the Social Security Administration.

1.13 "Early Retirement Date" means the first day of the calendar month coincident with or following the later of the Participant's: (i) attainment of age 55; and (ii) completion of at least ten years of Vesting Service (or, if the Participant retires with the consent of the Committee, five or more years of employment with the Participating Employers).

1.14 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any other provision of law of similar purport as may at any time be substituted therefor.

1.15 "Excess Benefit Plan" means the Bank of the West Excess Benefit Plan and the First Hawaiian Bank Excess Benefit Plan.

1.16 “Financial Hardship” means an unforseeable emergency that is a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Code Section 152, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B)); loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For example, the imminent foreclosure of or eviction from the Participant’s primary residence may constitute an unforeseeable emergency. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, may constitute an unforeseeable emergency. Also, the need to pay for the funeral expenses of a spouse, a Beneficiary, or a dependent (as defined in Code Section 152, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B)) may also constitute an unforeseeable emergency. Except as otherwise provided in this Section 1.16, the purchase of a home and the payment of college tuition are not unforeseeable emergencies. Whether a Participant is faced with a Financial Hardship permitting a distribution under this Section 1.16 is to be determined based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Financial Hardship may not be made to the extent that such Financial Hardship is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant’s assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of deferrals under any other plan.

1.17 "Final Average Compensation" means the average annual rate of Compensation of a Participant during the 60 consecutive calendar months out of the last 120 calendar months of employment with the Participating Employers ending prior to July 1, 2019 that results in the highest such average. If a Participant has fewer than 60 consecutive calendar months of Credited Service, his or her Final Average Compensation shall be the average annual rate of his or her Compensation on the first day of the month during each month of his or her Credited Service. If a Participant has

at least 60 consecutive calendar months of Credited Service but less than 120 months of Credited Service, the Participant's Final Average Compensation shall be the average annual rate of his or her Compensation on the first day of the month during each of the 60 consecutive calendar months of Credited Service that results in the highest such average.

1.18 "Future Plan" means the First Hawaiian, Inc. Future Plan.

1.19 "Grandfathered Participant" means a Participant listed on Exhibit I to the Plan.

1.20 "Grandfathered Supplemental Account" is defined in Part A.

1.21 "Grandfathered Supplemental Accrued Benefit" means a benefit determined pursuant to Section 4.1 of the Plan.

1.22 "Hour of Service" means an Hour of Service as defined in the Savings Plan. A Participant shall be credited with 173.33 Hours of Service for each calendar month during which he or she completes at least one Hour of Service.

1.23 "Identification Date" means December 31 of each calendar year or such other date as determined by the Committee.

1.24 "Interest" means the amount calculated using the 3-month Treasury Bill spot rate, determined as of the date of a Specified Employee's Termination Of Employment.

1.25 "IPKE", for calendar years prior to 2017, means the Bank of the West Incentive Plan for Key Employees, the First Hawaiian Bank Incentive Plan for Key Employees and the BancWest Corporation Incentive Plan for Key Employees.

1.26 "Normal Retirement Date" means the first day of the calendar month coincident with or following the Participant's attainment of age 65.

1.27 "Part A" means the First Hawaiian, Inc. Supplemental Executive Retirement Plan Part A.

1.28 Reserved.

1.29 "Participant" means any person selected by the Committee to be a Participant in the Plan. The Committee shall designate whether a Participant is a Group I or Group II Participant.

1.30 "Participating Employer" means the Company and any other employer which, with the Company's permission, adopts the Plan.

1.31 "Plan" or “Part B” means this First Hawaiian, Inc. Supplemental Executive Retirement Plan Part B, as amended from time to time.

1.32 “Plan Administrator” means such person (including an employee, who may also be a Participant), committee, or entity as may be appointed from time to time by the Committee and charged with such responsibilities of Plan administration as are determined by the Committee, pursuant to Section 9.1.

1.33 “Plan Benefits” means all of the benefits payable under Part B.

1.34 "Plan Year" means the calendar year.

1.35 “Pre-2005 Benefits” (and “Grandfathered Supplemental Accrued Benefit (Pre-2005 Benefits)”, “Supplemental Retirement Benefit (Pre-2005 Benefits)” and “Article VII Benefit (Pre-2005 Benefits”)) are defined in Part A.

1.36 “Post-2004 Benefits” means a Participant’s “Grandfathered Supplemental Accrued Benefits (Post-2004 Benefits)” as determined under Article IV, “Supplemental Retirement Benefit (Post-2004 Benefits)” as determined under Article V and “Article VII Benefits (Post-2004 Benefits)” as determined under Article VII. Notwithstanding any other provision of Part A or Part B, the provisions of Part B shall apply with respect to all of the benefits payable to Mr. Don J. McGrath under both Part A and Part B, including his Pre-2005 Benefits and Post-2004 Benefits.

1.37 “Redesignated Participant” means a Participant who: (i) the Committee (or the Plan Administrator) designates as a Group I Participant as of a Redesignation Effective Date who will cease to be a Group II Participant immediately prior to such date; or (ii) the Committee (or the Plan Administrator) designates as a Group II Participant as of a Redesignation Effective Date who will cease to be a Group I Participant immediately prior to such date.

1.38 “Redesignation Effective Date” means the date that a Participant becomes a Redesignated Participant as specified by the Committee (or the Plan Administrator).

1.39 “Retirement Plan" means the Employees' Retirement Plan of First Hawaiian, Inc., as amended from time to time.

1.40 "Savings Plan" means the Company's 401(k) Savings Plan, as amended from time to time.

1.41 "Specified Employee" means a specified employee of the Company or a Participating Employer, as defined in Code Section 409A and regulations issued thereunder, as determined by the Committee. An employee who is a "key employee" (as defined in Code Section 409A(a)(2)(B)(i)) at any time during the twelve month period ending on the Identification Date is treated as a Specified Employee for the twelve month period beginning on the first day of the fourth month following the Identification Date (or such prior date as determined by the Committee that is permitted under applicable regulations).

1.42 "Supplemental Retirement Benefit" means a benefit determined pursuant to Article V of this Plan.

1.43 "Target Retirement Amount" means the amount determined by multiplying the Participant's Final Average Compensation by his or her target percentage. The Target Retirement Amount will be used as a target from which other forms of retirement benefits are subtracted, as provided in Article V, to arrive at the amount of the Supplemental Retirement Benefit actually payable to a Participant. A Group I Participant's target percentage shall equal 60% multiplied by a fraction, the numerator of which is the Participant's years of Credited Service, not to exceed 20, and the denominator of which is 20. A Group II Participant's target percentage shall equal 50% multiplied by a fraction, the numerator of which is the Participant's years of Credited Service, not to exceed 25, and the denominator of which is 25. In all cases, the adjusted target percentage shall be rounded to four decimal places.

Notwithstanding the foregoing, the Target Retirement Amount of a Redesignated Participant shall be determined as follows:

(a) The Target Retirement Amount of a Redesignated Participant who is designated as a Group I Participant after having previously been designated as a Group II Participant shall be determined by considering the Redesignated Participant to have been a Group I Participant for the entire period that he or she has been a Participant in the Plan.

(b) The Target Retirement Amount of a Redesignated Participant who is designated as a Group II Participant after having previously been designated as a Group I Participant shall be equal to the sum of the Participant's Target Retirement Amount earned during the period that he or she is a Group I Participant (described in (i), below) and the Target Retirement Amount earned during the period that he or she is a Group II Participant (described in (ii), below), but shall not exceed the amount described in (iii), below:

(i) the Participant's Final Average Compensation, determined as of the day before his or her Redesignation Effective Date, multiplied by the Participant's target percentage. This percentage shall equal 60% multiplied by a fraction, the numerator of which is the Participant's years of Credited Service (including any extra years of Credited Service described in the first sentence of Section 5.5.), not to exceed 20, earned as of such date and the denominator of which is 20; and

(ii) the Participant's Final Average Compensation during the period commencing on his or her Redesignation Effective Date, multiplied by a target percentage. This percentage shall equal 50% multiplied by a fraction, the numerator of which is the years of Credited Service (excluding any extra years of Credited Service described in the first sentence of Section 5.5.), not to exceed 25, earned by the Participant beginning on his or her Redesignation Effective Date and the denominator of which is 25.

(iii) The Target Retirement Amount of the Redesignated Participant shall not exceed the amount that would have been his or her Target Retirement Amount if the Redesignated Participant had been a Group I Participant for the entire period that he or she has been a Participant in the Plan.

1.44 "Termination Of Employment" means a "separation from service" within the meaning of Code Section 409A(a)(2)(A)(i). A Termination Of Employment shall not occur merely by reason of the transfer of employment of a Participant from the Participating Employer to any Affiliate (as defined in Part A).

1.45 "Trust" means the trust established by the Company, pursuant to a Trust Agreement, to which amounts under the Plan are contributed as set forth in Section 12.3 of the Plan.

1.46 “Trust Agreement” means the agreement between the Company and a trustee under which the Trust is established.

1.47 "Vesting Service" means a period for which vesting credit is granted pursuant to Article II of this Plan.

ARTICLE II

SERVICE RULES

Section 2.1 Credited Service.

For employment on or after January 1, 1996, one year of Credited Service shall be granted for each calendar year during which a Participant is credited with at least 1,000 Hours of Service, including employment prior to the date participation in the Plan commenced; provided that no Credited Services will accrue for Hours of Service performed on or after July 1, 2019.

Section 2.2 Vesting Service.

One year of Vesting Service shall be granted for a Plan Year commencing on or after January 1, 1998 during which a Participant is credited with at least 1,000 Hours of Service. A Participant shall not accrue Vesting Service for any Plan Year prior to the Plan Year in which he or she initially becomes eligible to participate under Section 3.2 of this Plan and accrue a Supplemental Retirement Benefit.

Section 2.3 Termination Of Employment.

If a Participant has a Termination Of Employment with the Participating Employers prior to becoming vested in his or her Supplemental Retirement Benefit that accrued after December 31, 1997, all of the Participant’s Credited Service and Vesting Service shall be disregarded for purposes of determining his or her Supplemental Retirement Benefit.

ARTICLE III

PARTICIPATION AND VESTING

On or after January 1, 2005, the Committee may select employees of a Participating Employer to be Participants in this Plan.

Section 3.1 Grandfathered Benefits

(a) A Grandfathered Participant shall participate in this Plan as to his or her Grandfathered Supplemental Accrued Benefit. No other Participants shall be entitled to a Grandfathered Supplemental Accrued Benefit.

(b) A Grandfathered Participant's vested interest in his or her Grandfathered Supplemental Accrued Benefit shall be 100%.

Section 3.2 Supplemental Retirement Benefit

(a) (1) Eligibility to be a Participant in this Plan and accrue a Supplemental Retirement Benefit shall be limited to those employees who are designated by the Committee. The Committee shall designate whether the Participant is to participate as a Group I Participant or a Group II Participant. No new Participant shall be designated after April 1, 2016.

(2) The Committee may, in its absolute discretion, designate that a Participant shall cease to be eligible to accrue a Supplemental Retirement Benefit. In such a case, the Participant's Supplemental Retirement Benefit shall be limited to the amount thereof accrued prior to the date designated by the Committee. In addition, in its absolute discretion, the Committee (or the Plan Administrator) may designate a Participant as a Redesignated Participant, effective as of the Redesignation Effective Date specified by the Committee (or the Plan Administrator).

(b) A Participant shall become 100% vested in his or her Supplemental Retirement Benefit upon the first to occur of his or her (i) attainment of age 65 or (ii) completion of five years of Vesting Service. A Participant shall forfeit his or her Supplemental Retirement Benefit if he or she has a Termination Of Employment with

the Participating Employers prior to attaining age 65 or completing five years of Vesting Service.

Section 3.3 Termination of Participation.

Participation in this Plan shall terminate when a Participant has received all benefits to which he or she is entitled under this Plan.

ARTICLE IV
GRANDFATHERED BENEFITS

Section 4.1 Grandfathered Supplemental Accrued Benefits

A Participant's Grandfathered Supplemental Accrued Benefit (Post-2004 Benefits) will be equal to the Actuarial Equivalent of the value of the benefits determined under this Section 4.1, minus the Actuarial Equivalent of the value of the Participant's Grandfathered Supplemental Accrued Benefit (Pre-2005 Benefits). Distribution of such benefits will be made as described in Article VIII.

(a) A Grandfathered Participant shall be credited with a Grandfathered Supplemental Accrued Benefit equal to the difference, if any, between (i) the amount of his or her vested accrued benefit under the Retirement Plan prior to application of Sections 401(a)(17) and 415 of the Code and using the definition of Compensation in this Plan and (ii) the amount of his or her vested accrued benefit under the Retirement Plan. Clause (i) of the prior sentence shall be determined as though Section 1.2 of the Retirement Plan had not been amended by the Board of Directors of First Hawaiian, Inc. on September 21, 1995.

(b) If a Grandfathered Participant retires on his or her Early Retirement Date, the Grandfathered Participant's benefits, as determined under Section 4.1(a), shall be reduced by 3% for each year by which the Participant's date of commencement of distribution of benefits (or distribution in full) precedes his or her 62nd birthday (for a Group I Participant) or 65th birthday (for a Group II Participant), in each case prorated for partial years on a monthly basis on the date of the Grandfathered Participant's retirement.

(c) If a married Grandfathered Participant with a vested interest in his or her Grandfathered Supplemental Accrued Benefit dies prior to commencement of the distribution thereof, his or her surviving spouse shall be entitled to the survivor annuity that would have been payable under the Grandfathered Supplemental Accrued Benefit that would have been payable if the Grandfathered Participant had retired on the day before his or her death and elected to receive a 50% joint and survivor annuity on the day of such retirement.

(d) For purposes of determining an actuarial equivalent form of a Grandfathered Supplemental Accrued Benefit, the definition of "Actuarial Equivalent" in the Retirement Plan shall apply, provided that the amount of lump sum payments of a Grandfathered Supplemental Accrued Benefit shall be determined by using the applicable mortality table and the applicable interest rate. With respect to a distribution of Plan Benefits that begins to be paid (or is paid in full) on or before December 31, 2007, (i) "applicable mortality table" means the table prescribed by the Secretary of the Treasury, which table shall be based on the prevailing commissioners' standard table (described in Section 807(d)(5)(A) of the Code) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Section 807(d)(5) of the Code); and (ii) "applicable interest rate" means the annual rate of interest on 30 year Treasury securities for the September immediately prior to commencement of the Plan Year in which the lump sum distribution occurs. With respect to a distribution of Plan Benefits that begins to be paid on or after January 1, 2008, “applicable mortality table” means the mortality table determined in accordance with Code Section 417(e)(3) that is applicable as of the distribution date and “applicable interest rate” means the interest rate determined in accordance with Code Section 417(e)(3) (using the transition rules described in Code Section 417(e)(3)(D)(iii)) for the September immediately prior to the Plan Year in which the distribution occurs.

(e) Withdrawals or loans shall not be permitted from any Grandfathered Supplemental Accrued Benefit.

(f) All distributions of benefits to which a Participant is entitled under this Article IV shall be reduced by any amount of taxes required to be withheld by the Participating Employers under applicable law.

ARTICLE V
SUPPLEMENTAL RETIREMENT BENEFITS

Section 5.1 Normal Retirement

A Participant’s Supplemental Retirement Benefit (Post-2004 Benefits) will be equal to the Actuarial Equivalent of the value of the benefits determined under this Section 5.1 minus the Actuarial Equivalent of the value of the Participant's Supplemental Retirement Benefit (Pre-2005 Benefits). Distribution of such benefits will be made as set forth in Article VIII.

(a) If a vested Participant retires on his or her Normal Retirement Date, the Participating Employer shall pay the Participant a monthly Supplemental Retirement Benefit equal to one twelfth of the Target Retirement Amount less:

(i) The value of his or her vested interest in the Retirement Plan converted to a monthly life annuity of Actuarial Equivalent value,

(ii) 50% of his or her monthly primary Social Security benefit determined at age 65,

(iii) The value of his or her vested Grandfathered Supplemental Account converted to a monthly life annuity of Actuarial Equivalent value,

(iv) The value of his or her vested Grandfathered Supplemental Accrued Benefit (as determined under Section 4.1) converted to a monthly life annuity of Actuarial Equivalent value,

(v) The value of the Participant’s vested interest in his or her Profit Sharing Account in the Savings Plan converted to a monthly life annuity of Actuarial Equivalent value,

(vi) The value of his or her vested interest in his or her Matching Account in the Savings Plan converted to a monthly life annuity of Actuarial Equivalent value,

(vii) The value of his or her vested interest in the Future Plan converted to a monthly life annuity of Actuarial Equivalent value,

(viii) The value of his or her vested interest in any employer contributions (as adjusted for earnings and losses) to a plan that was merged

into the Savings Plan or the Future Plan converted to a monthly life annuity of Actuarial Equivalent value,

(ix) The value of his or her vested interest in an Excess Benefit Plan converted to a monthly life annuity of Actuarial Equivalent value,

(x) The value of the amounts described in Section 7.4(b)(ii) attributable to past service, and

(xi) The value of any other benefit provided by the Participating Employer that is related to Credited Service under the Retirement Plan.

(b) If the aggregate amount of the reductions in items (i) through (x) of Section 5.1(a) exceeds one twelfth of the Participant's Target Retirement Amount, the Participant shall not receive a Supplemental Retirement Benefit. A Grandfathered Participant shall, however, be entitled to his or her Grandfathered Supplemental Account and his or her Grandfathered Accrued Benefit.

Section 5.2 Deferred Retirement

If a vested Participant retires subsequent to his or her Normal Retirement Date, the Participating Employer shall pay the Participant a Supplemental Retirement Benefit calculated pursuant to Section 5.1, provided that items (i) through (xi) of Section 5.1(a) shall be calculated based upon the Participant's age and the value of such benefits as of his or her retirement date.

Section 5.3 Early Retirement

(a) If a vested Participant retires at an Early Retirement Date, the Participating Employer shall pay the Participant a monthly Supplemental Retirement Benefit calculated pursuant to Section 5.1 (determined as of the Early Retirement Date) provided that item (ii) of Section 5.1(a) shall be calculated as 50% of the Participant's primary Social Security benefit projected to be paid at age 65 based on the then current law and assuming that the Participant has level future Compensation.

(b) If a Group I Participant retires with the approval of the Committee, his Target Retirement Amount shall be reduced by 3% for each year by which the benefit commencement date precedes his 62nd birthday (prorated for partial years on a monthly basis). If such a Participant retires without approval of the Committee, his

Target Retirement Amount shall be reduced by 5% for each year by which the benefit commencement date precedes his 65th birthday (prorated for partial years on a monthly basis). For such a Participant who retires without approval of the Committee, his Target Retirement Amount shall be further multiplied by a fraction equal to his actual years of Credited Service at Termination Of Employment over years of Credited Service the Participant would have had at age 65.

(c) If a Group II Participant retires with the approval of the Committee, his Target Retirement Amount shall be reduced by 3% for each year by which the benefit commencement date precedes his 65th birthday (prorated for partial years on a monthly basis). If such a Participant retires without approval of the Committee, his Target Retirement Amount shall be reduced by 5% for each year by which the benefit commencement date precedes his 65th birthday (prorated for partial years on a monthly basis). For such a Participant who retires without approval of the Committee, his Target Retirement Amount shall be further multiplied by a fraction equal to his actual years of Credited Service at Termination Of Employment over years of Credited Service the Participant would have had at age 65.

(d) If a vested Redesignated Participant described in Section 1.37(ii) retires on an Early Retirement Date, the rules in Section 5.3(b) shall apply with respect to the portion of his or her Target Retirement Amount that is determined under Section 1.43(b)(i) and the rules in Section 5.3(c) shall apply with respect to the portion of his or her Target Retirement Amount that is determined under Section 1.43(b)(ii).

Section 5.4 Early Termination

If a vested Participant has a Termination Of Employment prior to his or her attainment of an Early Retirement Date, the Participating Employer shall pay the Participant a monthly Supplemental Retirement Benefit at the time set forth in Article VIII in an amount determined by multiplying Section 5.4(a) below by Section 5.4(b) below:

(a) The benefit calculated pursuant to Section 5.1, adjusted as follows:

(i) The benefit shall be reduced in accordance with the first or second sentence (whichever is applicable) of Section 5.3(b) (for a Group I Participant) or Section 5.3(c) (for a Group II Participant).

(ii) The amount described in Section 5.1(a)(ii) shall be calculated as 50% of the Participant’s primary Social Security benefit projected to be paid at age 65, based on the then current law and assuming that the Participant has level future Compensation.

(iii) Except as set forth in Section 5.4(a)(iv), the value of an account balance described in Section 5.1(a) shall be equal to the amount determined on the date of Termination of Employment, increased to the date of commencement of payment of benefits based on the interest rate set forth in Section 1.1(a)(i) on the date of Termination Of Employment and converted to an offset using the factors in Section 1.1(a)(i) on the date of Termination Of Employment.

(iv) The value of an offset described in Section 5.1(a) that relates to a cash balance account shall be determined as of the date of commencement of payment of benefits and converted to an offset using the factors described in Section 1.1(a)(ii) on such date.

(b) A fraction equal to the Participant's years of Credited Service at Termination Of Employment over the years of Credited Service that he or she would have had at age 65. For a Participant listed on Exhibit II, such fraction shall be equal to one.

Section 5.5 Special Benefits for Exhibit II Participants

Effective as of November 1, 2002, each Participant listed on Exhibit II shall be deemed 100% vested in his or her Supplemental Retirement Benefit, and shall be granted three extra years of Credited Service for the purpose of determining his or her Supplemental Retirement Benefits. The Supplemental Retirement Benefit of each such Participant who has a Termination Of Employment on or before December 31, 2004 shall be determined using the greater of the Participant’s (i) Compensation for the 12-month period immediately prior to such Termination Of Employment or (ii) Final Average Compensation. The Supplemental Retirement Benefit of each Participant listed on Exhibit II who has a Termination Of Employment on or after January 1, 2005 shall be determined using such Participant’s highest 12 consecutive months of Compensation, which shall not include more than one IPKE or Bonus Plan bonus (or other annual short-term bonus if not a participant in IPKE) during the last 60 calendar

months of his or her employment ending prior to July 1, 2019. The Supplemental Retirement Benefit of each Participant listed on Exhibit II shall be calculated pursuant to Section 5.3 as if the Participant was retired with the approval of the Committee.

Section 5.6 Disability Benefit

If a Participant incurs a Disability, the Participating Employer shall pay the Participant a Supplemental Retirement Benefit equal to the amount the Participant would have received if he or she had retired on his or her Normal Retirement Date under Section 5.1. For purposes of this Section 5.6, Vesting Service and Credited Service shall continue to be credited during the period of Disability and the Participant’s Final Average Compensation shall be based only on the amounts earned during the 60 months prior to Disability and ending prior to July 1, 2019 if this provides the Participant with a greater benefit.

Section 5.7 Death Prior to Commencement of Benefit Payments

Except as otherwise provided in this Section 5.7, if a vested Participant dies prior to commencement of benefit payments under this Plan, the Participating Employer shall pay a supplemental survivor benefit to the Participant's surviving spouse. The amount of this supplemental survivor benefit shall be equal to one-half of the monthly accrued Supplemental Retirement Benefit the Participant would have been entitled to if he or she had a Termination Of Employment as of the date of his or her death and had elected a 50% survivor annuity option. The supplemental survivor benefit shall be payable monthly for the life of the spouse. No benefits will be paid under this Section 5.7 to the extent that an agreement between the Participant and the Company (or a Participating Employer) provides that the Participant’s surviving spouse shall not be entitled to such benefits.

Section 5.8 Tax Withholding

All distributions under this Article V shall be reduced by any amount of taxes required to be withheld by the Participating Employers under applicable law.

ARTICLE VI
BENEFIT MAKEUP

Section 6.1 Excise Tax and Lost Benefit Makeup

If as a result of participating in the Plan a Participant is required to pay additional excise tax under Section 4999 of the Code or receives a smaller benefit from any other employee benefit plan as a result of limitation imposed by Section 280G of the Code, then a makeup amount shall be payable from the Plan. This amount shall be equal to the amount of Section 4999 excise tax payable and any lost benefit from such other plan due to Section 280G of the Code, as a result of participation in the Plan, plus any excise tax and income taxes payable due to this payment. The Committee and the Participant shall cooperate in good faith in making such determination and in providing the necessary information for this purpose. Distribution of any amount under this Section 6.1 shall be made as set forth in Article VIII.

Section 6.2 Tax Withholding.

All distributions under this Article VI shall be reduced by any amount of taxes that the Participating Employers are required by law to withhold.

ARTICLE VII
CERTAIN CONTRACTS AND PRIOR EMPLOYERS

Effective January 1, 2005, a Participant's Article VII Benefit (Post-2004 Benefits) shall be equal to the Actuarial Equivalent of the value of benefits determined under this Article VII minus the Actuarial Equivalent of the value of his or her Article VII Benefits (Pre-2005 Benefits). Distribution of such benefits will be made as described in Article VIII.

Section 7.1 Additional Benefits Under Contracts

In addition to the benefits described in Article III, Article IV, Article V, and Article VI, this Plan incorporates the provisions of any individual contract between a Participating Employer and a Participant to the extent such contract provides earlier vesting or additional benefits for the Participant under this Plan. This Section 7.1 shall be interpreted and administered so that it neither conflicts with the contractual provisions that promise earlier vesting or additional benefits under this Plan nor results in the payment of duplicate benefits when payments under this Plan and under the contractual provision are considered together.

Section 7.2 First Interstate Bank of Hawaii

As of July 1, 1992, the First Interstate Bank of Hawaii Supplemental Retirement Plan (the "FIHI Plan") was merged into this Plan. Benefits accrued under the FIHI Plan prior to its merger into this Plan shall be preserved under a separate benefit schedule of this Plan maintained by the Committee and shall be coordinated with other Plan benefits as follows. After the merger of the FIHI Plan into this Plan, no new benefits shall accrue under the provisions of the FIHI Plan or the separate benefit schedule pertaining to it hereunder. In addition, there shall be no duplication of the benefits accrued under the FIHI Plan prior to the merger and benefits that are provided for the same period of service to the same individuals under this Plan. To this end, any payments owed under the separate benefit schedule for the former FIHI Plan shall be determined when Plan benefits are about to commence, and the benefit payable under this Plan to a Participant shall be the greater of his or her benefit under the FIHI Plan as of July 1,

1992 or his or her benefit under this Plan calculated from his or her date of hire with First Interstate Bank of Hawaii to the date of his or her Termination Of Employment covered by this Plan.

Section 7.3 Pioneer Federal Savings Bank

If a Participant's accrued benefit in the Retirement Plan includes amounts that accrued prior to January 1, 1994 under the Retirement Pension Plan of Pioneer Federal Savings Bank, his or her Grandfathered Supplemental Accrued Benefit shall be determined under Section 4.1, provided his or her Grandfathered Supplemental Accrued Benefit shall be based only on Credited Service (as defined in the Retirement Plan) earned after December 31, 1993.

Section 7.4 Certain Prior Service Credit

(a) This Section 7.4 applies only to a Section 7.4 Participant (as defined below).

(b) For purposes of calculating his or her Supplemental Retirement Benefit (i) the Credited Service of a Section 7.4 Participant (but not Vesting Service) shall include prior service credit with respect to that Participant’s period of employment by an Acquired Employer, and (ii) to the extent appropriate to avoid duplication of benefits, the value of all past or future retirement benefits, contributions or other amounts paid or payable with respect to such prior service shall be converted to a monthly life annuity of Actuarial Equivalent value and shall then be deducted from the Section 7.4 Participant’s Target Retirement Amount as contemplated by Section 5.1. The amount of any such Credited Service or related deductions shall be determined by the Committee or its designees in its or their discretion.

(c) “Section 7.4 Participant” means any present or future Participant who became an employee of a Participating Employer prior to December 20, 2001 as the result of the acquisition by the Company or its subsidiaries of stock or assets of an Acquired Employer. “Acquired Employer” means First Interstate Bank of Hawaii, Pioneer Federal Savings Bank, Bank of the West, Central Bank, SierraWest Bancorp, First Security Bank of New Mexico, N.A., Wells Fargo Bank New Mexico N.A., and First Security Bank of Nevada.

(d) This Section 7.4 shall not affect calculation of Vesting Service or the date Vesting Service commences. Pursuant to Section 2.2 and Section 3.2, Vesting Service shall not accrue until an employee has been designated as a Participant by the Committee and has satisfied the requirements of Section 2.2.

(e) This Section 7.4 shall not affect calculation of any Grandfathered Supplemental Account or Grandfathered Supplemental Accrued Benefit.

Section 7.5 Tax Withholding

All distributions under this Article VII shall be reduced by any amount of taxes required to be withheld by the Participating Employers under applicable law.

ARTICLE VIII
FORM AND TIME OF DISTRIBUTION OF BENEFITS

Section 8.1 Optional Forms of Distribution

Except as provided in Sections 8.6 or Section 8.8 (c)(ii), a Participant's Plan Benefits will be payable to the Participant as he or she elects from among the following forms:

(a) Single-Life Annuity. An annuity that provides monthly benefits for the Participant's life only.

(b) Joint and Survivor Annuity. A contingent annuitant option providing for an actuarially reduced amount of monthly income payable to the Participant and providing for the continuance of such income payments in (i) the same amount or (ii) one-half (or three-fourths) of such reduced amount to a contingent annuitant (a person designated by the Participant), if living, after the Participant's death. Monthly payments to the contingent annuitant shall commence on the first day of the calendar month following the month in which the Participant died, and shall continue monthly with the last payment being due in the calendar month in which the contingent annuitant's death occurs.

(c) Single Life Annuity With Ten-Year Period Certain. A ten-year certain and life option providing for actuarially reduced monthly payments to the Participant for his or her life, and if the Participant's death occurs within a period of ten years after his or her benefit commencement date, payment of such monthly benefits to the Beneficiary designated by the Participant for the balance of the ten-year period.

(d) Single Life Annuity With Fifteen-Year Period Certain. A fifteen year certain and life option providing for actuarially reduced monthly payments to the Participant for his or her life, and, if the Participant's death occurs within a period of fifteen years after his or her benefit commencement date, payment of such monthly benefits to the Beneficiary designated by the Participant for the balance of the fifteen-year period.

(e) Single-Life Annuity With Twenty-Year Period Certain. A twenty year certain and life option providing for actuarially reduced monthly payments to the Participant for his or her life, and, if the Participant's death occurs within a period of

twenty years after his or her benefit commencement date, payment of such monthly benefits to the Beneficiary designated by the Participant for the balance of the twenty-year period.

(f) Installments. Substantially equal monthly installment payments over a period of ten, fifteen or twenty years, as selected by the Participant. If the Participant's death occurs before the end of the selected period, such installments will continue to be distributed for the remainder of such period to the Participant's Beneficiary.

(g) Lump-Sum. A lump-sum distribution.

The value of each of the optional forms described in Section 8.1(b)-(g) shall be the Actuarial Equivalent of the Single-Life Annuity described in Section 8.1(a).

Section 8.2 Participant Elections.

(a) Elections of Different Optional Forms. A Participant may elect, in accordance with rules and procedures established by the Plan Administrator, that his or her Plan Benefits will be distributed:

(1) In one optional form, if the Participant has a Termination Of Employment before he or she attains age 65;

(2) In a different optional form, if the Participant has a Termination Of Employment on or after he or she attains age 65; and

(3) Subject to the requirements of the following sentence, in an optional form (which may be the same as the form described in (1) or (2)), if the Participant has a Termination Of Employment during the two-year period following either a: (i) Change Of Control Of The Company; or (2) Change Of Control Of A Bank Subsidiary. A distribution will be made pursuant to this Section 8.2(a)(3) only if the event set forth in (i) or (ii) of the previous sentence is described in Section 409A(a)(2)(A)(v) of the Code. If such event is not described in Code Section 409A(a)(2)(A)(v), then this Section 8.2(a)(3) will be disregarded in determining the form of Plan Benefits to be distributed to the Participant.

(b) Deemed Election Of A Participant Who Does Not Submit Required Election. A Participant who does not submit a proper written election within the time (and in accordance with the rules and procedures) described in Section 8.4 shall be

deemed to have elected to receive his or her Plan Benefits under this Section 8.2: (i) as a Single Life Annuity, if the Participant is unmarried at the time his or her Plan Benefits begin to be distributed; or (ii) if the Participant is married at the time his or her Plan Benefits begin to be distributed, as a 50% Joint-and-Survivor Annuity with the Participant's spouse as Beneficiary that provides monthly payments for the Participant's life, and after the Participant's death, monthly payments to his or her spouse (if surviving) equal to 50% of the Participant's monthly payment amount.

Section 8.3 Time Of Distribution Of Plan Benefits

Except as provided in Sections 8.4, 8.5, 8.6, 8.7, or 8.8, a Participant's Plan Benefits will begin to be distributed (or distributed in full) as soon as administratively practicable but no later than the end of the 90-day period (on a date determined in the discretion of the Plan Administrator) following the later of his or her: (i) Termination Of Employment or (ii) attainment of age 55.

Section 8.4 Elections Regarding Form Of Benefits

(a) Submission Of Written Election. A Participant may make an election described in Section 8.1 by submitting such written election to the Plan Administrator, in accordance with the Plan Administrator's rules and procedures, no later than the date established by the Plan Administrator and as required under Section 8.4(b).

(b) Time Of Submission Of Initial Election. An employee who is designated as a Participant may submit his or her written election under Section 8.1 no later than January 30th of the Plan Year following the Plan Year in which such designation occurs (or such earlier date as required by the Plan Administrator).

(c) Subsequent Elections. A Participant may elect to change the elections described in Section 8.1 by submitting a written election to the Plan Administrator, in accordance with the Plan Administrator's rules and procedures, no later than the date established by the Plan Administrator and subject to the following additional requirements (except as otherwise provided in this Section 8.4(c)):

(1) The election must be submitted at least 12 months before the date that the distribution was scheduled to be made; and

(2) The payment with respect to which the election is submitted will be deferred for a period of five years from the date such payment would otherwise have been made. For purposes of this Section 8.4(c)(2) and Code Section 409A, an installment form of distribution described in Section 8.1(f) shall be treated as a single payment.

The requirements in this Section 8.4(c)(1) and (2) shall not apply with respect to an election to change the form of Plan Benefits from one form described in Section 8.1(a)-(e) to another such form.

Section 8.5 Distributions To A Specified Employee

Notwithstanding any provision to the contrary in the Plan, a distribution of Plan Benefits to which a Participant would otherwise be entitled will be delayed until the earlier of: (i) the first day of the month following the expiration of the six (6)-month period from the date of the Participant's "separation from service" (as such term is defined in Treasury Regulations issued under Code Section 409A) with a Participating Employer; or (ii) the date of the Participant's death, if the Committee in good faith determines that the Participant is a Specified Employee at the time of such separation from service and that the delayed commencement is required in order to avoid a prohibited distribution under Code Section 409A(a)(2). Upon the expiration of the applicable Code Section 409A(a)(2) deferral period, all Plan Benefits deferred pursuant to the Plan (whether they would otherwise have been payable in a single sum or in any other form in the absence of such deferral) shall be distributed to the Participant in a lump sum and any remaining Plan Benefits due under the Plan shall be paid in accordance with the normal payment dates specified for them under the Plan. The Participant shall be entitled to Interest for the period that the commencement is delayed by reason of Code Section 409A(a)(2).

Section 8.6 Accelerated Distributions

Subject to the requirements of Section 8.5, in the Committee's discretion, a Participant's Plan Benefits may be distributed or commence to be distributed under the following circumstances, subject to the requirements of applicable regulations under Code Section 409A:

(a) Income Inclusion Under Code Section 409A. If the Plan fails to meet the requirements of Section 409A of the Code and applicable regulations thereunder, a distribution may be made to the Participant in the amount required to be included in income as a result of the failure to comply with such requirements.

(b) Divestiture. The date of distribution of all or a portion of the value of a Participant's Plan Benefits may be accelerated to the extent necessary for an employee in the executive branch of the United States federal government to comply with an ethics agreement or to the extent reasonably necessary to avoid the violation of an applicable federal, state, local or foreign ethics law or conflicts of interest law.

(c) Financial Hardship. Distribution of all or a portion of a Participant's Plan Benefits may be made as a result of a Financial Hardship. Such amount must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution). Determinations of amounts reasonably necessary to satisfy the emergency need must take into account any additional compensation that is available under another employee benefit plan that provides for cancellation of a deferral election upon a payment due to an unforeseeable emergency. However, the determination of amounts reasonably necessary to satisfy the emergency need is not required to take into account any additional compensation that due to the unforeseeable emergency is available under another nonqualified deferred compensation plan but has not actually been paid.

(d) Other. Distribution of all or a portion of the value of a Participant's Plan Benefits may be accelerated under such circumstances as are permitted pursuant to applicable guidance under Code Section 409A.

Section 8.7 Delayed Distribution

In the Committee's discretion, the distribution of all or a portion of the Participant's Plan Benefits may be delayed beyond the date otherwise required under the Plan in the following circumstances, subject to the requirements of applicable regulations under Code Section 409A:

(a) Violation of Applicable Laws. Distribution of all or a portion of the Plan Benefits of a Participant may be delayed in the event the Committee reasonably

anticipates that the distribution will violate federal securities laws or other applicable law. Distribution of any amount delayed under this Section 8.7(a) will be made at the earliest date at which the Committee reasonably anticipates that making the payment will not cause a violation of such law.

(b) Administrative Impracticality. Distribution of all or a portion of the Participant's Plan Benefits may be delayed if calculation of the amount of the payment is not administratively practicable (such delay must be due to events that are beyond the control of the Participant). Payment of any delayed amount must be made no later than the first Plan Year in which calculation of such amount is administratively practicable.

(c) Other. Distribution of all or a portion of a Participant's Plan Benefits may be delayed under such other circumstances as are permitted pursuant to applicable guidance under Code Section 409A.

Section 8.8 Distribution Of Plan Benefits Under Sections 4.1(c), 5.6, 5.7 or 6.1.

(a) Distribution Under Sections 4.1(c) or 5.7. Distribution of benefits described in Sections 4.1(c) or 5.7 shall be made commencing as soon as administratively practicable, but no later than the end of the 90-day period (on a date determined in the discretion of the Plan Administrator) following the date of the Participant's death.

(b) Distribution Under Section 5.6. Distribution of Plan Benefits described in Section 5.6 shall be made commencing as soon as administratively practicable, but no later than the end of the 90-day period (on a date determined in the discretion of the Plan Administrator) following the Participant's Normal Retirement Date: (i) as a single Life Annuity, if the Participant is unmarried on such date; or (ii) as a 50% Joint-and-Survivor Annuity (as described in the last paragraph of Section 8.1), if the Participant is married on such date.

(c) Distribution Under Section 6.1. Distribution of benefits described in Section 6.1 shall be made as follows, subject to the requirements of Section 8.5:

(i) A makeup amount related to additional taxes that are paid by a Participant will be distributed no later than the end of the Plan Year following the

Plan Year in which the Participant pays such taxes (on a date determined in the discretion of the Plan Administrator)

(ii) A distribution of an amount that is substituted for a benefit under another employee benefit plan as a result of a limitation under Code Section 280G will be distributed at the time it would have been paid under such other employee benefit plan.

Section 8.9 Limited Period To Elect New Form Or Time Of Payment Of Plan Benefits

Notwithstanding any other provision of the Plan, an individual who is designated as a Participant before January 1, 2009 (and who has not received a distribution of any Plan Benefits under Section 4.1 before such date) may elect (to the extent permitted under applicable Treasury Regulations or other Internal Revenue Service or Treasury Department guidance) a new date or form of distribution of his or her Plan Benefits by submitting a written election to the Plan Administrator (in accordance with rules and procedures established by the Plan Administrator) no later than the date permitted by the Plan Administrator. Such election shall not be treated as a change in the form or timing of payment of a Participant's Plan Benefits for purposes of Code Section 409A and Section 8.3 of the Plan.

Section 8.10 Tax Withholding.

The Company shall withhold, from any amount distributed under the Plan, any taxes required to be withheld from such amount under local, state or federal law. In addition, the Company shall withhold any payroll taxes with respect to a Participant's Plan Benefits at the time and in the amount required to be withheld under applicable local, state or federal law.

Section 8.11 Code Section 409A.

Notwithstanding any provision of the Plan to the contrary, no distributions will be made under the Plan earlier or later than permitted under the requirements of Code Section 409A and no elections regarding Plan Benefits shall be permitted, unless they are permissible under such requirements. This Plan is intended to comply with the applicable requirements of Code Section 409A and shall be interpreted and administered in a manner that is consistent with such intent.

ARTICLE IX
ADMINISTRATION.

Section 9.1 Committee And Its Duties

This Plan shall be administered by the Committee. The Committee shall have the exclusive right and full authority and the complete discretion to (i) interpret the Plan, (ii) decide any and all matters arising under the Plan (including the right to remedy possible ambiguities, inconsistencies or omissions), (iii) make, amend, interpret and enforce all appropriate rules and regulations for the administration of the Plan and (iv) make all other determinations necessary or advisable for the administration of the Plan, including determinations regarding eligibility for benefits payable under the Plan. A majority vote of the Committee members shall control any decision. Members of the Committee may be Participants under this Plan. The Committee may name an individual as Plan Administrator to perform such duties and functions as the Committee determines in its discretion.

Section 9.2 Agents

The Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Company.

Section 9.3 Binding Effect Of Decisions

The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

Section 9.4 Indemnification

The Participating Employers shall indemnify and hold harmless (and/or insure) the members of the Committee and the Plan Administrator against any and all claims, loss, damage, expense or liability (including attorney’s fees) arising from any action or failure to act with respect to this Plan, except in the case of the gross negligence or willful misconduct of the Committee member or Plan Administrator.

ARTICLE X
CLAIMS PROCEDURE.

Section 10.1 Claims For Benefits And Inquiries

All claims for benefits and all inquiries concerning the Plan, or concerning present or future rights to benefits under the Plan, shall be submitted to the Plan Administrator in writing. If required by the Plan Administrator, an application for benefits must be made on a form prescribed by the Plan Administrator. The Participant or Beneficiary may authorize a representative to act on his or her behalf in pursuing benefit claims, in accordance with procedures established by the Plan Administrator for determining whether an individual is so authorized. All claim determinations shall be made by the Committee in accordance with the Plan provisions.

Section 10.2 Denial Of Claims

In the event any claim for benefits is denied in whole or in part, the Plan Administrator shall notify the applicant of such denial in writing and shall advise the applicant of the right to a review thereof. Such written notice shall set forth, in a manner calculated to be understood by the applicant,

(a) specific reasons for the denial,

(b) specific references to the Plan provisions on which the denial is based,

(c) a description of any information or material necessary for the claimant to perfect the application, including an explanation of why such material is necessary, and

(d) an explanation of the Plan's claims review procedure, the time limits applicable under the procedures and a statement regarding the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on appeal.

Such written notice shall be given to the applicant within 90 days (45 days for a claim for Disability benefits) after the Plan Administrator receives the application, unless special circumstances require an extension of time of up to an additional 90 days (30 days for a Disability benefits claim) for processing the application. If such an

extension of time for processing is required, written notice of the extension shall be furnished to the applicant prior to the termination of the initial 90-day period (45-day period for a Disability benefits claim). This notice of extension shall indicate the special circumstances requiring the extension of time and the date by which the Plan Administrator expects to render its decision on the application for benefits.

Section 10.3 Requests For A Review

Any person whose application for benefits is denied in whole or in part, or such person's authorized representative, may appeal from such denial by submitting to the Committee a request for a review of the application within 60 days (180 days for a Disability benefits claim) after receiving written notice of such denial from the Plan Administrator. If the claimant does not request a review of the determination within such 60 day period (180 days for a Disability benefits claim), the claimant shall be barred from challenging the determination. The request for a review shall be in writing and shall set forth all of the grounds on which it is based, all facts and documents in support of the request and any other matters which the applicant deems pertinent. The Committee may require the applicant to submit such additional facts, documents or other material as it may deem necessary or appropriate in making its review. The claimant may submit written comments, documents, records and other information related to the benefit claim on appeal. The claimant must be provided, upon request and free of charge, reasonable access to and copies of all documents, records and other information relevant to the benefit claim. A document is considered relevant to the claim if it (i) was relied upon in making the benefit determination; (ii) was submitted, considered or generated in the course of making the benefit determination, without regard as to whether it was relied upon in making the decision; or (iii) demonstrates compliance in making the benefit decision with the requirement that the benefit determination must follow the terms of the Plan and be consistent when applied to similarly situated claimants.

Section 10.4 Decision On Review

The Committee on appeal must undertake a full and fair review of the claim and consider all comments, documents, records and other information submitted by the

claimant, without regard to whether such information was submitted or considered in the initial benefit determination. The Committee shall act upon each request for review within 60 days (45 days for a review of a Disability benefits claim) after receipt thereof unless special circumstances require an extension of time of up to an additional 60 days (45 days for a Disability benefits claim) for processing the request. If such an extension is required, written notice of the extension shall be furnished to the applicant prior to the end of the initial 60-day period. This notice of extension shall indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render its decision on the application for benefits. If an extension of time is required due to the claimant's failure to submit information necessary to review the claim, the period of time that the Committee has to review the claim will be tolled from the date on which the notice of extension is sent to the claimant until the date on which the claimant responds to the request for additional information.

Within the time prescribed above, the Committee shall give written notice of its decision to the applicant. In the event that the Committee confirms the denial of the application for benefits in whole or in part, such notice shall set forth, in a manner calculated to be understood by the applicant,

(a) the specific reasons for such denial,

(b) specific references to the Plan provisions on which the decision is based,

(c) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records and other information relevant to the benefit claim. A document is considered relevant to the claim if it (i) was relied upon in making the benefit determination; (ii) was submitted, considered or generated in the course of making the benefit determination, without regard as to whether it was relied upon in making the decision; or (iii) demonstrates compliance in making the benefit decision with the requirement that the benefit determination must follow the terms of the Plan and be consistent when applied to similarly situated claimants, and

(d) a description of any voluntary appeal procedures offered under the Plan, the claimant's right to obtain information about such procedures and a statement

regarding the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on appeal.

In the event that the Committee determines that the application for benefits should not have been denied in whole or in part, the Committee shall take appropriate remedial action as soon as reasonably practicable thereafter.

Section 10.5 Rules And Procedures

The Committee may establish such rules and procedures, consistent with the Plan and with ERISA, as it may deem necessary or appropriate in carrying out its responsibilities under this Article X. The Committee may require an applicant who wishes to submit additional information in connection with an appeal from the denial of benefits in whole or in part to do so at the applicant's own expense.

Section 10.6 Exhaustion Of Remedies

No legal action for benefits under the Plan shall be brought unless and until the applicant (a) has submitted a written claim for benefits in accordance with Section 10.1; (b) has been notified by the Plan Administrator that the application is denied; (c) has filed a written request for a review of the application in accordance with Section 10.3; and (d) has been notified in writing that the Committee has affirmed the denial of the application. Further, no action on a claim arising under the Plan which is not a benefit claim may be brought unless the applicant complies with the above procedures. However, an action may not be brought by the claimant under Section 502(a) of ERISA if the claimant fails to bring such claim within the period prescribed by law.

ARTICLE XI
AMENDMENT AND TERMINATION.

Section 11.1 Amendment

Subject to the requirements of Code Section 409A, the Board may at any time amend the Plan by written instrument (including a retroactive amendment required to comply with Code Section 409A), provided that no amendment shall reduce the value of a Participant's Plan Benefits as of the date of the amendment. In addition, the Chief Executive Officer of the Company (or his or her delegate) may adopt such amendments to the Plan that he or she (or his or her delegate) deem necessary or appropriate under the following circumstances: (i) to insure that the Plan meets the requirements of applicable law; (ii) to revise routine day to day procedures under which the Plan is operated; or (iii) to restate the Plan document to incorporate prior amendments.

Section 11.2 Company's Right To Terminate

Subject to the requirements of Code Section 409A, the Board may at any time terminate the Plan. Such termination will not reduce the value of a Participant's Plan Benefits as of the date of termination. Distributions will be made as required by regulations issued under Code Section 409A, including, but not limited to the following:

(a) The termination and liquidation of the Plan must not occur proximate to a downturn in the financial health of the Company;

(b) The Company must terminate and liquidate all other arrangements required to be aggregated under such regulations;

(c) No distributions may be made during the twelve months following the date the Company takes all necessary actions to terminate and liquidate the Plan (other than amounts that would have been distributed if such actions had not been taken) and all benefits must be distributed no later than the end of the twenty four month period following the date the company takes such actions; and

(d) No new plan may be adopted to the extent required under such regulations.

ARTICLE XII
MISCELLANEOUS.

Section 12.1 Unfunded Plan

This Plan is an unfunded plan maintained primarily to provide deferred Compensation benefits for a select group of "management or highly-compensated employees" within the meaning of Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, to the extent permitted under Code Section 409A, the Board may remove certain employees as Participants if it is determined by the United States Department of Labor, a court of competent jurisdiction, or an opinion of counsel that the Plan constitutes an employee pension benefit plan within the meaning of Section 3(2) of ERISA (as currently in effect or hereafter amended) which is not so exempt.

Section 12.2 Unsecured General Creditor

Notwithstanding any other provision of this Plan, Participants and the Participants' Beneficiaries shall be unsecured general creditors, with no secured or preferential rights to any assets of Company or any other party for payment of benefits under this Plan. Any property held by Company with respect to the Plan, including property for the purpose of generating the cash flow for benefit payments, shall remain the Company's general, unpledged and unrestricted assets and shall remain subject to the claims of the Company's general unsecured creditors. The Company's obligation under the Plan shall be an unfunded and unsecured promise to pay money in the future.

Section 12.3 Establishment Of, And Contributions To, The Trust

The Company will enter into a Trust Agreement with a trustee selected by the Company under which a Trust will be established. In the discretion of the Company, the Company may contribute to the Trust all or a portion of the value of the Plan Benefits under the Plan. In addition, such amounts will be contributed to the Trust to the extent required under the Trust Agreement. Within 30 days following a Change In Control Of The Company, the value of the Plan Benefits that have not previously been contributed

to the Trust will be so contributed. Within 30 days following a Change In Control Of A Bank Subsidiary, the value of the Plan Benefits of a Participant who is a current or former employee of such Bank Subsidiary that has not previously been contributed to the Trust will be so contributed. A current (or former employee) of a corporation in which the Bank Subsidiary owns 100% of the common stock immediately prior to the Change In Control of the Bank Subsidiary will be considered an employee (or former employee) under the previous sentence. Although the Trust shall be irrevocable, its assets shall be held for payment of all Company's general creditors in the event of the Company's bankruptcy or insolvency. To the extent any Plan Benefits are paid from the Trust, the Company shall have no further obligation to pay them. If not paid from the Trust, such Plan Benefits shall remain the obligation of Company.

Notwithstanding the foregoing or anything in the Trust Agreement to the contrary, in no event shall a contribution be made to the Trust for the purpose of paying any amount to an "applicable covered employee" (as defined in Code Section 409A(b)(3)(D)(i)) during any "restricted period" (as defined in Code Section 409A(b)(3)(B)), if such contribution would result in the imposition of any taxes, penalties or interest on such applicable covered employee under Code Section 409A(b)(3).

Section 12.4 Nonassignability

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Section 12.5 No Contract Of Employment

This Plan shall not constitute a contract of employment between Company and the Participant. Nothing in this Plan shall give a Participant the right to be retained in

the service of Company or to interfere with the right of the Company to discipline or discharge a Participant at any time.

Section 12.6 Protective Provisions

A Participant will cooperate with Company by furnishing any and all information requested by Company, in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as Company may deem necessary and taking such other action as may be requested by Company.

Section 12.7 Governing Law

The provisions of this Plan shall be construed and interpreted under ERISA or other applicable federal law, or, to the extent not preempted by ERISA (or other federal law), the laws of the State of Delaware.

Section 12.8 Validity

If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

Section 12.9 Notice

Any notice required or permitted under the Plan shall be made under rules and procedures established by the Committee.

Section 12.10 Successors

The provisions of this Plan shall bind and inure to the benefit of Company and its successors and assigns. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of Company, and successors of any such corporation or other business entity.

TO RECORD the adoption of this amendment and restatement, First Hawaiian, Inc. has executed this document this ____________________, 2019.

FIRST HAWAIIAN, INC.

Date: _____________________________________ By: ____

EXHIBIT I
GRANDFATHERED PARTICIPANTS

Alm, Robert A.
Aoki, Harriet M.
Au, Robert H. C.
Bellinger, John
Bentley, Kenneth
Brown, Sharon S.
Caulfield, Gary L.
Ching, Norman K. Y.
Ching, Philip H.
Choo, Raymond M. H.
Chow, Winston K. H.
Chun, Albert S.
Curran III, Guernsey
Dods, Jr., Walter A.
Dreher, Koren K.
Estepa, Romeo B.
Farias, Brandt G.
Felmet, Mark H.
Freitas, Melvin T.
Fujitani, Gary Y.
Fujitani, Linda B.
Fuller, Jerrold A.
Guerrero, Jr., A. R.
Hirata, Dean K.
Hoag, John Arthur
Horner, Donald G.
Huber, Thomas P.
Iki, Gary K.
Johnstone, III, William B.
Kai, Gary K.
Kajiyama, Edmund H.
Karr, Howard H.
Keir, Gerald J.
King, Roy E.
Kusumoto, Clarence
Landgraf, John W.
Lee, Jr., John K.
Lum, Raymond D. S.
Lumsden, George H.
MacArthur, Roger P.
MacGregor, Donald
Madison, David W.
Mahoney, Thomas
Marcuccilli, Stephen J.
Maynard, Kristi L.
Mishima, Janie
Mow, Melvin W. Y.
Murakoshi, Michael J.
Natori, Francis T.
Nishimura, Albert S.
Omori, Vernon T.
Onodera, Yasutaka P.
Otaguro, Curt T.
Pai, Kenneth C. S.
Pang, Gerald M.
Pei, Edward Y. W.
Pope, Norwood W.
Roeder, Michael
Sailer, Joseph R.
Seto, Hugo S. H.
Shine, III, Frederick J.
Sumida, Sheila M.
Texeira, Ronald L.
Tomber, Barbara S.
Tsui, John K.
Wayman, James M.
Whittemore, Thomas P.
Williams, Stephen J.
Williamson, Richard C.
Wilson, Douglas D.
Wolff, Herbert E.
Yamada, Albert M.
Yao, Lily
Yoshioka, Kazuo

EXHIBIT II
SECTION 5.5 PARTICIPANTS ON DECEMBER 20, 2001

Ames, Kevin
Anthony, Ralph E.
Atwater, William E.
Aubrey, Richard W.
Awaya, Nelson S.
Beecher, Mark R.
Bleything, Bradley J.
Bonavia, Edwin
Bonetto, Frank J.
Brasseur, Bernard
Brown, Sharon S.
Burns, Thomas J.
Caulfield, Gary L.
Chow, Winston K. H.
Copus, Casey S.
Crawford, Arthur J.
Dimalanta, John H.
Dimmick, Dan
Dixon, Jr., Thomas W.
Dods, Jr., Walter A.
Dreher, Koren K.
Farias, Brandt G.
Felmet, Mark H.
Fike, William Taylor
Forsloff, James W.
Freitas, Melvin T.
Fujihara, Kenneth T.
Fujioka, Robert T.
Fujitani, Gary Y.
Fujitani, Linda B.
Germer, Scott J.
Glenn, Stephen C.
Grigsby, Douglas C.
Guerrero Jr., Anthony R.
Harrison, Robert S.
Henry, James R.
Hess, Claire H.
Horner, Donald G.
Jenkins, Charles L.
Johnstone III, William B.
Kajiyama, Edmund H.
Kalama, Corbett A. K.
Keir, Gerald J.
Landgraf, John W.
Lee Jr, John K.
Lopez-Cooper, Frances E.
Lumsden, George H.
McGoldrick, Richard T.
McGrath, Don J.
Mackinaw, George P.
Madison, David W.
Marcuccilli, Stephen J.
Maynard, Kristi L.
Midkiff, Robin S.
Miyabara, Miles S.
Mow, Melvin W. Y.
Murakoshi, Michael J.
Nakae, Paul H.
Newell, James G.
Okazaki, Glen R.
Omori, Vernon T.
Ono, Raymond S.
Otaguro, Curt T.
Pai, Kenneth C. S.
Pang, Gerald M.
Pei, Edward Y. W.
Raye, Robert S.
Robinson, Michael R.
Shine III, Frederick J.
Simpson, Janet
Stanfield, George C.
Sumida, Sheila M.
Tabata, Calvin Y.
Taylor, Michael G.
Tomber, Barbara S.
Tsui, John K.
Uechi, Gordon M.
Ward, Donald R.
Waters, Norma J.
Wayman, James M.
Weyant, Donald E.
Wheeler, Susan L.
Wible, Paul T.
Williams, Stephen J.
Williamson, Richard C.
Wilson, Douglas D.

EXHIBIT II
SECTION 5.5 PARTICIPANTS ON DECEMBER 20, 2001
(continued)

Wojick, John B.
Wolley, Gina M.
Wood, Michael V.
Yamada, Albert M.
Yannell, Donald P.
Yao, Lily
Zillman, William L.

EXHIBIT III

OTHER PARTICIPANTS

Borthwick, Joyce
Chang, Adolph
Coltrin, John
Hu, Dennis
Miller, Kenneth
Mills, James
Ono, Carol

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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: April 25, 2019

/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, Ravi Mallela, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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: April 25, 2019

/s/ Ravi Mallela
Ravi Mallela
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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 March 31, 2019 (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: April 25, 2019

/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 March 31, 2019 (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: April 25, 2019

/s/ Ravi Mallela
Ravi Mallela
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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.