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**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 June 30, 2021**

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**

(State or Other Jurisdiction of Incorporation or Organization)

**99-0156159**

(I.R.S. Employer Identification No.)

**999 Bishop Street, 29th Floor**

**Honolulu, HI**

(Address of Principal Executive Offices)

**96813**

(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)

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common Stock, par value \$0.01 per share	FHB	NASDAQ Global Select Market

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

Non-accelerated filer

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: 129,585,404 shares of Common Stock, par value \$0.01 per share, were outstanding as of July 26, 2021.

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FORM 10-Q  
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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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Interest income</b>				
Loans and lease financing	\$ 110,919	\$ 122,298	\$ 221,858	\$ 257,269
Available-for-sale securities	24,637	17,529	47,783	38,739
Other	666	792	1,157	3,143
Total interest income	<u>136,222</u>	<u>140,619</u>	<u>270,798</u>	<u>299,151</u>
<b>Interest expense</b>				
Deposits	3,363	8,583	7,419	24,183
Short-term and long-term borrowings	1,378	4,214	2,740	8,463
Total interest expense	<u>4,741</u>	<u>12,797</u>	<u>10,159</u>	<u>32,646</u>
Net interest income	131,481	127,822	260,639	266,505
Provision for credit losses	<u>(35,000)</u>	<u>55,446</u>	<u>(35,000)</u>	<u>96,646</u>
Net interest income after provision for credit losses	<u>166,481</u>	<u>72,376</u>	<u>295,639</u>	<u>169,859</u>
<b>Noninterest income</b>				
Service charges on deposit accounts	6,632	5,927	13,350	14,877
Credit and debit card fees	16,746	10,870	31,297	25,819
Other service charges and fees	10,303	7,912	19,149	16,451
Trust and investment services income	8,707	8,664	17,199	18,255
Bank-owned life insurance	3,104	4,432	5,493	6,692
Investment securities gains (losses), net	102	(211)	102	(126)
Other	3,777	8,062	6,649	12,916
Total noninterest income	<u>49,371</u>	<u>45,656</u>	<u>93,239</u>	<u>94,884</u>
<b>Noninterest expense</b>				
Salaries and employee benefits	45,982	42,414	89,918	87,243
Contracted services and professional fees	16,516	15,478	33,704	31,533
Occupancy	7,314	7,302	14,484	14,545
Equipment	6,362	5,207	11,853	9,915
Regulatory assessment and fees	1,826	2,100	3,860	4,046
Advertising and marketing	1,469	1,402	3,060	3,225
Card rewards program	6,262	5,163	11,097	12,178
Other	13,657	12,384	27,718	25,231
Total noninterest expense	<u>99,388</u>	<u>91,450</u>	<u>195,694</u>	<u>187,916</u>
Income before provision for income taxes	116,464	26,582	193,184	76,827
Provision for income taxes	<u>29,723</u>	<u>6,533</u>	<u>48,750</u>	<u>17,913</u>
<b>Net income</b>	<u>\$ 86,741</u>	<u>\$ 20,049</u>	<u>\$ 144,434</u>	<u>\$ 58,914</u>
Basic earnings per share	<u>\$ 0.67</u>	<u>\$ 0.15</u>	<u>\$ 1.11</u>	<u>\$ 0.45</u>
Diluted earnings per share	<u>\$ 0.67</u>	<u>\$ 0.15</u>	<u>\$ 1.11</u>	<u>\$ 0.45</u>
Basic weighted-average outstanding shares	<u>129,392,339</u>	<u>129,856,730</u>	<u>129,661,228</u>	<u>129,876,218</u>
Diluted weighted-average outstanding shares	<u>129,828,847</u>	<u>130,005,195</u>	<u>130,164,762</u>	<u>130,163,722</u>

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	\$ 86,741	\$ 20,049	\$ 144,434	\$ 58,914
Other comprehensive income (loss), net of tax:				
Net change in pensions and other benefits	—	—	—	(96)
Net change in investment securities	13,733	48,602	(61,306)	84,576
Other comprehensive income (loss)	13,733	48,602	(61,306)	84,480
<b>Total comprehensive income</b>	<b>\$ 100,474</b>	<b>\$ 68,651</b>	<b>\$ 83,128</b>	<b>\$ 143,394</b>

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)	June 30, 2021	December 31, 2020
<b>Assets</b>		
Cash and due from banks	\$ 347,861	\$ 303,373
Interest-bearing deposits in other banks	1,558,437	737,571
Investment securities, at fair value (amortized cost: \$6,951,153 as of June 30, 2021 and \$5,985,031 as of December 31, 2020)	6,953,930	6,071,415
Loans held for sale	1,241	11,579
Loans and leases	13,103,785	13,279,097
Less: allowance for credit losses	169,148	208,454
Net loans and leases	12,934,637	13,070,643
Premises and equipment, net	319,452	322,401
Accrued interest receivable	66,734	69,626
Bank-owned life insurance	466,402	466,537
Goodwill	995,492	995,492
Mortgage servicing rights	10,007	10,731
Other assets	592,135	603,463
<b>Total assets</b>	<b>\$ 24,246,328</b>	<b>\$ 22,662,831</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Interest-bearing	\$ 12,245,193	\$ 11,705,609
Noninterest-bearing	8,589,922	7,522,114
Total deposits	20,835,115	19,227,723
Long-term borrowings	200,000	200,010
Retirement benefits payable	144,101	143,373
Other liabilities	335,771	347,621
<b>Total liabilities</b>	<b>21,514,987</b>	<b>19,918,727</b>
Commitments and contingent liabilities (Note 12)		
Stockholders' equity		
Common stock (\$0.01 par value; authorized 300,000,000 shares; issued/outstanding: 140,542,398 / 129,019,871 as of June 30, 2021; issued/outstanding: 140,191,133 / 129,912,272 as of December 31, 2020)	1,405	1,402
Additional paid-in capital	2,520,790	2,514,014
Retained earnings	550,511	473,974
Accumulated other comprehensive (loss) income, net	(29,702)	31,604
Treasury stock (11,522,527 shares as of June 30, 2021 and 10,278,861 shares as of December 31, 2020)	(311,663)	(276,890)
<b>Total stockholders' equity</b>	<b>2,731,341</b>	<b>2,744,104</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 24,246,328</b>	<b>\$ 22,662,831</b>

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)	Three Months Ended June 30, 2021						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance as of March 31, 2021	129,749,890	\$ 1,405	\$ 2,517,048	\$ 497,418	\$ (43,435)	\$ (288,806)	\$ 2,683,630
<b>Net income</b>	—	—	—	<b>86,741</b>	—	—	<b>86,741</b>
<b>Cash dividends declared (\$0.26 per share)</b>	—	—	—	<b>(33,637)</b>	—	—	<b>(33,637)</b>
Equity-based awards	69,828	—	3,742	(11)	—	(471)	3,260
Common stock repurchased	(799,847)	—	—	—	—	(22,386)	(22,386)
Other comprehensive income, net of tax	—	—	—	—	13,733	—	13,733
<b>Balance as of June 30, 2021</b>	<b>129,019,871</b>	<b>\$ 1,405</b>	<b>\$ 2,520,790</b>	<b>\$ 550,511</b>	<b>\$ (29,702)</b>	<b>\$ (311,663)</b>	<b>\$ 2,731,341</b>

(dollars in thousands, except share amounts)	Six Months Ended June 30, 2021						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance as of December 31, 2020	129,912,272	\$ 1,402	\$ 2,514,014	\$ 473,974	\$ 31,604	\$ (276,890)	\$ 2,744,104
<b>Net income</b>	—	—	—	<b>144,434</b>	—	—	<b>144,434</b>
<b>Cash dividends declared (\$0.52 per share)</b>	—	—	—	<b>(67,448)</b>	—	—	<b>(67,448)</b>
Equity-based awards	239,910	3	6,776	(449)	—	(2,845)	3,485
Common stock repurchased	(1,132,311)	—	—	—	—	(31,928)	(31,928)
Other comprehensive loss, net of tax	—	—	—	—	(61,306)	—	(61,306)
<b>Balance as of June 30, 2021</b>	<b>129,019,871</b>	<b>\$ 1,405</b>	<b>\$ 2,520,790</b>	<b>\$ 550,511</b>	<b>\$ (29,702)</b>	<b>\$ (311,663)</b>	<b>\$ 2,731,341</b>

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

(dollars in thousands, except share amounts)	Three Months Ended June 30, 2020						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance as of March 31, 2020	129,827,968	\$ 1,401	\$ 2,506,477	\$ 429,323	\$ 4,129	\$ (276,645)	\$ 2,664,685
Net income	—	—	—	20,049	—	—	20,049
Cash dividends declared (\$0.26 per share)	—	—	—	(33,765)	—	—	(33,765)
Equity-based awards	38,930	—	2,794	(311)	—	(157)	2,326
Other comprehensive income, net of tax	—	—	—	—	48,602	—	48,602
Balance as of June 30, 2020	129,866,898	\$ 1,401	\$ 2,509,271	\$ 415,296	\$ 52,731	\$ (276,802)	\$ 2,701,897

(dollars in thousands, except share amounts)	Six Months Ended June 30, 2020						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance as of December 31, 2019	129,928,479	\$ 1,399	\$ 2,503,677	\$ 437,072	\$ (31,749)	\$ (270,141)	\$ 2,640,258
Cumulative-effect adjustment of a change in accounting principle, net of tax: ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), <i>Measurement of Credit Losses on Financial Instruments</i>	—	—	—	(12,517)	—	—	(12,517)
Net income	—	—	—	58,914	—	—	58,914
Cash dividends declared (\$0.52 per share)	—	—	—	(67,547)	—	—	(67,547)
Equity-based awards	156,178	2	5,594	(626)	—	(1,661)	3,309
Common stock repurchased	(217,759)	—	—	—	—	(5,000)	(5,000)
Other comprehensive income, net of tax	—	—	—	—	84,480	—	84,480
Balance as of June 30, 2020	129,866,898	\$ 1,401	\$ 2,509,271	\$ 415,296	\$ 52,731	\$ (276,802)	\$ 2,701,897

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)	Six Months Ended June 30,	
	2021	2020
<b>Cash flows from operating activities</b>		
Net income	\$ 144,434	\$ 58,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(35,000)	96,646
Depreciation, amortization and accretion, net	27,567	34,058
Deferred income tax provision (benefits)	7,168	(13,786)
Stock-based compensation	6,779	5,596
Other losses (gains)	76	(33)
Originations of loans held for sale	(73,368)	(123,331)
Proceeds from sales of loans held for sale	85,787	120,970
Net gains on sales of loans originated for investment and held for sale	(2,442)	(4,581)
Net (gains) losses on investment securities	(102)	126
Change in assets and liabilities:		
Net decrease in other assets	19,740	18,272
Net increase (decrease) in other liabilities	67,557	(84,298)
Net cash provided by operating activities	<u>248,196</u>	<u>108,553</u>
<b>Cash flows from investing activities</b>		
Available-for-sale securities:		
Proceeds from maturities and principal repayments	920,073	597,670
Proceeds from calls and sales	2,820	644,703
Purchases	(1,900,080)	(2,195,832)
Other investments:		
Proceeds from sales	7,956	18,346
Purchases	(60,155)	(27,562)
Loans:		
Net decrease (increase) in loans and leases resulting from originations and principal repayments	183,820	(698,069)
Proceeds from sales of loans originated for investment	2,200	132,011
Purchases of loans	(39,558)	(40,611)
Proceeds from bank-owned life insurance	5,628	1,845
Purchases of premises, equipment and software	(9,689)	(20,646)
Proceeds from sales of premises and equipment	1,394	—
Proceeds from sales of other real estate owned	—	316
Other	(2,422)	(1,951)
Net cash used in investing activities	<u>(888,013)</u>	<u>(1,589,780)</u>
<b>Cash flows from financing activities</b>		
Net increase in deposits	1,607,392	2,916,640
Repayment of short-term borrowings	—	(200,000)
Dividends paid	(67,448)	(67,547)
Stock tendered for payment of withholding taxes	(2,845)	(1,661)
Common stock repurchased	(31,928)	(5,000)
Net cash provided by financing activities	<u>1,505,171</u>	<u>2,642,432</u>
Net increase in cash and cash equivalents	865,354	1,161,205
Cash and cash equivalents at beginning of period	1,040,944	694,017
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,906,298</u>	<u>\$ 1,855,222</u>
<b>Supplemental disclosures</b>		
Interest paid	\$ 14,464	\$ 37,370
Income taxes paid, net of income tax refunds	30,399	4,242
Noncash investing and financing activities:		
Operating lease right-of-use assets obtained in exchange for new lease obligations	7,221	1,965
Transfers from loans and leases to loans held for sale	1,839	130,863
Obligation to fund low-income housing partnerships	15,314	11,369

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, including loans, deposit products, wealth management, insurance, trust, retirement planning, credit card and merchant processing services, to consumer and commercial customers.

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, 2020.

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

**Use of Estimates in the Preparation of Financial Statements**

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

**Accounting Standards Adopted in 2021**

In October 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*. Prior to the adoption of ASU No. 2020-08, previous guidance shortened the amortization period for certain purchased callable debt securities held at a premium by requiring that entities amortize the premium associated with those callable debt securities to the earliest call date. The guidance in ASU No. 2020-08 changes the amortization period so that an entity shall amortize the premium to the next call date. The Company adopted the provisions of ASU No. 2020-08 on January 1, 2021 and it did not have a material impact on the Company’s consolidated financial statements.

**Recent Accounting Pronouncements**

The following ASU has been issued by the FASB and is applicable to the Company in future reporting periods.

In July 2021, the FASB issued ASU No. 2021-05, *Leases (Topic 842), Lessors – Certain Leases with Variable Lease Payments*. This guidance amends the Topic 842 lease classification requirements for lessors to align them with practice under Topic 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the Topic 842 lease classification criteria, and 2) the lessor would have otherwise recognized a day-one loss. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. As the Company adopted Topic 842 before the issuance date of this ASU, the Company has the option to apply these amendments either 1) retrospectively to leases that commenced or were modified on or after the adoption of Topic 842, or 2) prospectively to leases that commence or are modified on or after the date that

the Company adopts ASU No. 2021-05. Early adoption is permitted. The Company is in the process of evaluating the impact that this new guidance may have on the Company's consolidated financial statements.

## 2. Investment Securities

As of June 30, 2021 and December 31, 2020, investment securities consisted predominantly of the following investment categories:

*U.S. Treasury and debt securities* – includes U.S. Treasury notes and debt securities issued by government agencies.

*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.

As of June 30, 2021 and December 31, 2020, all of the Company's investment securities were classified as available-for-sale. Amortized cost and fair value of securities as of June 30, 2021 and December 31, 2020 were as follows:

(dollars in thousands)	June 30, 2021				December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and government agency debt securities	\$ 182,354	\$ 545	\$ (2,127)	\$ 180,772	\$ 170,123	\$ 1,359	\$ (61)	\$ 171,421
Mortgage-backed securities:								
Residential - Government agency	110,115	3,174	—	113,289	155,169	5,293	—	160,462
Residential - Government-sponsored enterprises	1,257,032	10,776	(4,360)	1,263,448	434,282	13,643	(725)	447,200
Commercial - Government agency	487,607	6,956	(3,116)	491,447	583,232	16,537	(119)	599,650
Commercial - Government-sponsored enterprises	1,244,031	7,116	(27,342)	1,223,805	931,095	9,045	(7,983)	932,157
Collateralized mortgage obligations:								
Government agency	1,645,170	22,631	(5,667)	1,662,134	1,902,326	32,246	(1,019)	1,933,553
Government-sponsored enterprises	2,024,844	11,195	(17,004)	2,019,035	1,808,804	18,991	(823)	1,826,972
<b>Total available-for-sale securities</b>	<b>\$ 6,951,153</b>	<b>\$ 62,393</b>	<b>\$ (59,616)</b>	<b>\$ 6,953,930</b>	<b>\$ 5,985,031</b>	<b>\$ 97,114</b>	<b>\$ (10,730)</b>	<b>\$ 6,071,415</b>

Accrued interest receivable related to available-for-sale investment securities was \$11.6 million and \$10.6 million as of June 30, 2021 and December 31, 2020, respectively, and is recorded separately from the amortized cost basis of investment securities on the Company's unaudited interim consolidated balance sheets.

Proceeds from calls and sales of investment securities were \$0.2 million and \$2.5 million, respectively, for the three months ended June 30, 2021, and \$0.3 million and \$2.5 million, respectively, for the six months ended June 30, 2021. Proceeds from calls and sales of investment securities were \$26.7 million and \$539.5 million, respectively, for the three months ended June 30, 2020, and \$101.7 million and \$543.0 million, respectively, for the six months ended June 30, 2020. The Company recorded gross realized gains of \$0.1 million and gross realized losses of nil during both the three and six months ended June 30, 2021. The Company recorded gross realized gains of \$0.5 million and gross realized losses of \$0.8 million for the three months ended June 30, 2020, and gross realized gains of \$0.6 million and gross realized losses of \$0.8 million for the six months ended June 30, 2020. The income tax expense related to the Company's net realized gains on the sale of investment securities was nil during both the three and six months ended June 30, 2021. The income tax benefit related to the net realized loss on the sale of investment securities was \$0.1 million and nil, respectively, for the three and six months ended June 30, 2020. Gains and losses realized on sales of securities are determined using the specific identification method.

Interest income from taxable investment securities was \$22.4 million and \$17.5 million, respectively, for the three months ended June 30, 2021 and 2020, and \$44.6 million and \$38.7 million, respectively, for the six months ended June 30, 2021 and 2020. Interest income from non-taxable investment securities was \$2.2 million and nil, respectively, during the three months ended June 30, 2021 and 2020, and \$3.2 million and nil, respectively, during the six months ended June 30, 2021 and 2020.

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The amortized cost and fair value of debt securities issued by the U.S. Treasury and government agencies as of June 30, 2021, by contractual maturity, are shown below. 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)	June 30, 2021	
	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —
Due after one year through five years	41,497	41,787
Due after five years through ten years	83,608	82,670
Due after ten years	57,249	56,315
	<u>182,354</u>	<u>180,772</u>
<b>Mortgage-backed securities:</b>		
Residential - Government agency	110,115	113,289
Residential - Government-sponsored enterprises	1,257,032	1,263,448
Commercial - Government agency	487,607	491,447
Commercial - Government-sponsored enterprises	1,244,031	1,223,805
Total mortgage-backed securities	<u>3,098,785</u>	<u>3,091,989</u>
<b>Collateralized mortgage obligations:</b>		
Government agency	1,645,170	1,662,134
Government-sponsored enterprises	2,024,844	2,019,035
Total collateralized mortgage obligations	<u>3,670,014</u>	<u>3,681,169</u>
<b>Total available-for-sale securities</b>	<u>\$ 6,951,153</u>	<u>\$ 6,953,930</u>

At June 30, 2021, pledged securities totaled \$2.0 billion, of which \$1.8 billion was pledged to secure public deposits and \$192.8 million was pledged to secure other financial transactions. At December 31, 2020, pledged securities totaled \$2.4 billion, of which \$2.3 billion was pledged to secure public deposits and \$186.1 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 June 30, 2021 or December 31, 2020.

The following tables present the unrealized gross losses and fair values of securities in the available-for-sale portfolio by length of time that the 162 and 50 individual securities in each category have been in a continuous loss position as of June 30, 2021 and December 31, 2020, 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.

(dollars in thousands)	Time in Continuous Loss as of June 30, 2021					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and government agency debt securities	\$ (2,127)	\$ 120,987	\$ —	\$ —	\$ (2,127)	\$ 120,987
<b>Mortgage-backed securities:</b>						
Residential - Government-sponsored enterprises	(4,360)	618,414	—	—	(4,360)	618,414
Commercial - Government agency	(2,899)	193,041	(217)	7,064	(3,116)	200,105
Commercial - Government-sponsored enterprises	(27,342)	865,899	—	—	(27,342)	865,899
<b>Collateralized mortgage obligations:</b>						
Government agency	(5,667)	463,392	—	—	(5,667)	463,392
Government-sponsored enterprises	(17,004)	1,237,282	—	—	(17,004)	1,237,282
<b>Total available-for-sale securities with unrealized losses</b>	<u>\$ (59,399)</u>	<u>\$ 3,499,015</u>	<u>\$ (217)</u>	<u>\$ 7,064</u>	<u>\$ (59,616)</u>	<u>\$ 3,506,079</u>

(dollars in thousands)	Time in Continuous Loss as of December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and government agency debt securities	\$ (61)	\$ 38,507	\$ —	\$ —	\$ (61)	\$ 38,507
Mortgage-backed securities:						
Residential - Government-sponsored enterprises	(725)	64,987	—	—	(725)	64,987
Commercial - Government agency	(119)	32,346	—	—	(119)	32,346
Commercial - Government-sponsored enterprises	(7,983)	427,759	—	—	(7,983)	427,759
Collateralized mortgage obligations:						
Government agency	(994)	209,124	(25)	6,190	(1,019)	215,314
Government-sponsored enterprises	(823)	296,160	—	—	(823)	296,160
<b>Total available-for-sale securities with unrealized losses</b>	<b>\$ (10,705)</b>	<b>\$ 1,068,883</b>	<b>\$ (25)</b>	<b>\$ 6,190</b>	<b>\$ (10,730)</b>	<b>\$ 1,075,073</b>

At June 30, 2021 and December 31, 2020, the Company did not have any securities with 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 had the intent and ability to hold the remaining securities in an unrealized loss position as of June 30, 2021 and December 31, 2020, each security with an unrealized loss position in the above tables has been further assessed to determine if a credit loss exists. As of June 30, 2021 and December 31, 2020, the Company did not expect any credit losses in its debt securities and no credit losses were recognized on securities during the three and six months ended June 30, 2021 and for the year ended December 31, 2020.

As of June 30, 2021 and December 31, 2020, the Company's available-for-sale investment securities were comprised entirely of debt, mortgage-backed securities and collateralized mortgage obligations issued by the U.S. Government, its agencies and government-sponsored enterprises. Management has concluded that the long history with no credit losses from these issuers indicates an expectation that nonpayment of the amortized cost basis is zero. The Company's available-for-sale investment securities are explicitly or implicitly fully guaranteed by the U.S. government. The U.S. government can print its own currency and its currency is routinely held by central banks and other major financial institutions. The dollar is used in international commerce, and commonly is viewed as a reserve currency, all of which qualitatively indicates that historical credit loss information should be minimally affected by current conditions and reasonable and supportable forecasts. Thus, the Company has not recorded an allowance for credit losses for its available-for-sale debt securities as of June 30, 2021 and December 31, 2020.

#### Visa Class B Restricted Shares

In 2008, the Company received 394,000 Visa Class B restricted shares as part of Visa's IPO. 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. On September 27, 2019, Visa additionally funded its litigation escrow account, thereby further reducing each member bank's Class B conversion rate to unrestricted Class A common shares. Accordingly, on September 30, 2019, Visa announced a decrease in conversion rate from 1.6298 to 1.6228, effective September 27, 2019. In October 2019, the Company made a payment of approximately \$0.3 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 June 30, 2021 and December 31, 2020. These shares continued to be carried at \$0 cost basis as of both June 30, 2021 and December 31, 2020.

### 3. Loans and Leases

As of June 30, 2021 and December 31, 2020, loans and leases were comprised of the following:

(dollars in thousands)	June 30, 2021	December 31, 2020
Commercial and industrial	\$ 2,564,547	\$ 3,019,507
Commercial real estate	3,528,068	3,392,676
Construction	853,865	735,819
Residential:		
Residential mortgage	3,821,407	3,690,218
Home equity line	825,368	841,624
Total residential	4,646,775	4,531,842
Consumer	1,267,559	1,353,842
Lease financing	242,971	245,411
<b>Total loans and leases</b>	<b>\$ 13,103,785</b>	<b>\$ 13,279,097</b>

Outstanding loan balances are reported net of deferred loan costs and fees of \$20.4 million and \$26.1 million at June 30, 2021 and December 31, 2020, respectively.

Accrued interest receivable related to loans and leases was \$55.1 million and \$59.0 million as of June 30, 2021 and December 31, 2020, respectively, and is recorded separately from the amortized cost basis of loans and leases on the Company's unaudited interim consolidated balance sheets.

As of June 30, 2021, 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, commercial and industrial, commercial real estate and residential real estate loans totaling \$1.9 billion were pledged to collateralize the Company's borrowing capacity at the Federal Reserve Bank of San Francisco ("FRB"). As of December 31, 2020, residential real estate loans totaling \$2.9 billion were pledged to collateralize the Company's borrowing capacity at the FHLB, and consumer, commercial and industrial, commercial real estate and residential mortgage loans totaling \$1.9 billion 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 \$2.6 million and \$2.3 million as of June 30, 2021 and December 31, 2020, respectively.

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

### 4. Allowance for Credit Losses

The Company maintains the allowance for credit losses for loans and leases (the "ACL") that is deducted from the amortized cost basis of loans and leases to present the net carrying value of loans and leases expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of loans and leases.

The Company also maintains an estimated reserve for unfunded commitments on the unaudited interim consolidated balance sheets. The reserve for unfunded commitments is reduced in the period in which the off-balance sheet financial instruments expire, loan funding occurs, or is otherwise settled.

In response to the COVID-19 pandemic, on March 27, 2020, the CARES Act was signed into law. The CARES Act creates a forbearance program for federally backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the National Emergency, and provides financial institutions the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings (“TDRs”) for a limited period of time to account for the effects of COVID-19. Financial institutions accounting for eligible loans under the CARES Act are not required to report such loans as TDRs in accordance with GAAP. In addition, Interagency Statements were issued on March 22, 2020 and April 7, 2020 to encourage financial institutions to work prudently with borrowers and to describe the agencies’ interpretation of how current accounting rules under GAAP apply to certain COVID-19 related modifications. The agencies confirmed with the FASB that short-term modifications (e.g., six months or less) for payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant and made on a good faith basis in response to borrowers impacted by COVID-19 who were current prior to any relief are not TDRs under GAAP. The agencies also confirmed that these short-term modifications should not be reported as being on nonaccrual status and should not be considered past due during the period of the deferral. The Company has adopted the provisions of both the CARES Act and Interagency Statements. The Company is first applying the CARES Act guidance in determining if certain loan modifications are not required to be reported as TDRs. If the loan modification does not qualify under the CARES Act, then the Interagency Statement guidance is applied. On December 27, 2020, the Consolidated Appropriations Act – 2021 (the “CAA”) was signed into law, which extends the temporary relief from TDR reporting through the earlier of (1) January 1, 2022, or (2) 60 days after the date on which the national emergency concerning COVID-19 terminates. The interim consolidated financial information below reflects the application of this guidance.

**Rollforward of the Allowance for Credit Losses**

The following presents the activity in the ACL by class of loans and leases for the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended June 30, 2021							
	Commercial Lending				Residential Lending			
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
<b>Allowance for credit losses:</b>								
Balance at beginning of period	\$ 27,322	\$ 51,691	\$ 10,552	\$ 3,197	\$ 38,471	\$ 6,668	\$ 62,465	\$ 200,366
Charge-offs	(330)	—	—	—	—	—	(3,917)	(4,247)
Recoveries	287	12	—	—	14	38	2,797	3,148
Decrease in Provision	(4,216)	(4,670)	(400)	(130)	(4,277)	(456)	(15,970)	(30,119)
<b>Balance at end of period</b>	<b>\$ 23,063</b>	<b>\$ 47,033</b>	<b>\$ 10,152</b>	<b>\$ 3,067</b>	<b>\$ 34,208</b>	<b>\$ 6,250</b>	<b>\$ 45,375</b>	<b>\$ 169,148</b>

(dollars in thousands)	Six Months Ended June 30, 2021							
	Commercial Lending				Residential Lending			
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
<b>Allowance for credit losses:</b>								
Balance at beginning of period	\$ 24,711	\$ 58,123	\$ 10,039	\$ 3,298	\$ 40,461	\$ 7,163	\$ 64,659	\$ 208,454
Charge-offs	(1,293)	(66)	—	—	(98)	—	(10,458)	(11,915)
Recoveries	502	15	166	—	31	62	5,452	6,228
Decrease in Provision	(857)	(11,039)	(53)	(231)	(6,186)	(975)	(14,278)	(33,619)
<b>Balance at end of period</b>	<b>\$ 23,063</b>	<b>\$ 47,033</b>	<b>\$ 10,152</b>	<b>\$ 3,067</b>	<b>\$ 34,208</b>	<b>\$ 6,250</b>	<b>\$ 45,375</b>	<b>\$ 169,148</b>

(dollars in thousands)	Three Months Ended June 30, 2020							
	Commercial Lending				Residential Lending			
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
<b>Allowance for credit losses:</b>								
Balance at beginning of period	\$ 20,884	\$ 42,838	\$ 8,824	\$ 851	\$ 30,021	\$ 6,556	\$ 56,039	\$ 166,013
Charge-offs	(13,974)	(2,723)	(379)	—	(14)	—	(8,907)	(25,997)
Recoveries	100	—	30	—	17	8	2,456	2,611
Increase (decrease) in Provision	14,289	13,007	(3,199)	2,986	3,850	1,071	17,489	49,493
<b>Balance at end of period</b>	<b>\$ 21,299</b>	<b>\$ 53,122</b>	<b>\$ 5,276</b>	<b>\$ 3,837</b>	<b>\$ 33,874</b>	<b>\$ 7,635</b>	<b>\$ 67,077</b>	<b>\$ 192,120</b>

(dollars in thousands)	Six Months Ended June 30, 2020									
	Commercial Lending				Residential Lending				Unallocated	Total
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer			
<b>Allowance for credit losses:</b>										
Balance at beginning of period	\$ 28,975	\$ 22,325	\$ 4,844	\$ 424	\$ 29,303	\$ 9,876	\$ 34,644	\$ 139	\$ 130,530	
Adoption of ASU No. 2016-13	(16,105)	10,559	(1,803)	207	(2,793)	(4,731)	15,575	(139)	770	
Charge-offs	(14,175)	(2,723)	(379)	—	(14)	(8)	(17,504)	—	(34,803)	
Recoveries	320	—	140	—	152	130	4,539	—	5,281	
Increase in Provision	22,284	22,961	2,474	3,206	7,226	2,368	29,823	—	90,342	
<b>Balance at end of period</b>	<b>\$ 21,299</b>	<b>\$ 53,122</b>	<b>\$ 5,276</b>	<b>\$ 3,837</b>	<b>\$ 33,874</b>	<b>\$ 7,635</b>	<b>\$ 67,077</b>	<b>\$ —</b>	<b>\$ 192,120</b>	

### Rollforward of the Reserve for Unfunded Commitments

The following presents the activity in the Reserve for Unfunded Commitments for the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended June 30, 2021									
	Commercial Lending				Residential Lending				Unallocated	Total
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer			
<b>Reserve for unfunded commitments:</b>										
Balance at beginning of period	\$ 16,129	\$ 1,112	\$ 8,313	\$ —	\$ —	\$ 8,500	\$ 49	\$ —	\$ 34,103	
Decrease in Provision	(3,321)	(134)	(440)	—	—	(979)	(7)	—	(4,881)	
<b>Balance at end of period</b>	<b>\$ 12,808</b>	<b>\$ 978</b>	<b>\$ 7,873</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,521</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ 29,222</b>	

(dollars in thousands)	Six Months Ended June 30, 2021									
	Commercial Lending				Residential Lending				Unallocated	Total
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer			
<b>Reserve for unfunded commitments:</b>										
Balance at beginning of period	\$ 11,719	\$ 1,328	\$ 9,037	\$ —	\$ 2	\$ 8,452	\$ 65	\$ —	\$ 30,603	
Increase (decrease) in Provision	1,089	(350)	(1,164)	—	(2)	(931)	(23)	—	(1,381)	
<b>Balance at end of period</b>	<b>\$ 12,808</b>	<b>\$ 978</b>	<b>\$ 7,873</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,521</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ 29,222</b>	

(dollars in thousands)	Three Months Ended June 30, 2020									
	Commercial Lending				Residential Lending				Unallocated	Total
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer			
<b>Reserve for unfunded commitments:</b>										
Balance at beginning of period	\$ 4,791	\$ 696	\$ 4,813	\$ —	\$ 1	\$ 6,927	\$ 23	\$ —	\$ 17,251	
Increase in Provision	3,390	472	1,095	—	2	963	31	—	5,953	
<b>Balance at end of period</b>	<b>\$ 8,181</b>	<b>\$ 1,168</b>	<b>\$ 5,908</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 7,890</b>	<b>\$ 54</b>	<b>\$ —</b>	<b>\$ 23,204</b>	

(dollars in thousands)	Six Months Ended June 30, 2020									
	Commercial Lending				Residential Lending				Unallocated	Total
	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer			
<b>Reserve for unfunded commitments:</b>										
Balance at beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 600	\$ —	\$ 600	
Adoption of ASU No. 2016-13	5,390	778	4,119	—	7	6,587	(581)	—	16,300	
Increase (decrease) in Provision	2,791	390	1,789	—	(4)	1,303	35	—	6,304	
<b>Balance at end of period</b>	<b>\$ 8,181</b>	<b>\$ 1,168</b>	<b>\$ 5,908</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 7,890</b>	<b>\$ 54</b>	<b>\$ —</b>	<b>\$ 23,204</b>	

### Credit Quality Information

The Company performs an internal loan review and grading or scoring procedures 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 or scoring procedures is to identify, in a timely manner, existing or emerging credit quality issues so that appropriate steps can be initiated to avoid or minimize future losses.

Loans and leases subject to grading primarily include: commercial and industrial loans, commercial real estate loans, construction loans and lease financing. Other loans subject to grading include installment loans to businesses or individuals for business and commercial purposes, overdraft lines of credit, commercial credit cards, and other credits as may be determined. Credit quality indicators for internally graded loans and leases are generally updated on an annual basis or on a quarterly basis for those loans and leases deemed to be of potentially higher risk.

An internal 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 factors of a borrower: character, earnings and operating cash flow, asset and liability structure, debt capacity, 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.

Loans that are primarily monitored for credit quality using FICO scores include: residential mortgage loans, home equity lines and consumer loans. FICO scores are calculated primarily based on a consideration of payment history, the current amount of debt, the length of credit history available, a recent history of new sources of credit and the mix of credit type. FICO scores are updated on a monthly, quarterly or bi-annual basis, depending on the product type.



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The amortized cost basis by year of origination and credit quality indicator of the Company's loans and leases as of June 30, 2021 was as follows:

(dollars in thousands)	Term Loans						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
	2021	2020	2019	2018	2017	Prior			
<b>Commercial Lending</b>									
<b>Commercial and Industrial</b>									
Risk rating:									
Pass	\$ 606,765	\$ 422,457	\$ 242,554	\$ 136,069	\$ 48,828	\$ 207,502	\$ 674,340	\$ 23,935	\$ 2,362,450
Special Mention	122	8,994	33,617	12,735	1,425	4,647	14,338	376	76,254
Substandard	—	7,149	2,400	16,246	137	8,731	6,397	1,344	42,404
Other <sup>(1)</sup>	9,812	8,774	10,337	6,632	3,531	965	43,388	—	83,439
Total Commercial and Industrial	616,699	447,374	288,908	171,682	53,921	221,845	738,463	25,655	2,564,547
<b>Commercial Real Estate</b>									
Risk rating:									
Pass	288,366	342,013	571,608	557,533	449,551	1,055,803	63,775	2	3,328,651
Special Mention	—	1,482	52,852	16,081	33,022	55,933	7,604	—	166,974
Substandard	—	411	—	7,016	2,069	21,962	502	—	31,960
Other <sup>(1)</sup>	—	—	—	—	—	483	—	—	483
Total Commercial Real Estate	288,366	343,906	624,460	580,630	484,642	1,134,181	71,881	2	3,528,068
<b>Construction</b>									
Risk rating:									
Pass	49,592	97,149	296,405	173,352	62,983	70,998	55,892	—	806,371
Special Mention	—	—	494	705	—	361	—	—	1,560
Substandard	—	—	—	373	—	1,378	—	—	1,751
Other <sup>(1)</sup>	11,829	15,036	5,247	5,381	2,953	2,930	807	—	44,183
Total Construction	61,421	112,185	302,146	179,811	65,936	75,667	56,699	—	853,865
<b>Lease Financing</b>									
Risk rating:									
Pass	21,690	69,598	55,494	11,376	16,623	60,091	—	—	234,872
Special Mention	545	308	465	246	81	232	—	—	1,877
Substandard	—	2,720	1,668	260	1,072	502	—	—	6,222
Total Lease Financing	22,235	72,626	57,627	11,882	17,776	60,825	—	—	242,971
<b>Total Commercial Lending</b>	<b>\$ 988,721</b>	<b>\$ 976,091</b>	<b>\$ 1,273,141</b>	<b>\$ 944,005</b>	<b>\$ 622,275</b>	<b>\$ 1,492,518</b>	<b>\$ 867,043</b>	<b>\$ 25,657</b>	<b>\$ 7,189,451</b>

(continued)

(continued) (dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2021	2020	2019	2018	2017	Prior			
<b>Residential Lending</b>									
<b>Residential Mortgage</b>									
FICO:									
740 and greater	\$ 570,542	\$ 675,163	\$ 329,047	\$ 224,827	\$ 293,853	\$ 958,515	\$ —	\$ —	\$ 3,051,947
680 - 739	68,225	86,857	50,699	43,075	42,753	144,223	—	—	435,832
620 - 679	11,867	12,564	9,988	6,352	9,310	41,478	—	—	91,559
550 - 619	—	1,018	171	1,322	1,752	11,788	—	—	16,051
Less than 550	—	1,274	—	346	2,545	2,807	—	—	6,972
No Score <sup>(3)</sup>	10,207	8,602	15,988	21,087	18,814	51,217	—	—	125,915
Other <sup>(2)</sup>	10,440	17,605	12,917	11,910	19,349	20,130	625	155	93,131
<b>Total Residential Mortgage</b>	<b>671,281</b>	<b>803,083</b>	<b>418,810</b>	<b>308,919</b>	<b>388,376</b>	<b>1,230,158</b>	<b>625</b>	<b>155</b>	<b>3,821,407</b>
<b>Home Equity Line</b>									
FICO:									
740 and greater	—	—	—	—	—	—	610,924	1,757	612,681
680 - 739	—	—	—	—	—	—	147,286	3,619	150,905
620 - 679	—	—	—	—	—	—	39,660	2,036	41,696
550 - 619	—	—	—	—	—	—	12,966	1,256	14,222
Less than 550	—	—	—	—	—	—	2,025	47	2,072
No Score <sup>(3)</sup>	—	—	—	—	—	—	3,792	—	3,792
<b>Total Home Equity Line</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>816,653</b>	<b>8,715</b>	<b>825,368</b>
<b>Total Residential Lending</b>	<b>671,281</b>	<b>803,083</b>	<b>418,810</b>	<b>308,919</b>	<b>388,376</b>	<b>1,230,158</b>	<b>817,278</b>	<b>8,870</b>	<b>4,646,775</b>
<b>Consumer Lending</b>									
FICO:									
740 and greater	82,086	97,867	100,874	77,671	38,340	16,537	112,925	284	526,584
680 - 739	50,771	70,303	73,024	48,071	26,097	12,183	70,627	747	351,823
620 - 679	21,372	31,170	37,145	25,852	17,799	9,120	31,515	1,258	175,231
550 - 619	2,887	9,729	17,206	14,016	11,217	6,263	10,652	1,234	73,204
Less than 550	322	3,826	6,934	5,439	3,757	2,295	3,184	748	26,505
No Score <sup>(3)</sup>	834	63	85	51	87	4	33,144	420	34,688
Other <sup>(2)</sup>	394	370	1,759	52	2,183	49	74,717	—	79,524
<b>Total Consumer Lending</b>	<b>158,666</b>	<b>213,328</b>	<b>237,027</b>	<b>171,152</b>	<b>99,480</b>	<b>46,451</b>	<b>336,764</b>	<b>4,691</b>	<b>1,267,559</b>
<b>Total Loans and Leases</b>	<b>\$ 1,818,668</b>	<b>\$ 1,992,502</b>	<b>\$ 1,928,978</b>	<b>\$ 1,424,076</b>	<b>\$ 1,110,131</b>	<b>\$ 2,769,127</b>	<b>\$ 2,021,085</b>	<b>\$ 39,218</b>	<b>\$ 13,103,785</b>

- (1) Other credit quality indicators used for monitoring purposes are primarily FICO scores. The majority of the loans in this population were originated to borrowers with a prime FICO score.
- (2) Other credit quality indicators used for monitoring purposes are primarily internal risk ratings. The majority of the loans in this population were graded with a "Pass" rating.
- (3) No FICO scores are primarily related to loans and leases extended to non-residents. Loans and leases of this nature are primarily secured by collateral and/or are closely monitored for performance.

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The amortized cost basis by year of origination and credit quality indicator of the Company's loans and leases as of December 31, 2020 was as follows:

(dollars in thousands)	Term Loans						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
	2020	2019	2018	2017	2016	Prior			
<b>Commercial Lending</b>									
<b>Commercial and Industrial</b>									
Risk rating:									
Pass	\$ 873,639	\$ 324,030	\$ 183,329	\$ 73,000	\$ 49,886	\$ 94,360	\$ 1,058,786	\$ 28,853	\$ 2,685,883
Special Mention	20,937	10,370	20,164	2,099	279	8,316	101,183	1,549	164,897
Substandard	23,804	2,023	2,568	677	4,063	8,113	33,775	250	75,273
Other <sup>(1)</sup>	13,142	13,426	9,246	5,337	1,867	280	50,156	—	93,454
Total Commercial and Industrial	931,522	349,849	215,307	81,113	56,095	111,069	1,243,900	30,652	3,019,507
<b>Commercial Real Estate</b>									
Risk rating:									
Pass	342,845	611,243	541,104	447,366	295,426	814,398	47,604	323	3,100,309
Special Mention	1,500	63,617	26,187	33,482	37,841	61,279	2,999	—	226,905
Substandard	29	3,964	18,983	3,779	10,615	18,083	9,511	—	64,964
Other <sup>(1)</sup>	—	—	—	—	—	498	—	—	498
Total Commercial Real Estate	344,374	678,824	586,274	484,627	343,882	894,258	60,114	323	3,392,676
<b>Construction</b>									
Risk rating:									
Pass	53,931	233,730	202,808	83,792	23,171	41,536	28,386	—	667,354
Special Mention	—	508	707	4,717	—	9,172	—	—	15,104
Substandard	—	—	541	1,840	521	989	—	—	3,891
Other <sup>(1)</sup>	16,578	16,393	7,775	3,685	1,800	2,656	583	—	49,470
Total Construction	70,509	250,631	211,831	94,034	25,492	54,353	28,969	—	735,819
<b>Lease Financing</b>									
Risk rating:									
Pass	79,064	60,717	13,669	17,207	3,010	61,266	—	—	234,933
Special Mention	950	892	311	1,300	351	295	—	—	4,099
Substandard	2,708	1,677	327	1,141	—	526	—	—	6,379
Total Lease Financing	82,722	63,286	14,307	19,648	3,361	62,087	—	—	245,411
<b>Total Commercial Lending</b>	<b>\$ 1,429,127</b>	<b>\$ 1,342,590</b>	<b>\$ 1,027,719</b>	<b>\$ 679,422</b>	<b>\$ 428,830</b>	<b>\$ 1,121,767</b>	<b>\$ 1,332,983</b>	<b>\$ 30,975</b>	<b>\$ 7,393,413</b>

(continued)

(continued) (dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2020	2019	2018	2017	2016	Prior			
<b>Residential Lending</b>									
<b>Residential Mortgage</b>									
FICO:									
740 and greater	\$ 728,807	\$ 384,248	\$ 290,484	\$ 361,297	\$ 314,971	\$ 830,795	\$ —	\$ —	\$ 2,910,602
680 - 739	85,151	53,090	44,616	50,703	39,230	144,537	—	—	417,327
620 - 679	15,767	7,604	11,460	9,628	7,982	43,393	—	—	95,834
550 - 619	—	1,971	2,818	2,920	4,474	10,144	—	—	22,327
Less than 550	—	861	593	2,916	594	2,138	—	—	7,102
No Score <sup>(3)</sup>	13,823	18,861	21,214	21,821	14,355	45,147	—	—	135,221
Other <sup>(2)</sup>	21,011	15,860	18,540	22,677	9,550	13,426	578	163	101,805
<b>Total Residential Mortgage</b>	<b>864,559</b>	<b>482,495</b>	<b>389,725</b>	<b>471,962</b>	<b>391,156</b>	<b>1,089,580</b>	<b>578</b>	<b>163</b>	<b>3,690,218</b>
<b>Home Equity Line</b>									
FICO:									
740 and greater	—	—	—	—	—	—	608,282	2,163	610,445
680 - 739	—	—	—	—	—	—	159,886	3,155	163,041
620 - 679	—	—	—	—	—	—	44,005	1,571	45,576
550 - 619	—	—	—	—	—	—	11,644	884	12,528
Less than 550	—	—	—	—	—	—	5,159	330	5,489
No Score <sup>(3)</sup>	—	—	—	—	—	—	4,545	—	4,545
<b>Total Home Equity Line</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>833,521</b>	<b>8,103</b>	<b>841,624</b>
<b>Total Residential Lending</b>	<b>864,559</b>	<b>482,495</b>	<b>389,725</b>	<b>471,962</b>	<b>391,156</b>	<b>1,089,580</b>	<b>834,099</b>	<b>8,266</b>	<b>4,531,842</b>
<b>Consumer Lending</b>									
FICO:									
740 and greater	113,373	122,965	99,678	54,691	24,029	6,034	114,748	275	535,793
680 - 739	83,316	90,853	66,143	36,426	16,358	4,985	76,391	773	375,245
620 - 679	40,469	48,904	33,917	24,705	11,144	3,788	36,622	1,221	200,770
550 - 619	9,125	20,274	17,693	15,126	7,825	2,883	12,980	1,458	87,364
Less than 550	3,017	10,139	9,189	6,517	3,123	1,118	5,261	799	39,163
No Score <sup>(3)</sup>	339	103	64	109	10	—	33,854	356	34,835
Other <sup>(2)</sup>	380	1,890	73	2,214	45	6,768	69,302	—	80,672
<b>Total Consumer Lending</b>	<b>250,019</b>	<b>295,128</b>	<b>226,757</b>	<b>139,788</b>	<b>62,534</b>	<b>25,576</b>	<b>349,158</b>	<b>4,882</b>	<b>1,353,842</b>
<b>Total Loans and Leases</b>	<b>\$ 2,543,705</b>	<b>\$ 2,120,213</b>	<b>\$ 1,644,201</b>	<b>\$ 1,291,172</b>	<b>\$ 882,520</b>	<b>\$ 2,236,923</b>	<b>\$ 2,516,240</b>	<b>\$ 44,123</b>	<b>\$ 13,279,097</b>

- (1) Other credit quality indicators used for monitoring purposes are primarily FICO scores. The majority of the loans in this population were originated to borrowers with a prime FICO score.
- (2) Other credit quality indicators used for monitoring purposes are primarily internal risk ratings. The majority of the loans in this population were graded with a "Pass" rating.
- (3) No FICO scores are primarily related to loans and leases extended to non-residents. Loans and leases of this nature are primarily secured by collateral and/or are closely monitored for performance.

There were no loans and leases graded as Loss as of June 30, 2021 and December 31, 2020.

The amortized cost basis of revolving loans that were converted to term loans during the three and six months ended June 30, 2021 and 2020 was as follows:

(dollars in thousands)	Three Months Ended	
	June 30, 2021	
Commercial and industrial	\$	30
Home equity line		538
Consumer		443
<b>Total Revolving Loans Converted to Term Loans During the Period</b>	<b>\$</b>	<b>1,011</b>

(dollars in thousands)	Six Months Ended June 30, 2021
Commercial and industrial	\$ 259
Home equity line	1,617
Consumer	936
<b>Total Revolving Loans Converted to Term Loans During the Period</b>	<b>\$ 2,812</b>

(dollars in thousands)	Three Months Ended June 30, 2020
Commercial and industrial	\$ 294
Home equity line	3,928
<b>Total Revolving Loans Converted to Term Loans During the Period</b>	<b>\$ 4,222</b>

(dollars in thousands)	Six Months Ended June 30, 2020
Commercial and industrial	\$ 28,522
Residential mortgage	296
Home equity line	3,928
<b>Total Revolving Loans Converted to Term Loans During the Period</b>	<b>\$ 32,746</b>

#### Past-Due Status

The Company continually updates its aging analysis for loans and leases to monitor the migration of loans and leases into past due categories. The Company considers loans and leases that are delinquent for 30 days or more to be past due. As of June 30, 2021 and December 31, 2020, the aging analysis of the amortized cost basis of the Company's past due loans and leases was as follows:

(dollars in thousands)	June 30, 2021							
	Past Due				Total Past Due	Current	Total Loans and Leases	Loans and Leases Past Due 90 Days or More and Still Accruing Interest
	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due				
Commercial and industrial	\$ 6,835	\$ 380	\$ 1,140	\$ 8,355	\$ 2,556,192	\$ 2,564,547	\$ 494	
Commercial real estate	623	—	937	1,560	3,526,508	3,528,068	—	
Construction	—	202	60	262	853,603	853,865	60	
Lease financing	—	—	—	—	242,971	242,971	—	
Residential mortgage	3,533	1,290	4,113	8,936	3,812,471	3,821,407	—	
Home equity line	1,310	435	4,680	6,425	818,943	825,368	4,680	
Consumer	12,492	2,210	1,134	15,836	1,251,723	1,267,559	1,134	
<b>Total</b>	<b>\$ 24,793</b>	<b>\$ 4,517</b>	<b>\$ 12,064</b>	<b>\$ 41,374</b>	<b>\$ 13,062,411</b>	<b>\$ 13,103,785</b>	<b>\$ 6,368</b>	

(dollars in thousands)	December 31, 2020							
	Past Due				Total Past Due	Current	Total Loans and Leases	Loans and Leases Past Due 90 Days or More and Still Accruing Interest
	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due				
Commercial and industrial	\$ 2,585	\$ 604	\$ 2,626	\$ 5,815	\$ 3,013,692	\$ 3,019,507	\$ 2,108	
Commercial real estate	75	2,568	963	3,606	3,389,070	3,392,676	882	
Construction	779	376	2,137	3,292	732,527	735,819	93	
Lease financing	—	—	—	—	245,411	245,411	—	
Residential mortgage	3,382	4,125	3,372	10,879	3,679,339	3,690,218	—	
Home equity line	1,375	743	4,818	6,936	834,688	841,624	4,818	
Consumer	18,492	5,205	3,266	26,963	1,326,879	1,353,842	3,266	
<b>Total</b>	<b>\$ 26,688</b>	<b>\$ 13,621</b>	<b>\$ 17,182</b>	<b>\$ 57,491</b>	<b>\$ 13,221,606</b>	<b>\$ 13,279,097</b>	<b>\$ 11,167</b>	

### Nonaccrual Loans and Leases

The Company generally places a loan or lease 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. The Company charges off a loan or lease when facts indicate that the loan or lease is considered uncollectible.

The amortized cost basis of loans and leases on nonaccrual status as of June 30, 2021 and December 31, 2020 and the amortized cost basis of loans and leases on nonaccrual status with no ACL as of June 30, 2021 and December 31, 2020 were as follows:

	June 30, 2021	
(dollars in thousands)	Nonaccrual Loans and Leases With No Allowance for Credit Losses	Nonaccrual Loans and Leases
Commercial and industrial	\$ —	\$ 828
Commercial real estate	857	937
Residential mortgage	1,877	7,140
<b>Total Nonaccrual Loans and Leases</b>	<b>\$ 2,734</b>	<b>\$ 8,905</b>

  

	December 31, 2020	
(dollars in thousands)	Nonaccrual Loans and Leases With No Allowance for Credit Losses	Nonaccrual Loans and Leases
Commercial and industrial	\$ —	\$ 518
Commercial real estate	—	80
Construction	1,840	2,043
Residential mortgage	1,316	6,441
<b>Total Nonaccrual Loans and Leases</b>	<b>\$ 3,156</b>	<b>\$ 9,082</b>

For the three and six months ended June 30, 2021, the Company recognized interest income of \$0.1 million and \$0.2 million, respectively, on nonaccrual loans and leases, and for both the three and six months ended June 30, 2020, the Company recognized interest income of \$0.1 million on nonaccrual loans and leases. Furthermore, for the three and six months ended June 30, 2021, the amount of accrued interest receivables written off by reversing interest income was \$0.1 million and \$0.5 million, respectively, and for the three and six months ended June 30, 2020, the amount of accrued interest receivables written off by reversing interest income was \$0.5 million and \$0.9 million, respectively.

### Collateral-Dependent Loans and Leases

Collateral-dependent loans and leases are those for which repayment (on the basis of the Company's assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. As of June 30, 2021 and December 31, 2020, the amortized cost basis of collateral-dependent loans were \$8.8 million and \$21.0 million, respectively. As of June 30, 2021, these loans were primarily collateralized by residential real estate property. As of December 31, 2020, these loans were primarily collateralized by residential real estate property and borrower assets. As of June 30, 2021 and December 31, 2020, the fair value of collateral on substantially all collateral-dependent loans were significantly in excess of their amortized cost basis.

## Modifications

Commercial and industrial loans modified in a TDR may involve temporary interest-only payments, term and amortization 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. 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, including extended interest-only periods and re-amortization of the balance. Modifications of consumer loans in a TDR may involve temporary or permanent reduced payments, temporary interest-only payments and below-market interest rates.

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 ACL associated with the loan. An ACL 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 or if the loan is collateral-dependent, the estimated fair value of the collateral, less any selling costs. An ACL for impaired residential real estate loans that have been modified in a TDR is measured based on the estimated fair value of the collateral, less any selling costs. Management exercises significant judgment in developing these estimates.

The following presents, by class, information related to loans modified in a TDR during the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Related ACL	Number of Contracts	Recorded Investment <sup>(1)</sup>	Related ACL
Commercial and industrial	1	\$ 246	\$ 13	15	\$ 2,545	\$ 170
Commercial real estate	1	382	98	1	382	98
Construction	—	—	—	2	708	86
Residential mortgage	3	751	143	13	5,629	240
Consumer	186	1,797	407	1,728	15,868	2,274
<b>Total</b>	<b>191</b>	<b>\$ 3,176</b>	<b>\$ 661</b>	<b>1,759</b>	<b>\$ 25,132</b>	<b>\$ 2,868</b>

  

(dollars in thousands)	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Related Allowance	Number of Contracts	Recorded Investment <sup>(1)</sup>	Related ACL
Commercial and industrial	—	\$ —	\$ —	1	\$ 500	\$ 30
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>	<b>1</b>	<b>\$ 500</b>	<b>\$ 30</b>

(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, temporary payment deferrals, reduced payments, converting revolving credit lines to term loans or below-market interest rates.

The Company had commitments to extend credit, standby letters of credit, and commercial letters of credit totaling \$6.5 billion and \$6.1 billion as of June 30, 2021 and December 31, 2020, respectively. Of the \$6.5 billion at June 30, 2021, there were commitments of \$0.4 million to lend additional funds related to borrowers who had loan terms modified in a TDR. Of the \$6.1 billion at December 31, 2020, there were commitments of \$0.2 million to lend additional funds related to borrowers who had loan terms modified in a TDR.

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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:

(dollars in thousands)	Three Months Ended June 30, 2021		Six Months Ended June 30, 2021		Three Months Ended June 30, 2020		Six Months Ended June 30, 2020	
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>
Commercial and industrial	—	\$ —	2	\$ 387	1	\$ 500	1	\$ 500
Construction	—	—	1	361	—	—	—	—
Residential mortgage	1	371	1	371	—	—	—	—
Consumer	135	1,944	158	2,260	—	—	—	—
<b>Total</b>	<b>136</b>	<b>\$ 2,315</b>	<b>162</b>	<b>\$ 3,379</b>	<b>1</b>	<b>\$ 500</b>	<b>1</b>	<b>\$ 500</b>

(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.

### Foreclosure Proceedings

As of June 30, 2021, there was one residential mortgage loan of \$0.4 million collateralized by real estate property that was modified in a TDR that was in process of foreclosure. As of December 31, 2020, there were no residential mortgage loans collateralized by real estate property that was modified in a TDR that was in process of foreclosure.

### Foreclosed Property

As of June 30, 2021 and December 31, 2020, there were no residential real estate properties held from foreclosed residential real estate loans.

### 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 \$1.9 billion and \$2.2 billion as of June 30, 2021 and December 31, 2020, respectively. Servicing fees include contractually specified fees, late charges, and ancillary fees, and were \$1.2 million and \$1.4 million for the three months ended June 30, 2021 and 2020, respectively, and \$2.5 million and \$2.9 million for the six months ended June 30, 2021 and 2020, respectively.

Amortization of mortgage servicing rights (“MSRs”) was \$1.3 million for both three months ended June 30, 2021 and 2020, and \$1.8 million and \$3.3 million for the six months ended June 30, 2021 and 2020, respectively. The estimated future amortization expenses for MSRs over the next five years are as follows:

(dollars in thousands)	Estimated Amortization
Under one year	\$ 1,921
One to two years	1,516
Two to three years	1,230
Three to four years	1,014
Four to five years	847



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The details of the Company’s MSR’s are presented below:

(dollars in thousands)	June 30, 2021	December 31, 2020
Gross carrying amount	\$ 68,961	\$ 67,856
Less: accumulated amortization	58,954	57,125
Net carrying value	<u>\$ 10,007</u>	<u>\$ 10,731</u>

The following table presents changes in amortized MSR’s for the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Balance at beginning of period	\$ 10,869	\$ 11,979	\$ 10,731	\$ 12,668
Originations	421	915	1,105	2,206
Amortization	(1,283)	(1,299)	(1,829)	(3,279)
<b>Balance at end of period</b>	<u>\$ 10,007</u>	<u>\$ 11,595</u>	<u>\$ 10,007</u>	<u>\$ 11,595</u>
Fair value of amortized MSR’s at beginning of period	<u>\$ 14,921</u>	<u>\$ 17,615</u>	<u>\$ 14,029</u>	<u>\$ 20,329</u>
Fair value of amortized MSR’s at end of period	<u>\$ 13,480</u>	<u>\$ 15,159</u>	<u>\$ 13,480</u>	<u>\$ 15,159</u>

MSR’s are evaluated for impairment if events and circumstances indicate a possible impairment. No impairment of MSR’s was recorded for the three and six months ended June 30, 2021 and 2020.

The quantitative assumptions used in determining the lower of cost or fair value of the Company’s MSR’s as of June 30, 2021 and December 31, 2020 were as follows:

	June 30, 2021			December 31, 2020		
	Range	Weighted Average	Weighted Average	Range	Weighted Average	Weighted Average
Conditional prepayment rate	14.85 % - 31.02 %	15.37 %	15.37 %	11.86 % - 26.52 %	16.90 %	16.90 %
Life in years (of the MSR)	1.70 - 5.16	4.96	4.96	1.83 - 6.68	4.45	4.45
Weighted-average coupon rate	3.63 % - 6.77 %	3.75 %	3.75 %	3.24 % - 6.98 %	3.84 %	3.84 %
Discount rate	10.00 % - 10.00 %	10.00 %	10.00 %	10.00 % - 10.00 %	10.00 %	10.00 %

The sensitivities surrounding MSR’s 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.

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The carrying amounts of the assets pledged as collateral to secure public deposits, borrowing arrangements and other transactions as of June 30, 2021 and December 31, 2020 were as follows:

(dollars in thousands)	June 30, 2021	December 31, 2020
Public deposits	\$ 1,813,339	\$ 2,251,508
Federal Home Loan Bank	2,623,025	2,917,317
Federal Reserve Bank	1,873,763	1,919,744
ACH transactions	113,201	111,347
Interest rate swaps	50,858	56,004
<b>Total</b>	<b>\$ 6,474,186</b>	<b>\$ 7,255,920</b>

As the Company did not enter into reverse repurchase agreements or repurchase agreements, no collateral was accepted or pledged as of June 30, 2021 and December 31, 2020. In addition, no debt was extinguished by in-substance defeasance.

## 7. Deposits

As of June 30, 2021 and December 31, 2020, deposits were categorized as interest-bearing or noninterest-bearing as follows:

(dollars in thousands)	June 30, 2021	December 31, 2020
U.S.:		
Interest-bearing	\$ 11,393,789	\$ 10,928,712
Noninterest-bearing	7,718,714	6,674,352
Foreign:		
Interest-bearing	851,404	776,897
Noninterest-bearing	871,208	847,762
<b>Total deposits</b>	<b>\$ 20,835,115</b>	<b>\$ 19,227,723</b>

The following table presents the maturity distribution of time certificates of deposit as of June 30, 2021:

(dollars in thousands)	Under \$250,000	\$250,000 or More	Total
Three months or less	\$ 171,763	\$ 276,990	\$ 448,753
Over three through six months	169,882	146,794	316,676
Over six through twelve months	409,825	331,625	741,450
One to two years	109,209	82,409	191,618
Two to three years	84,594	14,534	99,128
Three to four years	33,388	4,728	38,116
Four to five years	45,581	21,625	67,206
Thereafter	466	250	716
<b>Total</b>	<b>\$ 1,024,708</b>	<b>\$ 878,955</b>	<b>\$ 1,903,663</b>

Time certificates of deposit in denominations of \$250,000 or more, in the aggregate, were \$0.9 billion and \$1.3 billion as of June 30, 2021 and December 31, 2020, respectively. Overdrawn deposit accounts are classified as loans and totaled \$4.3 million and \$2.6 million as of June 30, 2021 and December 31, 2020, respectively.

## 8. Long-Term Borrowings

Long-term borrowings consisted of the following as of June 30, 2021 and December 31, 2020:

(dollars in thousands)	June 30, 2021	December 31, 2020
Finance lease	\$ —	\$ 10
FHLB fixed-rate advances <sup>(1)</sup>	200,000	200,000
<b>Total long-term borrowings</b>	<b>\$ 200,000</b>	<b>\$ 200,010</b>

(1) Interest is payable monthly.

As of June 30, 2021 and December 31, 2020, the Company's long-term borrowings included \$200.0 million in FHLB fixed-rate advances with a weighted average interest rate of 2.73% and maturity dates ranging from 2023 to 2024. The FHLB fixed-rate advances require monthly interest-only payments with the principal amount due on the maturity date. As of June 30, 2021 and December 31, 2020, the available remaining borrowing capacity with the FHLB was \$1.8 billion and \$2.0 billion, respectively. The FHLB fixed-rate advances and remaining borrowing capacity were secured by residential real estate loan collateral as of June 30, 2021 and December 31, 2020. As of both June 30, 2021 and December 31, 2020, the Company had an undrawn line of credit of \$1.1 billion from the FRB. The borrowing capacity with the FRB was secured by consumer, commercial and industrial, commercial real estate and residential real estate loans as of June 30, 2021 and December 31, 2020. See "Note 6. Transfers of Financial Assets" for more information.

As of June 30, 2021, future contractual principal payments and maturities of long-term borrowings were as follows:

(dollars in thousands)	Principal Payments
2021	\$ —
2022	—
2023 <sup>(1)</sup>	100,000
2024 <sup>(2)</sup>	100,000
2025	—
Total	<u>\$ 200,000</u>

(1) FHLB fixed-rate advance callable on September 3, 2021 with an interest rate of 2.80%.

(2) FHLB fixed-rate advance callable on October 15, 2021 with an interest rate of 2.65%.

## 9. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (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 income (loss) are pension and other benefits and net unrealized gains or losses on investment securities.

Changes in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2021 and 2020 are presented below:

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at March 31, 2021	\$ (59,238)	\$ 15,803	\$ (43,435)
<b>Three months ended June 30, 2021</b>			
Investment securities:			
Unrealized net gains arising during the period	18,831	(5,023)	13,808
Reclassification of net gains to net income:			
Investment securities gains, net	(102)	27	(75)
Net change in investment securities	<u>18,729</u>	<u>(4,996)</u>	<u>13,733</u>
Other comprehensive income	18,729	(4,996)	13,733
<b>Accumulated other comprehensive loss at June 30, 2021</b>	<u>\$ (40,509)</u>	<u>\$ 10,807</u>	<u>\$ (29,702)</u>

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(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive income at December 31, 2020	\$ 43,098	\$ (11,494)	\$ 31,604
<b>Six months ended June 30, 2021</b>			
Investment securities:			
Unrealized net losses arising during the period	(83,505)	22,274	(61,231)
Reclassification of net gains to net income:			
Investment securities gains, net	(102)	27	(75)
Net change in investment securities	<u>(83,607)</u>	<u>22,301</u>	<u>(61,306)</u>
Other comprehensive loss	<u>(83,607)</u>	<u>22,301</u>	<u>(61,306)</u>
<b>Accumulated other comprehensive loss at June 30, 2021</b>	<b><u>\$ (40,509)</u></b>	<b><u>\$ 10,807</u></b>	<b><u>\$ (29,702)</u></b>

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive income at March 31, 2020	\$ 5,629	\$ (1,500)	\$ 4,129
<b>Three months ended June 30, 2020</b>			
Investment securities:			
Unrealized net gains arising during the period	66,071	(17,624)	48,447
Reclassification of net losses to net income:			
Investment securities losses, net	211	(56)	155
Net change in investment securities	<u>66,282</u>	<u>(17,680)</u>	<u>48,602</u>
Other comprehensive income	<u>66,282</u>	<u>(17,680)</u>	<u>48,602</u>
Accumulated other comprehensive income at June 30, 2020	<u>\$ 71,911</u>	<u>\$ (19,180)</u>	<u>\$ 52,731</u>

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2019	\$ (43,450)	\$ 11,701	\$ (31,749)
<b>Six months ended June 30, 2020</b>			
Pension and other benefits:			
Change in Company tax rate	—	(96)	(96)
Net change in pension and other benefits	<u>—</u>	<u>(96)</u>	<u>(96)</u>
Investment securities:			
Unrealized net gains arising during the period	115,235	(30,751)	84,484
Reclassification of net losses to net income:			
Investment securities losses, net	126	(34)	92
Net change in investment securities	<u>115,361</u>	<u>(30,785)</u>	<u>84,576</u>
Other comprehensive income	<u>115,361</u>	<u>(30,881)</u>	<u>84,480</u>
Accumulated other comprehensive income at June 30, 2020	<u>\$ 71,911</u>	<u>\$ (19,180)</u>	<u>\$ 52,731</u>

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

(dollars in thousands)	Pensions and Other Benefits	Investment Securities	Accumulated Other Comprehensive Income (Loss)
<b>Three Months Ended June 30, 2021</b>			
Balance at beginning of period	\$ (31,737)	\$ (11,698)	\$ (43,435)
Other comprehensive income	—	13,733	13,733
Balance at end of period	<u>\$ (31,737)</u>	<u>\$ 2,035</u>	<u>\$ (29,702)</u>
<b>Six Months Ended June 30, 2021</b>			
Balance at beginning of period	\$ (31,737)	\$ 63,341	\$ 31,604
Other comprehensive loss	—	(61,306)	(61,306)
Balance at end of period	<u>\$ (31,737)</u>	<u>\$ 2,035</u>	<u>\$ (29,702)</u>
<b>Three Months Ended June 30, 2020</b>			
Balance at beginning of period	\$ (28,178)	\$ 32,307	\$ 4,129
Other comprehensive income	—	48,602	48,602
Balance at end of period	<u>\$ (28,178)</u>	<u>\$ 80,909</u>	<u>\$ 52,731</u>
<b>Six Months Ended June 30, 2020</b>			
Balance at beginning of period	\$ (28,082)	\$ (3,667)	\$ (31,749)
Other comprehensive income	(96)	84,576	84,480
Balance at end of period	<u>\$ (28,178)</u>	<u>\$ 80,909</u>	<u>\$ 52,731</u>

**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 June 30, 2021 and December 31, 2020:

(dollars in thousands)	First Hawaiian, Inc.		First Hawaiian Bank		Minimum Capital Ratio <sup>(1)</sup>	Well-Capitalized Ratio <sup>(1)</sup>
	Amount	Ratio	Amount	Ratio		
<b>June 30, 2021:</b>						
Common equity tier 1 capital to risk-weighted assets	\$ 1,765,551	12.76 %	\$ 1,751,187	12.66 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,765,551	12.76 %	1,751,187	12.66 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,938,829	14.01 %	1,924,461	13.91 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,765,551	7.68 %	1,751,187	7.61 %	4.00 %	5.00 %
<b>December 31, 2020:</b>						
Common equity tier 1 capital to risk-weighted assets	\$ 1,717,008	12.47 %	\$ 1,699,485	12.34 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,717,008	12.47 %	1,699,485	12.34 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,889,958	13.73 %	1,872,427	13.60 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,717,008	8.00 %	1,699,485	7.92 %	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").

Federal regulations require a 2.5% capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk weighted asset ratios, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. As of June 30, 2021, 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 June 30, 2021, 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 June 30, 2021 and December 31, 2020:

(dollars in thousands)	June 30, 2021			December 31, 2020		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset Derivatives <sup>(1)</sup>	Liability Derivatives <sup>(2)</sup>		Asset Derivatives <sup>(1)</sup>	Liability Derivatives <sup>(2)</sup>
<b>Derivatives designated as hedging instruments:</b>						
Interest rate swaps	\$ 22,066	\$ —	\$ (963)	\$ 22,451	\$ —	\$ (1,276)
<b>Derivatives not designated as hedging instruments:</b>						
Interest rate swaps	2,988,086	82,703	—	3,002,333	129,888	—
Visa derivative	99,059	—	(2,132)	92,647	—	(4,554)
Interest rate caps and floors	148,800	9	(9)	148,800	7	(7)
Foreign exchange contracts	71	—	—	326	—	—

(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. As of June 30, 2021, the amount of initial margin cash collateral received by the Company was \$1.8 million. As of December 31, 2020, the amount of initial margin cash collateral posted by the Company was \$4.8 million. As of June 30, 2021 and December 31, 2020, the variation margin was \$82.7 million and \$129.9 million, respectively.

As of June 30, 2021, the Company pledged \$30.6 million in financial instruments and \$20.3 million in cash as collateral for interest rate swaps. As of December 31, 2020, the Company pledged \$30.8 million in financial instruments and \$25.2 million in cash as collateral for interest rate swaps. As of June 30, 2021 and December 31, 2020, 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 June 30, 2021 and December 31, 2020, the Company carried one interest rate swap with a notional amount of \$22.1 million and \$22.5 million, respectively. As of June 30, 2021 and December 31, 2020, the interest rate swap was categorized as a fair value hedge for a commercial and industrial loan with a negative fair value of \$1.0 million and \$1.3 million, respectively. The Company received a USD Prime floating rate and paid a fixed rate of 2.90%. The swap matures in 2023.

The following table shows the gains and losses recognized in income related to derivatives in fair value hedging relationships for the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Gains (losses) recognized in the consolidated statements of income line item	Three Months Ended		Six Months Ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Gains (losses) on fair value hedging relationships recognized in interest income<sup>(1)</sup>:</b>					
Recognized on interest rate swap	Loans and lease financing	\$ 121	\$ 57	\$ 313	\$ (898)
Recognized on hedged item	Loans and lease financing	(138)	35	(387)	942

As of June 30, 2021 and December 31, 2020, 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	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
<b>Line item in the consolidated balance sheets in which the hedged item is included</b>				
Loans and leases	\$ 23,600	\$ 24,355	\$ 1,100	\$ 1,487

### 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 and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Net gains (losses) recognized in the consolidated statements of income line item	Three Months Ended June 30,		Six Months Ended June 30,	
		2021	2020	2021	2020
<b>Derivatives Not Designated As Hedging Instruments:</b>					
Interest rate swaps	Other noninterest income	\$ —	\$ —	\$ —	\$ —
Visa derivative	Other noninterest income	(23)	103	3	109
Foreign exchange contracts	Other noninterest income	—	52	—	—

As of June 30, 2021, the Company carried multiple interest rate swaps with notional amounts totaling \$3.0 billion, all of which were related to the Company's customer swap program, with a positive fair value of \$82.7 million and a negative fair value of nil. The Company received floating rates ranging from 0.00% to 3.33% and paid fixed rates ranging from 2.02% to 6.19%. The swaps mature between July 2021 and June 2040. As of December 31, 2020, the Company carried multiple interest rate swaps with notional amounts totaling \$3.0 billion, all of which were related to the Company's customer swap program, with a positive fair value of \$129.9 million and a negative fair value of nil. The Company received floating rates ranging from 0.15% to 3.16% and paid fixed rates ranging from 2.02% to 5.78%. These swaps resulted in net interest expense of nil during both the three and six months ended June 30, 2021 and 2020.

The Company's customer swap program is designed by offering customers a variable-rate loan that is swapped to fixed-rate through an interest rate swap. The Company simultaneously executes an offsetting interest rate swap with a swap dealer. Upfront fees on the dealer swap are recorded in other noninterest income and totaled \$1.3 million and \$4.6 million for the three months ended June 30, 2021 and 2020, respectively, and \$1.7 million and \$6.5 million for the six months ended June 30, 2021 and 2020, 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. On September 27, 2019, Visa additionally funded its litigation escrow account, thereby further reducing each member bank's Class B conversion rate to unrestricted Class A common shares. Accordingly, on September 30, 2019, Visa announced a decrease in conversion rate from 1.6298 to 1.6228 effective September 27, 2019. In October 2019, the Company made a payment of approximately \$0.3 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 \$2.1 million and \$4.6 million was included in the unaudited interim consolidated balance sheets at June 30, 2021 and December 31, 2020, respectively, to provide for the fair value of this liability. There were no sales of these shares prior to 2016. See "Note 16. 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 \$0.3 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 nil and \$0.1 million were recognized during the three months ended June 30, 2021 and 2020, respectively, and \$0.1 million and \$0.3 million were recognized during the six months ended June 30, 2021 and 2020, respectively.

### **Credit-Risk Related Contingent Features**

Some 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 \$23.3 million and \$19.8 million at June 30, 2021 and December 31, 2020, respectively, for which we posted \$20.7 million and \$20.4 million, respectively, in collateral in the normal course of business. If the Company's credit rating had been downgraded as of June 30, 2021 and December 31, 2020, we may have been required to settle the contracts in an amount equal to their fair value.

## **12. Commitments and Contingent Liabilities**

### **Contingencies**

On November 2, 2020, a lawsuit was filed in Hawaii Circuit Court by a Bank customer related to the sale of credit facilities that the Bank had previously extended to the customer. The customer asserts claims against the Bank for interference with the customer's contract and business opportunity, unfair methods of competition and declaratory and injunctive relief. The outcome of this legal proceeding is uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of potential loss, if any, for this action. Accordingly, the Company has not recognized any liability associated with this action. Management disputes any wrongdoing and the case is being vigorously defended.

On July 2, 2021, a complaint was filed in the Superior Court of the State of Washington, King Country. The complaint alleges that the Bank breached a Master Business Services Agreement dated 2018 between the plaintiff and the Bank. Based on the information available to the Company at present, the Company cannot reasonably estimate a range of potential loss, if any for this action. Accordingly, the Company has not recognized any liability associated with this action. Management disputes any wrongdoing and the case is being vigorously defended.

In addition to the litigation noted above, various 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 \$100.8 million and \$93.1 million at June 30, 2021 and December 31, 2020, 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 \$10.8 million and \$11.0 million at June 30, 2021 and December 31, 2020, respectively. The Company also had commitments for commercial and similar letters of credit. Commercial letters of credit are issued specifically to facilitate commerce whereby the commitment is typically drawn upon when the underlying transaction between the customer and a third-party is consummated. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held supports those commitments for which collateral is deemed necessary. The commitments outstanding as of June 30, 2021 have maturities ranging from July 2021 to October 2022. 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 June 30, 2021 and December 31, 2020 were as follows:

(dollars in thousands)	June 30, 2021	December 31, 2020
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 6,334,949	\$ 5,934,535
Standby letters of credit	180,011	185,108
Commercial letters of credit	3,353	3,834

### Guarantees

The Company sells residential mortgage loans in the secondary market primarily to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation 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 were undertaken to facilitate FHI’s initial public offering. In connection with the reorganization transactions, FHI distributed its interest in BancWest Holding Inc. (“BWHI”), including Bank of the West (“BOW”) to BNP Paribas (“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 BancWest Corporation, 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

In the second quarter of 2021, the Company made changes to the internal measurement of segment operating profits for the purpose of evaluating segment performance and resource allocation. The Company has restated the selected financial information for the three and six months ended June 30, 2020 in order to conform with the current presentation. See “Note 17. Reportable Operating Segments” contained in our unaudited interim consolidated financial statements for further information.

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:

(dollars in thousands)	Three Months Ended June 30, 2021			
	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Net interest income<sup>(1)</sup></b>	<b>\$ 97,106</b>	<b>\$ 40,234</b>	<b>\$ (5,859)</b>	<b>\$ 131,481</b>
Service charges on deposit accounts	5,788	341	503	6,632
Credit and debit card fees	—	14,692	1,440	16,132
Other service charges and fees	5,983	1,590	382	7,955
Trust and investment services income	8,707	—	—	8,707
Other	149	623	367	1,139
Not in scope of Topic 606 <sup>(1)</sup>	1,868	2,282	4,656	8,806
<b>Total noninterest income</b>	<b>22,495</b>	<b>19,528</b>	<b>7,348</b>	<b>49,371</b>
<b>Total revenue</b>	<b>\$ 119,601</b>	<b>\$ 59,762</b>	<b>\$ 1,489</b>	<b>\$ 180,852</b>

(dollars in thousands)	Six Months Ended June 30, 2021			
	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Net interest income<sup>(1)</sup></b>	<b>\$ 191,560</b>	<b>\$ 78,500</b>	<b>\$ (9,421)</b>	<b>\$ 260,639</b>
Service charges on deposit accounts	11,874	564	912	13,350
Credit and debit card fees	—	27,217	2,868	30,085
Other service charges and fees	11,547	2,065	734	14,346
Trust and investment services income	17,199	—	—	17,199
Other	228	2,119	703	3,050
Not in scope of Topic 606 <sup>(1)</sup>	5,222	3,604	6,383	15,209
Total noninterest income	46,070	35,569	11,600	93,239
<b>Total revenue</b>	<b>\$ 237,630</b>	<b>\$ 114,069</b>	<b>\$ 2,179</b>	<b>\$ 353,878</b>

(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.

(dollars in thousands)	Three Months Ended June 30, 2020			
	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Net interest income<sup>(1)</sup></b>	<b>\$ 91,675</b>	<b>\$ 37,565</b>	<b>\$ (1,418)</b>	<b>\$ 127,822</b>
Service charges on deposit accounts	5,469	326	132	5,927
Credit and debit card fees	—	10,122	275	10,397
Other service charges and fees	4,580	215	338	5,133
Trust and investment services income	8,664	—	—	8,664
Other	56	1,499	112	1,667
Not in scope of Topic 606 <sup>(1)</sup>	3,403	5,893	4,572	13,868
Total noninterest income	22,172	18,055	5,429	45,656
<b>Total revenue</b>	<b>\$ 113,847</b>	<b>\$ 55,620</b>	<b>\$ 4,011</b>	<b>\$ 173,478</b>

(dollars in thousands)	Six Months Ended June 30, 2020			
	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Net interest income<sup>(1)</sup></b>	<b>\$ 181,558</b>	<b>\$ 71,979</b>	<b>\$ 12,968</b>	<b>\$ 266,505</b>
Service charges on deposit accounts	13,556	677	644	14,877
Credit and debit card fees	—	23,009	1,874	24,883
Other service charges and fees	9,454	639	854	10,947
Trust and investment services income	18,255	—	—	18,255
Other	241	2,605	300	3,146
Not in scope of Topic 606 <sup>(1)</sup>	7,042	8,921	6,813	22,776
Total noninterest income	48,548	35,851	10,485	94,884
<b>Total revenue</b>	<b>\$ 230,106</b>	<b>\$ 107,830</b>	<b>\$ 23,453</b>	<b>\$ 361,389</b>

(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 and six months ended June 30, 2021 and 2020, 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 an 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 fees collected when the Company acts as agent or personal representative and executes security transactions, performs collection and disbursement of income, and completes investment management and other administrative tasks.

#### *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 June 30, 2021 and December 31, 2020, the Company had contract liabilities of \$0.6 million and \$1.0 million, respectively, which it expects to recognize over the remaining term of the respective contracts with the vendors. For the three and six months ended June 30, 2021, the Company's recognized revenues increased and contract liabilities decreased by approximately \$0.2 million and \$0.4 million, respectively, due to the passage of time. For the three and six months ended June 30, 2020, the Company's recognized revenues increased and contract liabilities decreased by approximately \$0.2 million and \$0.4 million, respectively, 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 June 30, 2021 and December 31, 2020, there were no material 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 June 30, 2021 and December 31, 2020. 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 and six months ended June 30, 2021, the Company made no adjustments to net income for the purpose of computing earnings per share and there were no antidilutive securities. For the three and six months ended June 30, 2020, the Company made no adjustments to net income for the purpose of computing earnings per share and there were 537,000 and 513,000 antidilutive securities, respectively. For the three and six months ended June 30, 2021 and 2020, the computations of basic and diluted earnings per share were as follows:

(dollars in thousands, except shares and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Numerator:</b>				
Net income	\$ 86,741	\$ 20,049	\$ 144,434	\$ 58,914
<b>Denominator:</b>				
Basic: weighted-average shares outstanding	129,392,339	129,856,730	129,661,228	129,876,218
Add: weighted-average equity-based awards	436,508	148,465	503,534	287,504
Diluted: weighted-average shares outstanding	129,828,847	130,005,195	130,164,762	130,163,722
Basic earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45
Diluted earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45

#### 15. Noninterest Income and Noninterest Expense

##### Benefit Plans

The following table sets forth the components of net periodic benefit cost for the Company's pension and postretirement benefit plans for the three and six months ended June 30, 2021 and 2020:

(dollars in thousands)	Income line item where recognized in the consolidated statements of income	Pension Benefits		Other Benefits	
		2021	2020	2021	2020
<b>Three Months Ended June 30,</b>					
Service cost	Salaries and employee benefits	\$ —	\$ —	\$ 264	\$ 189
Interest cost	Other noninterest expense	1,231	1,621	131	164
Expected return on plan assets	Other noninterest expense	(766)	(1,194)	—	—
Prior service credit	Other noninterest expense	—	—	—	(13)
Recognized net actuarial loss (gain)	Other noninterest expense	1,720	1,429	—	(26)
<b>Total net periodic benefit cost</b>		<b>\$ 2,185</b>	<b>\$ 1,856</b>	<b>\$ 395</b>	<b>\$ 314</b>
<b>Six Months Ended June 30,</b>					
Service cost	Salaries and employee benefits	\$ —	\$ —	\$ 528	\$ 378
Interest cost	Other noninterest expense	2,462	3,242	262	328
Expected return on plan assets	Other noninterest expense	(1,532)	(2,388)	—	—
Prior service credit	Other noninterest expense	—	—	—	(52)
Recognized net actuarial loss (gain)	Other noninterest expense	3,440	2,858	—	(26)
<b>Total net periodic benefit cost</b>		<b>\$ 4,370</b>	<b>\$ 3,712</b>	<b>\$ 790</b>	<b>\$ 628</b>

##### Leases

The Company recognized operating lease income related to lease payments of \$1.6 million for both the three months ended June 30, 2021 and 2020, and \$3.3 million and \$3.1 million for the six months ended June 30, 2021 and 2020, respectively. In addition, the Company recognized \$1.5 million and \$1.4 million of lease income related to variable lease payments for the three months ended June 30, 2021 and 2020, respectively, and \$3.0 million and \$2.9 million for the six months ended June 30, 2021 and 2020, respectively.

## 16. Fair Value

The Company determines the fair values of its financial instruments based on the requirements established in Accounting Standards Codification Topic 820 (“Topic 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. Topic 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

Topic 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.

Topic 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 June 30, 2021 and December 31, 2020, 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. On September 27, 2019, Visa additionally funded its litigation escrow account, thereby further reducing each member bank's Class B conversion rate to unrestricted Class A common shares. Accordingly, on September 30, 2019, Visa announced a decrease in conversion rate from 1.6298 to 1.6228 effective September 27, 2019. The Visa derivative of \$2.1 million and \$4.6 million was included in the unaudited interim consolidated balance sheets at June 30, 2021 and December 31, 2020, 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 June 30, 2021 and December 31, 2020 are summarized below:

(dollars in thousands)	Fair Value Measurements as of June 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
U.S. Treasury and government agency debt securities	\$ —	\$ 180,772	\$ —	\$ 180,772
Mortgage-backed securities:				
Residential - Government agency <sup>(1)</sup>	—	113,289	—	113,289
Residential - Government-sponsored enterprises <sup>(1)</sup>	—	1,263,448	—	1,263,448
Commercial - Government agency	—	491,447	—	491,447
Commercial - Government-sponsored enterprises	—	1,223,805	—	1,223,805
Collateralized mortgage obligations:				
Government agency	—	1,662,134	—	1,662,134
Government-sponsored enterprises	—	2,019,035	—	2,019,035
<b>Total available-for-sale securities</b>	<b>—</b>	<b>6,953,930</b>	<b>—</b>	<b>6,953,930</b>
Other assets <sup>(2)</sup>	12,901	82,712	—	95,613
<b>Liabilities</b>				
Other liabilities <sup>(3)</sup>	—	(972)	(2,132)	(3,104)
<b>Total</b>	<b>\$ 12,901</b>	<b>\$ 7,035,670</b>	<b>\$ (2,132)</b>	<b>\$ 7,046,439</b>

(1) Backed by residential real estate.

(2) Other assets classified as Level 1 include mutual funds and money market funds that have quoted prices in active markets and are related to the Company's deferred compensation plans. Other assets classified as Level 2 include derivative assets.

(3) Other liabilities include derivative liabilities.

(dollars in thousands)	Fair Value Measurements as of December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
U.S. Treasury and government agency debt securities	\$ —	\$ 171,421	\$ —	\$ 171,421
Mortgage-backed securities:				
Residential - Government agency <sup>(1)</sup>	—	160,462	—	160,462
Residential - Government-sponsored enterprises <sup>(1)</sup>	—	447,200	—	447,200
Commercial - Government agency	—	599,650	—	599,650
Commercial - Government-sponsored enterprises	—	932,157	—	932,157
Collateralized mortgage obligations:				
Government agency	—	1,933,553	—	1,933,553
Government-sponsored enterprises	—	1,826,972	—	1,826,972
<b>Total available-for-sale securities</b>	<b>—</b>	<b>6,071,415</b>	<b>—</b>	<b>6,071,415</b>
Other assets <sup>(2)</sup>	11,691	129,895	—	141,586
<b>Liabilities</b>				
Other liabilities <sup>(3)</sup>	—	(1,283)	(4,554)	(5,837)
<b>Total</b>	<b>\$ 11,691</b>	<b>\$ 6,200,027</b>	<b>\$ (4,554)</b>	<b>\$ 6,207,164</b>

(1) Backed by residential real estate.

(2) Other assets classified as Level 1 include mutual funds and money market funds that have quoted prices in active markets and are related to the Company's deferred compensation plans. Other assets classified as Level 2 include derivative assets.

(3) Other liabilities include derivative liabilities.

### Changes in Fair Value Levels

For the three and six months ended June 30, 2021 and 2020, there were no transfers between fair value hierarchy levels.

The changes in Level 3 liabilities measured at fair value on a recurring basis for the three and six months ended June 30, 2021 and 2020 are summarized below:

(dollars in thousands)	Visa Derivative	
	2021	2020
<b>Three Months Ended June 30,</b>		
Balance as of April 1,	\$ (3,369)	\$ (3,199)
Total net (losses) gains included in other noninterest income	(23)	103
Settlements	1,260	1,001
Balance as of June 30,	<u>\$ (2,132)</u>	<u>\$ (2,095)</u>
Total net (losses) gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of June 30,	<u>\$ (23)</u>	<u>\$ 103</u>
<b>Six Months Ended June 30,</b>		
Balance as of January 1,	\$ (4,554)	\$ (4,233)
Total net gains included in other noninterest income	3	109
Settlements	2,419	2,029
Balance as of June 30,	<u>\$ (2,132)</u>	<u>\$ (2,095)</u>
Total net gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of June 30,	<u>\$ 3</u>	<u>\$ 109</u>

### 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.

(dollars in thousands)	June 30, 2021				
	Book Value	Fair Value Measurements			Total
Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 1,906,298	\$ 347,861	\$ 1,558,437	\$ —	\$ 1,906,298
Loans held for sale	1,241	—	1,271	—	1,271
Loans <sup>(1)</sup>	12,860,814	—	—	13,044,658	13,044,658
<b>Financial liabilities:</b>					
Time deposits <sup>(2)</sup>	\$ 1,903,663	\$ —	\$ 1,907,349	\$ —	\$ 1,907,349
Long-term borrowings	200,000	—	210,874	—	210,874

(dollars in thousands)	December 31, 2020				
	Book Value	Fair Value Measurements			Total
Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 1,040,944	\$ 303,373	\$ 737,571	\$ —	\$ 1,040,944
Loans held for sale	11,579	—	12,018	—	12,018
Loans <sup>(1)</sup>	13,033,686	—	—	13,255,636	13,255,636
<b>Financial liabilities:</b>					
Time deposits <sup>(2)</sup>	\$ 2,348,298	\$ —	\$ 2,357,137	\$ —	\$ 2,357,137
Long-term borrowings <sup>(3)</sup>	200,000	—	214,167	—	214,167

(1) Excludes financing leases of \$243.0 million at June 30, 2021 and \$245.4 million at December 31, 2020.

(2) Excludes deposit liabilities with no defined or contractual maturity of \$18.9 billion as of June 30, 2021 and \$16.9 billion as of December 31, 2020.

(3) Excludes capital lease obligations of \$10 thousand as of December 31, 2020.

Unfunded loan and lease commitments and letters of credit are not included in the tables above. As of June 30, 2021 and December 31, 2020, the Company had \$6.5 billion and \$6.1 billion, respectively, of unfunded loan and lease commitments and letters of credit. The Company believes that 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 \$41.9 million and \$42.3 million at June 30, 2021 and December 31, 2020, 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.

##### *Collateral-dependent loans*

Collateral-dependent loans are those for which repayment is expected to be provided substantially through the operation or sale of the collateral. These loans are measured at fair value on a nonrecurring basis using collateral values as a practical expedient. The fair values of collateral are primarily based on real estate appraisal reports prepared by third-party appraisers less estimated selling costs. The Company measures the estimated credit losses on collateral-dependent loans by performing a lower of cost or fair value analysis. If the estimated credit losses are determined by the value of the collateral, the net carrying amount is adjusted to fair value on a nonrecurring basis as Level 3 by recognizing an ACL.

##### *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 June 30, 2021 and December 31, 2020:

(dollars in thousands)	Level 1	Level 2	Level 3
<b>June 30, 2021</b>			
Collateral-dependent loans	\$ —	\$ —	\$ —
<b>December 31, 2020</b>			
Collateral-dependent loans	\$ —	\$ —	\$ 1,840

Total expected credit losses recognized on collateral-dependent loans were nil for both the three months ended June 30, 2021 and 2020, and nil and \$0.4 million for the six months ended June 30, 2021 and 2020, respectively.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of June 30, 2021 and December 31, 2020, the significant unobservable inputs used in the fair value measurements were as follows:

Quantitative Information about Level 3 Fair Value Measurements at June 30, 2021				
(dollars in thousands)	Fair value	Valuation Technique	Significant Unobservable Input	Range
Visa derivative	\$ (2,132)	Discounted Cash Flow	Expected Conversion Rate - 1.6228 <sup>(2)</sup> Expected Term - 1 year <sup>(3)</sup> Growth Rate - 13% <sup>(4)</sup>	1.5977-1.6228 0.5 to 1.5 years 4% - 17%

Quantitative Information about Level 3 Fair Value Measurements at December 31, 2020				
(dollars in thousands)	Fair value	Valuation Technique	Significant Unobservable Input	Range
Collateral-dependent loans	\$ 1,840	Appraisal Value	Appraisal Value	n/m <sup>(1)</sup>
Visa derivative	\$ (4,554)	Discounted Cash Flow	Expected Conversion Rate - 1.6228 <sup>(2)</sup> Expected Term - 1 year <sup>(3)</sup> Growth Rate - 13% <sup>(4)</sup>	1.5977-1.6228 0.5 to 1.5 years 4% - 17%

- (1) The fair value of these assets is determined based on appraised values of the collateral or broker opinions, the range of which is not meaningful to disclose.
- (2) Due to the uncertainty in the movement of the conversion rate, the current conversion rate was utilized in the fair value calculation.
- (3) The expected term of 1 year was based on the median of 0.5 to 1.5 years.
- (4) The growth rate of 13% was based on the arithmetic average of analyst price targets.

### 17. 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 credit losses, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive authoritative guidance for management accounting that is equivalent to GAAP.

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 credit losses from the Treasury and Other business segment (which is comprised of many of the Company's support units) to the Retail and Commercial business segments. These allocations are based on direct costs incurred by the Retail and Commercial business segments.

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.

In the second quarter of 2021, the Company made changes to the internal measurement of segment operating profits for the purpose of evaluating segment performance and resource allocation. The primary reason for the change was to align PPP loan balances within the business segment that directly manages them. Specifically, PPP loan balances previously included as part of the Retail Banking segment have been reclassified to the Commercial Banking segment. The reallocation of select PPP loan balances affected net interest income, net interest income after provision for credit losses, noninterest expense, provision for income taxes, net income and asset balances. The Company has reported its selected financial information using the new PPP loan balance alignments for the three and six months ended June 30, 2021. The Company has restated the selected financial information for the three and six months ended June 30, 2020 in order to conform with the current presentation.

## **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 54 banking locations throughout the State of Hawaii, Guam, and Saipan.

### *Commercial Banking*

Commercial Banking offers products that include corporate banking, 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
<b>Three Months Ended June 30, 2021</b>				
Net interest income (expense)	\$ 97,106	\$ 40,234	\$ (5,859)	\$ 131,481
Benefit of provision for credit losses	12,654	17,465	4,881	35,000
Net interest income (expense) after provision for credit losses	109,760	57,699	(978)	166,481
Noninterest income	22,495	19,528	7,348	49,371
Noninterest expense	(62,115)	(24,993)	(12,280)	(99,388)
Income (loss) before (provision) benefit for income taxes	70,140	52,234	(5,910)	116,464
(Provision) benefit for income taxes	(17,884)	(13,285)	1,446	(29,723)
<b>Net income (loss)</b>	<b>\$ 52,256</b>	<b>\$ 38,949</b>	<b>\$ (4,464)</b>	<b>\$ 86,741</b>
<b>Total assets as of June 30, 2021</b>	<b>\$ 6,862,294</b>	<b>\$ 6,404,153</b>	<b>\$ 10,979,881</b>	<b>\$ 24,246,328</b>

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Six Months Ended June 30, 2021</b>				
Net interest income (expense)	\$ 191,560	\$ 78,500	\$ (9,421)	\$ 260,639
Benefit of provision for credit losses	14,124	19,495	1,381	35,000
Net interest income (expense) after provision for credit losses	205,684	97,995	(8,040)	295,639
Noninterest income	46,070	35,569	11,600	93,239
Noninterest expense	(125,004)	(47,471)	(23,219)	(195,694)
Income (loss) before (provision) benefit for income taxes	126,750	86,093	(19,659)	193,184
(Provision) benefit for income taxes	(32,010)	(21,629)	4,889	(48,750)
<b>Net income (loss)</b>	<b>\$ 94,740</b>	<b>\$ 64,464</b>	<b>\$ (14,770)</b>	<b>\$ 144,434</b>
<b>Total assets as of June 30, 2021</b>	<b>\$ 6,862,294</b>	<b>\$ 6,404,153</b>	<b>\$ 10,979,881</b>	<b>\$ 24,246,328</b>

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Three Months Ended June 30, 2020</b>				
Net interest income (expense)	\$ 91,675	\$ 37,565	\$ (1,418)	\$ 127,822
Provision for credit losses	(24,311)	(25,183)	(5,952)	(55,446)
Net interest income (expense) after provision for credit losses	67,364	12,382	(7,370)	72,376
Noninterest income	22,172	18,055	5,429	45,656
Noninterest expense	(60,022)	(18,062)	(13,366)	(91,450)
Income (loss) before (provision) benefit for income taxes	29,514	12,375	(15,307)	26,582
(Provision) benefit for income taxes	(7,554)	(2,956)	3,977	(6,533)
<b>Net income (loss)</b>	<b>\$ 21,960</b>	<b>\$ 9,419</b>	<b>\$ (11,330)</b>	<b>\$ 20,049</b>
<b>Total assets as of June 30, 2020</b>	<b>\$ 7,068,251</b>	<b>\$ 6,826,032</b>	<b>\$ 9,099,432</b>	<b>\$ 22,993,715</b>

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
<b>Six Months Ended June 30, 2020</b>				
Net interest income	\$ 181,558	\$ 71,979	\$ 12,968	\$ 266,505
Provision for credit losses	(44,376)	(45,967)	(6,303)	(96,646)
Net interest income after provision for credit losses	137,182	26,012	6,665	169,859
Noninterest income	48,548	35,851	10,485	94,884
Noninterest expense	(121,666)	(39,567)	(26,683)	(187,916)
Income (loss) before (provision) benefit for income taxes	64,064	22,296	(9,533)	76,827
(Provision) benefit for income taxes	(15,077)	(5,601)	2,765	(17,913)
<b>Net income (loss)</b>	<b>\$ 48,987</b>	<b>\$ 16,695</b>	<b>\$ (6,768)</b>	<b>\$ 58,914</b>
<b>Total assets as of June 30, 2020</b>	<b>\$ 7,068,251</b>	<b>\$ 6,826,032</b>	<b>\$ 9,099,432</b>	<b>\$ 22,993,715</b>

## 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 impact of the ongoing COVID-19 pandemic and any other pandemic, epidemic or health-related crisis; 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; our dependence on the real estate markets in which we operate; 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 or the discontinuance of LIBOR; the possibility of a deterioration in credit quality in our portfolio; the possibility we might underestimate the credit losses inherent in our loan and lease portfolio; our ability to maintain our Bank’s reputation; the future value of the investment securities that we own; our ability to attract and retain customer deposits; our inability to receive dividends from our bank, pay dividends to our common stockholders and satisfy obligations as they become due; the effects of severe weather, geopolitical instability, including war, terrorist attacks, pandemics or other severe health emergencies and man-made and natural disasters; our ability to maintain consistent growth, earnings and profitability; 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; the effectiveness of our risk management and internal disclosure controls and procedures; our ability to keep pace with technological changes; any failure or interruption of our information and communications systems; our ability to identify and address cybersecurity risks; the occurrence of fraudulent activity or 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; the possibility of employee misconduct or mistakes; our ability to successfully develop and commercialize new or enhanced products and services; changes in the demand for our products and services; 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; 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 potential for environmental liability; the risk of being subject to litigation and the outcome thereof; the impact of, and changes in, applicable laws, regulations and accounting standards and policies, including the enactment of the Tax 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; 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 risk factors and other cautionary statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. 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.

## **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, 2020 and filed with the U.S. Securities and Exchange Commission (the “SEC”).

## **Recent Developments regarding COVID-19 and the Hawaii and Global Economy**

### *Overview*

The COVID-19 pandemic has brought unprecedented challenges to businesses and economies around the world, particularly those in the United States. Our business has been, and continues to be, impacted by the recent and ongoing developments relating to the COVID-19 pandemic. As the restrictive measures to address the pandemic continued to be eased during the first six months of 2021, the U.S. economy has begun to improve from 2020, and with the availability and distribution of COVID-19 vaccines, we anticipate continued improvements in commercial and consumer activity and the U.S. economy.

In our primary markets in Hawaii, restrictions have continued to be reduced. In September 2020, the City and County of Honolulu (“City”) implemented a framework for reducing the spread of COVID-19, with criteria set for loosening or tightening restrictions on businesses and activities to keep Honolulu residents healthy. The initial framework included four tiers of re-opening, with Tier 1 being the most restrictive. Under the revamped framework, a fifth and final tier was added. As of July 8, 2021, the City is in Tier 5, allowing for, among other things, indoor social gatherings of up to 25 people and outdoor social gatherings of up to 75 people. According to the State of Hawaii Department of Health, as of July 28, 2021, approximately 60.1% of Hawaii’s population has been fully vaccinated and the 7-day average new case counts are at 230 cases. According to the tier framework, when 70% of the State’s population has been fully vaccinated, all COVID-19 related restrictions in the State of Hawaii are expected to be removed.

While the economy continues to recover, we recognize that our customers continue to experience varying degrees of financial distress, which we expect to continue, though to a lesser degree, throughout 2021. There remains a high degree of uncertainty relating to the ongoing spread and severity of the virus and new variants. To the extent that the economy continues to be negatively impacted by the pandemic, our results will be affected. In light of the uncertainties and continuing developments discussed herein, the ultimate adverse impact of COVID-19 cannot be reliably estimated at this time, but it has been and is expected to continue to be material.

#### *Hawaii Economy*

Hawaii's economy continues to be significantly impacted by COVID-19 and the responses to it. Because the Hawaii economy is heavily dependent on tourism, the combination of various response measures to the COVID-19 pandemic resulted in unprecedented fluxes in Hawaii unemployment. The statewide seasonally adjusted unemployment rate was 7.7% in June 2021 compared to 13.9% in June 2020, according to the Hawaii Department of Business, Economic Development & Tourism, while the national seasonally adjusted unemployment rate was 5.9% in June 2021 compared to 11.1% in June 2020. Visitor arrivals for the first six months of 2021 increased by 27.6% compared to the same period in 2020, according to the Hawaii Tourism Authority. On July 8, 2021, the State revised its travel requirements, allowing visitors to avoid the mandatory 10-day quarantine if 1) they test negative for COVID-19 within 72 hours of departure or 2) they present evidence of being fully vaccinated in the United States and its Territories. While we may continue to see a gradual improvement in unemployment as local businesses reopen, visitor arrivals increase with looser travel restrictions, and the COVID-19 vaccine becomes more widely administered, the timing and extent of the return of air travel and the recovery of the Hawaii tourism industry remains highly uncertain and beyond our control.

The volume of home sales on Oahu has increased relative to the corresponding period in 2020, which was significantly impacted by the COVID-19 pandemic. For the six months ended June 30, 2021, the volume of single-family home sales increased by 32.9%, while condominium sales increased by 70.7% compared to the same period in 2020, according to the Honolulu Board of Realtors. The median price of single-family home sales and condominium sales on Oahu was \$949,000 and \$455,000, respectively, or an increase of 21.0% and 6.4%, respectively, for the six months ended June 30, 2021 as compared to the same period in 2020. As of June 30, 2021, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 1.2 and 2.1 months, respectively. Lastly, state general excise and use tax revenues increased by 2.5% for the first six months of 2021 as compared to the same period in 2020, according to the Hawaii Department of Business, Economic Development & Tourism.

#### **Legislative and Regulatory Developments**

Actions taken by the federal government and the Federal Reserve and other bank regulatory agencies to partially mitigate the economic effects of COVID-19 and related containment measures have had, and will continue to have, an impact on our financial position and results of operations. Certain of these actions are further discussed below.

The Federal Reserve has instituted a number of other measures to mitigate the lasting impact from the COVID-19 pandemic, including the following:

- establishing a temporary repurchase agreement facility for foreign and international monetary authorities;
- committing to quantitative easing through large-scale asset-purchase programs;
- lowering the rate charged on its discount window and extending the length of the loans offered;
- increasing the frequency of engagement with currency swap lines with foreign central banks;
- expanding the collateral accepted by its Term Asset-Backed Securities Loan Facility; and
- introducing a number of additional facilities designed to enhance support for small and mid-sized businesses.

The U.S. government has also enacted certain fiscal stimulus measures in several phases to counteract the economic disruption caused by COVID-19, such as:

- The CARES Act, enacted on March 27, 2020, established, among other COVID relief programs, a \$670 billion loan program (the “Paycheck Protection Program” or the “PPP”) for fully guaranteed loans (which may then be forgiven) to small businesses.
- The Consolidated Appropriations Act – 2021 (the “CAA”) extended the term of a number of initiatives under the CARES Act. One such example was the extension of the Small Business Administration’s (“SBA”) authority to make commitments under the PPP to March 31, 2021 or until the additional PPP funds were exhausted. The PPP Extension Act of 2021 later extended the covered period of the PPP to June 30, 2021. The PPP ended on May 31, 2021.
- The American Rescue Plan Act of 2021 (“American Rescue Plan”), enacted on March 11, 2021, builds upon the measures established in the CARES Act and the CAA. Through this legislation, unemployment benefits were extended to September 6, 2021, eligible individuals received direct stimulus payments of up to \$1,400, an additional \$7 billion was added to the PPP, while expanding eligibility to include non-profit organizations previously excluded from the program, and funds were allocated for COVID-19 vaccines, testing and contact tracing.

We are continuing to monitor the potential development of additional legislation and further actions taken by the U.S. government.

The State of Hawaii received at least \$1.25 billion in federal aid from the CARES Act, with the majority of this federal aid used to help fund state and county government response efforts to COVID-19. Additional federal funding provided for unemployment assistance, direct cash payments to Hawaii residents and funding to support local schools and colleges. The CAA provided an additional \$1.7 billion in new federal funding, while extending the ability of the State of Hawaii and its local governments to use its previously received federal aid until December 31, 2021. The American Rescue Plan also provides an additional \$2.2 billion of federal funding to the State of Hawaii.

#### *Impact to our Operations*

We saw a significant decrease in customer traffic in our branches in the past year. As a result, we strategically closed 26 of our branch locations on a temporary basis and closed four of them permanently in November 2020. As of June 2021, we reopened 19 of the temporarily closed branch locations in connection with the reopening of local businesses. The temporary (or in certain cases, permanent) closures of bank branches and the safety precautions implemented at reopened branches could result in consumers becoming more comfortable with technology and seeing less need for face-to-face interaction. Our business is relationship driven and such changes could necessitate changes to our business practices to accommodate changing consumer behaviors. The Bank continues to adapt to these changing behaviors and launched its newly enhanced mobile banking application in April 2021, allowing customers to not only perform certain transactions virtually but also to integrate their financial information in one place and categorize their transactions to fit their budgeting or financial management needs. We continue to provide service to customers and operate our businesses on all islands of Hawaii, Guam and Saipan. Many of our employees continue to work remotely. We continue to emphasize the importance of practicing social distancing and good hygiene practices in the workplace, especially as more employees have returned to working in our physical offices and spaces.

#### *Impact on our Financial Position and Results of Operations*

We expect that COVID-19 will continue to impact commercial activity throughout the State of Hawaii and nationally, and thus continue to affect the way our customers (businesses and individuals), vendors and counterparties meet existing payment, or other, obligations to us. As Hawaii’s economy continues to reopen, we expect that local consumption of goods and services will continue to improve. Additionally, although forecasts of the Hawaii economy currently point towards more favorable results, the timing and extent of the return of air travel and the recovery of the Hawaii tourism industry remains uncertain and is dependent upon, among other things, the number of cases declining around the globe, in the United States and, in particular, in Hawaii, the pace at which consumers will spend the savings accumulated during the crisis, public health impacts of new COVID-19 variants, the continued administration of the vaccine to unvaccinated populations, and the duration of immunity granted by the current vaccine.

During this time of uncertainty, we remain committed to servicing our customers. The economic pressures and uncertainties arising from the COVID-19 pandemic have resulted in and may continue to result in specific changes in consumer and business spending and borrowing and saving habits, affecting the demand for loans and other products and services we offer. For example, certain industries may take longer to recover (particularly those that rely on travel or in-person foot traffic) as certain consumers may still be hesitant to travel or return to full social interaction. We lend to customers operating in such industries including tourism, hotels/lodging, restaurants, entertainment and commercial real estate, among others. We will continue to closely monitor the impact that COVID-19 and the recession in Hawaii has on our customers and will adjust the means by which we assist our customers during this period of financial hardship. We are working with our customers impacted by COVID-19 by offering payment deferrals and forbearance on certain loan products.

The uncertainty of the economy as it recovers from the pandemic may continue to have a negative impact on our financial position and results of operations. A sustained period of lower interest rates would likely reduce our net interest margin, as, currently, our interest rate profile is such that we project net interest income will benefit from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities. Although the Federal Reserve indicated that they may potentially raise interest rates as soon as 2023, the future continues to remain highly uncertain. Our net interest margin may also be reduced as a result of our participation in the PPP, as loans made thereunder that are not forgiven carry an interest rate of 1%.

Our credit risk profile has also been, and we expect that it will continue to be, adversely impacted during this period of financial hardship for our customers. We also expect that we will see temporary decreases in non-interest income, partially driven by certain measures we have taken to assist customers during the COVID-19 pandemic.

In light of volatility in the capital markets and economic disruptions, we continue to carefully monitor our capital and liquidity positions. As of June 30, 2021, the Company was “well-capitalized” and met all applicable regulatory capital requirements, including a Common Equity Tier 1 (“CET1”) capital ratio of 12.76%, compared to the minimum requirement of 4.50%. We continue to anticipate that we will have sufficient capital levels to meet all of these requirements. Additionally, we continue to access our routine short-term funding sources, such as borrowings and repurchase agreements, and our longer-term funding sources. For additional discussions regarding our capital and liquidity positions and related risks, refer to the sections titled “Liquidity” and “Capital” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”).

## Selected Financial Data

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

<b>Financial Highlights</b>	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<i>(dollars in thousands, except per share data)</i>				
<b>Income Statement Data:</b>				
Interest income	\$ 136,222	\$ 140,619	\$ 270,798	\$ 299,151
Interest expense	4,741	12,797	10,159	32,646
Net interest income	131,481	127,822	260,639	266,505
Provision for credit losses	(35,000)	55,446	(35,000)	96,646
Net interest income after provision for credit losses	166,481	72,376	295,639	169,859
Noninterest income	49,371	45,656	93,239	94,884
Noninterest expense	99,388	91,450	195,694	187,916
Income before provision for income taxes	116,464	26,582	193,184	76,827
Provision for income taxes	29,723	6,533	48,750	17,913
Net income	\$ 86,741	\$ 20,049	\$ 144,434	\$ 58,914
Basic earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45
Diluted earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45
Basic weighted-average outstanding shares	129,392,339	129,856,730	129,661,228	129,876,218
Diluted weighted-average outstanding shares	129,828,847	130,005,195	130,164,762	130,163,722
Dividends declared per share	\$ 0.26	\$ 0.26	\$ 0.52	\$ 0.52
Dividend payout ratio	38.81 %	173.33 %	46.85 %	115.56 %
<b>Supplemental Income Statement Data (non-GAAP)<sup>(1)</sup>:</b>				
Core net interest income	\$ 131,481	\$ 127,822	\$ 260,639	\$ 266,505
Core noninterest income	49,269	45,867	93,137	95,010
Core noninterest expense	98,228	91,450	194,534	187,916
Core net income	87,704	20,204	145,397	59,007
Core basic earnings per share	0.68	0.16	1.12	0.45
Core diluted earnings per share	0.68	0.16	1.12	0.45
<b>Other Financial Information / Performance Ratios<sup>(2)</sup>:</b>				
Net interest margin	2.46 %	2.58 %	2.50 %	2.84 %
Core net interest margin (non-GAAP) <sup>(1),(3)</sup>	2.46 %	2.58 %	2.50 %	2.84 %
Efficiency ratio	54.74 %	52.70 %	55.12 %	51.99 %
Core efficiency ratio (non-GAAP) <sup>(1),(4)</sup>	54.13 %	52.64 %	54.81 %	51.97 %
Return on average total assets	1.45 %	0.36 %	1.24 %	0.56 %
Core return on average total assets (non-GAAP) <sup>(1),(5)</sup>	1.46 %	0.36 %	1.25 %	0.56 %
Return on average tangible assets (non-GAAP) <sup>(11)</sup>	1.51 %	0.38 %	1.30 %	0.58 %
Core return on average tangible assets (non-GAAP) <sup>(1),(6)</sup>	1.53 %	0.38 %	1.30 %	0.58 %
Return on average total stockholders' equity	12.92 %	2.99 %	10.75 %	4.42 %
Core return on average total stockholders' equity (non-GAAP) <sup>(1),(7)</sup>	13.07 %	3.01 %	10.82 %	4.43 %
Return on average tangible stockholders' equity (non-GAAP) <sup>(11)</sup>	20.51 %	4.74 %	16.99 %	7.04 %
Core return on average tangible stockholders' equity (non-GAAP) <sup>(1),(8)</sup>	20.74 %	4.77 %	17.10 %	7.05 %
Noninterest expense to average assets	1.66 %	1.65 %	1.68 %	1.77 %
Core noninterest expense to average assets (non-GAAP) <sup>(1),(9)</sup>	1.64 %	1.65 %	1.67 %	1.77 %

(continued)

(continued) (dollars in thousands, except per share data)	June 30, 2021	December 31, 2020
<b>Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 1,906,298	\$ 1,040,944
Investment securities	6,953,930	6,071,415
Loans and leases	13,103,785	13,279,097
Allowance for credit losses for loans and leases	169,148	208,454
Goodwill	995,492	995,492
Total assets	24,246,328	22,662,831
Total deposits	20,835,115	19,227,723
Long-term borrowings	200,000	200,010
Total liabilities	21,514,987	19,918,727
Total stockholders' equity	2,731,341	2,744,104
Book value per share	\$ 21.17	\$ 21.12
Tangible book value per share (non-GAAP) <sup>(11)</sup>	\$ 13.45	\$ 13.46
<b>Asset Quality Ratios:</b>		
Non-accrual loans and leases / total loans and leases	0.07 %	0.07 %
Allowance for credit losses for loans and leases / total loans and leases	1.29 %	1.57 %
Net charge-offs / average total loans and leases <sup>(10)</sup>	0.09 %	0.23 %
<b>Capital Ratios:</b>		
	June 30, 2021	December 31, 2020
Common Equity Tier 1 Capital Ratio	12.76 %	12.47 %
Tier 1 Capital Ratio	12.76 %	12.47 %
Total Capital Ratio	14.01 %	13.73 %
Tier 1 Leverage Ratio	7.68 %	8.00 %
Total stockholders' equity to total assets	11.26 %	12.11 %
Tangible stockholders' equity to tangible assets (non-GAAP) <sup>(11)</sup>	7.47 %	8.07 %

<sup>(1)</sup> 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:

(dollars in thousands, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Net interest income	\$ 131,481	\$ 127,822	\$ 260,639	\$ 266,505
Core net interest income (non-GAAP)	\$ 131,481	\$ 127,822	\$ 260,639	\$ 266,505
Noninterest income	\$ 49,371	\$ 45,656	\$ 93,239	\$ 94,884
(Gains) losses on sale of securities	(102)	211	(102)	126
Core noninterest income (non-GAAP)	\$ 49,269	\$ 45,867	\$ 93,137	\$ 95,010
Noninterest expense	\$ 99,388	\$ 91,450	\$ 195,694	\$ 187,916
One-time items <sup>(a)</sup>	(1,160)	—	(1,160)	—
Core noninterest expense (non-GAAP)	\$ 98,228	\$ 91,450	\$ 194,534	\$ 187,916
Net income	\$ 86,741	\$ 20,049	\$ 144,434	\$ 58,914
(Gains) losses on sale of securities	(102)	211	(102)	126
One-time noninterest expense items <sup>(a)</sup>	1,160	—	1,160	—
Tax adjustments <sup>(b)</sup>	(95)	(56)	(95)	(33)
Total core adjustments	963	155	963	93
Core net income (non-GAAP)	\$ 87,704	\$ 20,204	\$ 145,397	\$ 59,007
Basic earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45
Diluted earnings per share	\$ 0.67	\$ 0.15	\$ 1.11	\$ 0.45
Efficiency ratio	54.74 %	52.70 %	55.12 %	51.99 %
Core basic earnings per share (non-GAAP)	\$ 0.68	\$ 0.16	\$ 1.12	\$ 0.45
Core diluted earnings per share (non-GAAP)	\$ 0.68	\$ 0.16	\$ 1.12	\$ 0.45
Core efficiency ratio (non-GAAP)	54.13 %	52.64 %	54.81 %	51.97 %

(a) One-time items included severance costs.

(b) Represents the adjustments to net income, tax effected at the Company’s effective tax rate for the respective period.

- (2) Except for the efficiency ratio and the core efficiency ratio, amounts are annualized for the three and six months ended June 30, 2021 and 2020.
- (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 is annualized for the six months ended June 30, 2021.
- (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:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
<i>(dollars in thousands, except per share data)</i>				
<b>Income Statement Data:</b>				
Noninterest expense	\$ 99,388	\$ 91,450	\$ 195,694	\$ 187,916
Core noninterest expense	\$ 98,228	\$ 91,450	\$ 194,534	\$ 187,916
Net income	\$ 86,741	\$ 20,049	\$ 144,434	\$ 58,914
Core net income	\$ 87,704	\$ 20,204	\$ 145,397	\$ 59,007
Average total stockholders' equity	\$ 2,691,966	\$ 2,697,775	\$ 2,709,735	\$ 2,679,293
Less: average goodwill	995,492	995,492	995,492	995,492
Average tangible stockholders' equity	\$ 1,696,474	\$ 1,702,283	\$ 1,714,243	\$ 1,683,801
Average total assets	\$ 24,015,065	\$ 22,341,654	\$ 23,482,839	\$ 21,327,479
Less: average goodwill	995,492	995,492	995,492	995,492
Average tangible assets	\$ 23,019,573	\$ 21,346,162	\$ 22,487,347	\$ 20,331,987
Return on average total stockholders' equity <sup>(a)</sup>	12.92 %	2.99 %	10.75 %	4.42 %
Core return on average total stockholders' equity (non-GAAP) <sup>(a)</sup>	13.07 %	3.01 %	10.82 %	4.43 %
Return on average tangible stockholders' equity (non-GAAP) <sup>(a)</sup>	20.51 %	4.74 %	16.99 %	7.04 %
Core return on average tangible stockholders' equity (non-GAAP) <sup>(a)</sup>	20.74 %	4.77 %	17.10 %	7.05 %
Return on average total assets <sup>(a)</sup>	1.45 %	0.36 %	1.24 %	0.56 %
Core return on average total assets (non-GAAP) <sup>(a)</sup>	1.46 %	0.36 %	1.25 %	0.56 %
Return on average tangible assets (non-GAAP) <sup>(a)</sup>	1.51 %	0.38 %	1.30 %	0.58 %
Core return on average tangible assets (non-GAAP) <sup>(a)</sup>	1.53 %	0.38 %	1.30 %	0.58 %
Noninterest expense to average assets <sup>(a)</sup>	1.66 %	1.65 %	1.68 %	1.77 %
Core noninterest expense to average assets (non-GAAP) <sup>(a)</sup>	1.64 %	1.65 %	1.67 %	1.77 %

(continued)



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(continued)	As of	As of
(dollars in thousands, except share amount and per share data)	June 30,	December 31,
	2021	2020
<b>Balance Sheet Data:</b>		
Total stockholders' equity	\$ 2,731,341	\$ 2,744,104
Less: goodwill	995,492	995,492
Tangible stockholders' equity	\$ 1,735,849	\$ 1,748,612
Total assets	\$ 24,246,328	\$ 22,662,831
Less: goodwill	995,492	995,492
Tangible assets	\$ 23,250,836	\$ 21,667,339
Shares outstanding	129,019,871	129,912,272
Total stockholders' equity to total assets	11.26 %	12.11 %
Tangible stockholders' equity to tangible assets (non-GAAP)	7.47 %	8.07 %
Book value per share	\$ 21.17	\$ 21.12
Tangible book value per share (non-GAAP)	\$ 13.45	\$ 13.46

(a) Annualized for the three and six months ended June 30, 2021 and 2020.

### Financial Highlights

Results of operations for the three and six months ended June 30, 2021 and 2020 were significantly affected by the economic decline attributable to the onset of the COVID-19 pandemic that began to be felt in March 2020, as well as the economic improvements that occurred in the first six months of 2021 as the Hawaii economy began to reopen and tourists started to return to Hawaii in more significant numbers.

Net income was \$86.7 million for the three months ended June 30, 2021, an increase of \$66.7 million as compared to the same period in 2020. Basic and diluted earnings per share were both \$0.67 per share for the three months ended June 30, 2021, an increase of \$0.52 per share as compared to the same period in 2020. The increase in net income was primarily due to a negative provision for credit losses (the "Provision") of \$35.0 million for the three months ended June 30, 2021, compared to a Provision of \$55.4 million for the three months ended June 30, 2020. The increase in net income was also related to a \$3.7 million increase in noninterest income and a \$3.7 million increase in net interest income, partially offset by a \$23.2 million increase in the provision for income taxes and a \$7.9 million increase in noninterest expense for the three months ended June 30, 2021.

Our return on average total assets was 1.45% for the three months ended June 30, 2021, an increase of 109 basis points from the same period in 2020, and our return on average total stockholders' equity was 12.92% for the three months ended June 30, 2021, an increase of 993 basis points from the same period in 2020. Our return on average tangible assets was 1.51% for the three months ended June 30, 2021, an increase of 113 basis points from the same period in 2020, and our return on average tangible stockholders' equity was 20.51% for the three months ended June 30, 2021, up from 4.74% for the same period in 2020. We continued to prudently manage our expenses, as our efficiency ratio was 54.74% for the three months ended June 30, 2021, compared to 52.70% for the same period in 2020.

Our results for the three months ended June 30, 2021 were highlighted by the following:

- Net interest income was \$131.5 million for the three months ended June 30, 2021, an increase of \$3.7 million or 3% as compared to the same period in 2020. Our net interest margin was 2.46% for the three months ended June 30, 2021, a decrease of 12 basis points as compared to the same period in 2020. The increase in net interest income was primarily due to higher average balances in our investment securities portfolio and lower deposit funding costs, partially offset by lower average balances and yields in most loan categories during the three months ended June 30, 2021.

- There was a negative Provision of \$35.0 million for the three months ended June 30, 2021, compared to a Provision of \$55.4 million for the same period in 2020. The negative Provision in 2021 was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The Provision is recorded to maintain the Allowance for Credit Losses ("ACL") at levels deemed adequate to absorb lifetime expected credit losses in our loan and lease portfolio as of the balance sheet date.
- Noninterest income was \$49.4 million for the three months ended June 30, 2021, an increase of \$3.7 million or 8% as compared to the same period in 2020. The increase was primarily due to a \$5.9 million increase in credit and debit card fees, a \$2.4 million increase in other service charges and fees, and a \$0.7 million increase in service charges on deposit accounts, reflecting increased local economic activity as tourism has increased and the economy has begun to reopen. This was partially offset by a \$4.3 million decrease in other noninterest income and a \$1.3 million decrease in bank-owned life insurance ("BOLI") income.
- Noninterest expense was \$99.4 million for the three months ended June 30, 2021, an increase of \$7.9 million or 9% compared to the same period in 2020. The increase in noninterest expense was primarily due to a \$3.6 million increase in salaries and employee benefits, a \$1.3 million increase in other noninterest expense, a \$1.2 million increase in equipment expense, a \$1.1 million increase in card rewards program expense and a \$1.0 increase in contracted services and professional fees.

Net income was \$144.4 million for the six months ended June 30, 2021, an increase of \$85.5 million as compared to the same period in 2020. Basic and diluted earnings per share were both \$1.11 per share for the six months ended June 30, 2021, an increase of \$0.66 per share as compared to the same period in 2020. The increase in net income was primarily due to a negative Provision of \$35.0 million for the six months ended June 30, 2021, compared to a Provision of \$96.6 million for the six months ended June 30, 2020. This was partially offset by a \$30.8 million increase in the provision for income taxes, a \$7.8 million increase in noninterest expense, a \$5.9 million decrease in net interest income and a \$1.6 million decrease in noninterest income for the six months ended June 30, 2021.

Our return on average total assets was 1.24% for the six months ended June 30, 2021, an increase of 68 basis points from the same period in 2020, and our return on average total stockholders' equity was 10.75% for the six months ended June 30, 2021, an increase of 633 basis points from the same period in 2020. Our return on average tangible assets was 1.30% for the six months ended June 30, 2021, an increase of 72 basis points from the same period in 2020, and our return on average tangible stockholders' equity was 16.99% for the six months ended June 30, 2021, up from 7.04% for the same period in 2020. Our efficiency ratio was 55.12% for the six months ended June 30, 2021 compared to 51.99% for the same period in 2020.

Our results for the six months ended June 30, 2021 were highlighted by the following:

- Net interest income was \$260.6 million for the six months ended June 30, 2021, a decrease of \$5.9 million or 2% as compared to the same period in 2020. Our net interest margin was 2.50% for the six months ended June 30, 2021, a decrease of 34 basis points as compared to the same period in 2020. The decrease in net interest income was primarily due to lower average balances and yields in most loan categories and lower yields in our investment securities portfolio. This was partially offset by higher average balances in our investment securities portfolio and lower deposit funding costs.
- There was a negative Provision of \$35.0 million for the six months ended June 30, 2021, compared to a Provision of \$96.6 million for the same period in 2020. The negative Provision in 2021 was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The Provision is recorded to maintain the ACL at levels deemed adequate to absorb lifetime expected credit losses in our loan and lease portfolio as of the balance sheet date.
- Noninterest income was \$93.2 million for the six months ended June 30, 2021, a decrease of \$1.6 million or 2% as compared to the same period in 2020. The decrease was primarily due to a \$6.3 million decrease in other noninterest income, a \$1.5 million decrease in service charges on deposit accounts, a \$1.2 million decrease in BOLI income and a \$1.1 million decrease in trust and investment services income, partially offset by a \$5.5 million increase in credit and debit card fees and a \$2.7 million increase in other service charges and fees.

- Noninterest expense was \$195.7 million for the six months ended June 30, 2021, an increase of \$7.8 million or 4% as compared to the same period in 2020. The increase in noninterest expense was primarily due to a \$2.7 million increase in salaries and employee benefits expense, a \$2.5 million increase in other noninterest expense, a \$2.2 million increase in contracted services and professional fees and a \$1.9 million increase in equipment expense, partially offset by a \$1.1 million decrease in card rewards program expense.

Hawaii's economy continues to be significantly impacted by COVID-19 and the responses to it. Because the Hawaii economy is heavily dependent on tourism, the combination of various response measures to the COVID-19 pandemic resulted in unprecedented fluxes in Hawaii unemployment. While we may continue to see a gradual improvement in unemployment as local businesses reopen, visitor arrivals increase with looser travel restrictions, and the COVID-19 vaccine becomes more widely administered, the timing and extent of the return of air travel and the recovery of the Hawaii tourism industry remains highly uncertain and beyond our control.

We continued to maintain high levels of liquidity and remained well-capitalized as of June 30, 2021. CET1 was 12.76% as of June 30, 2021, an increase of 29 basis points from December 31, 2020. The increase in CET1 was primarily due to earnings for the six months ended June 30, 2021, including the \$35.0 million negative Provision, partially offset by the dividends declared and paid to the Company's stockholders.

- Total loans and leases were \$13.1 billion as of June 30, 2021, a decrease of \$175.3 million or 1% from December 31, 2020. The decrease was primarily due to a decrease in the dealer flooring and indirect automobile loan portfolios, partially offset by increases in the commercial real estate, residential mortgage and construction portfolios.
- The ACL was \$169.1 million as of June 30, 2021, a decrease of \$39.3 million or 19% from December 31, 2020. This decrease was primarily due to the \$33.6 million negative Provision expense due to lower expected credit losses in the consumer and commercial real estate portfolios. The ratio of our ACL to total loans and leases outstanding was 1.29% as of June 30, 2021, a decrease of 28 basis points compared to December 31, 2020.
- We continued to invest in high-grade investment securities, primarily collateralized mortgage obligations issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae and Municipal Housing Authorities. The total fair value of our investment securities portfolio was \$7.0 billion as of June 30, 2021, an increase of \$882.5 million or 15% from December 31, 2020. The increase was primarily due to purchases in this portfolio as we invested excess liquidity into securities, partially offset by principal repayments.
- Total deposits were \$20.8 billion as of June 30, 2021, an increase of \$1.6 billion or 8% from December 31, 2020. The increase in total deposits was primarily due to a \$1.1 billion increase in demand deposit balances, a \$583.2 million increase in money market deposit balances and a \$401.0 million increase in savings deposit balances, partially offset by a \$444.6 million decrease in time deposit balances.
- Total stockholders' equity was \$2.7 billion as of June 30, 2021, a decrease of \$12.8 million from December 31, 2020. The decrease in stockholders' equity was primarily due to dividends declared and paid to the Company's stockholders of \$67.4 million, a net unrealized loss in the fair value of our investment securities net of tax of \$61.3 million and share repurchases of \$31.9 million, partially offset by earnings for the period of \$144.4 million.

## Analysis of Results of Operations

### Net Interest Income

For the three months ended June 30, 2021 and 2020, 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.

(dollars in millions)	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020		
	Average Balance	Income/ Expense	Average Yield/ Rate	Average Balance	Income/ Expense	Average Yield/ Rate
<b>Earning Assets</b>						
Interest-Bearing Deposits in Other Banks	\$ 1,503.0	\$ 0.4	0.10 %	\$ 1,436.2	\$ 0.4	0.10 %
Available-for-Sale Investment Securities						
Taxable	6,298.3	22.5	1.43	4,389.7	17.5	1.60
Non-Taxable	468.4	2.7	2.30	0.7	—	2.58
Total Available-for-Sale Investment Securities	6,766.7	25.2	1.49	4,390.4	17.5	1.60
Loans Held for Sale	2.0	—	1.44	9.8	0.1	2.93
Loans and Leases <sup>(1)</sup>						
Commercial and industrial	2,882.1	21.1	2.94	3,601.0	24.3	2.71
Commercial real estate	3,419.7	25.3	2.97	3,438.8	28.3	3.31
Construction	800.9	6.3	3.15	584.1	4.9	3.35
Residential:						
Residential mortgage	3,765.4	34.0	3.62	3,682.7	35.7	3.88
Home equity line	812.6	5.5	2.72	885.2	6.8	3.07
Consumer	1,277.9	16.9	5.32	1,526.5	20.6	5.42
Lease financing	246.5	1.9	3.06	238.4	1.7	2.88
Total Loans and Leases	13,205.1	111.0	3.37	13,956.7	122.3	3.52
Other Earning Assets	62.5	0.3	1.91	61.7	0.4	2.79
Total Earning Assets <sup>(2)</sup>	21,539.3	136.9	2.55	19,854.8	140.7	2.84
Cash and Due from Banks	290.7			295.1		
Other Assets	2,185.1			2,191.8		
<b>Total Assets</b>	<b>\$ 24,015.1</b>			<b>\$ 22,341.7</b>		
<b>Interest-Bearing Liabilities</b>						
Interest-Bearing Deposits						
Savings	\$ 6,361.8	\$ 0.5	0.03 %	\$ 5,501.9	\$ 0.9	0.07 %
Money Market	3,783.1	0.5	0.06	3,270.3	1.1	0.13
Time	2,034.5	2.3	0.45	3,335.6	6.6	0.79
Total Interest-Bearing Deposits	12,179.4	3.3	0.11	12,107.8	8.6	0.29
Short-Term Borrowings	—	—	—	395.6	2.8	2.88
Long-Term Borrowings	200.0	1.4	2.76	200.0	1.4	2.77
<b>Total Interest-Bearing Liabilities</b>	<b>12,379.4</b>	<b>4.7</b>	<b>0.15</b>	<b>12,703.4</b>	<b>12.8</b>	<b>0.41</b>
<b>Net Interest Income</b>		<b>\$ 132.2</b>			<b>\$ 127.9</b>	
Interest Rate Spread			2.40 %			2.43 %
Net Interest Margin			2.46 %			2.58 %
Noninterest-Bearing Demand Deposits	8,458.6			6,432.6		
Other Liabilities	485.1			507.9		
Stockholders' Equity	2,692.0			2,697.8		
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 24,015.1</b>			<b>\$ 22,341.7</b>		

(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) Interest income includes taxable-equivalent basis adjustments of \$0.7 million and \$0.1 million for the three months ended June 30, 2021 and 2020, respectively.

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

(dollars in millions)	Three Months Ended June 30, 2021 Compared to June 30, 2020		
	Volume	Rate	Total <sup>(1)</sup>
<b>Change in Interest Income:</b>			
Available-for-Sale Investment Securities			
Taxable	\$ 7.0	\$ (2.0)	\$ 5.0
Non-Taxable	2.7	—	2.7
Total Available-for-Sale Investment Securities	9.7	(2.0)	7.7
Loans Held for Sale	(0.1)	—	(0.1)
Loans and Leases			
Commercial and industrial	(5.2)	2.0	(3.2)
Commercial real estate	(0.1)	(2.9)	(3.0)
Construction	1.7	(0.3)	1.4
Residential:			
Residential mortgage	0.8	(2.5)	(1.7)
Home equity line	(0.5)	(0.8)	(1.3)
Consumer	(3.3)	(0.4)	(3.7)
Lease financing	0.1	0.1	0.2
Total Loans and Leases	(6.5)	(4.8)	(11.3)
Other Earning Assets	—	(0.1)	(0.1)
<b>Total Change in Interest Income</b>	<b>3.1</b>	<b>(6.9)</b>	<b>(3.8)</b>
<b>Change in Interest Expense:</b>			
Interest-Bearing Deposits			
Savings	0.1	(0.5)	(0.4)
Money Market	0.1	(0.7)	(0.6)
Time	(2.0)	(2.3)	(4.3)
Total Interest-Bearing Deposits	(1.8)	(3.5)	(5.3)
Short-term Borrowings	(1.4)	(1.4)	(2.8)
<b>Total Change in Interest Expense</b>	<b>(3.2)</b>	<b>(4.9)</b>	<b>(8.1)</b>
<b>Change in Net Interest Income</b>	<b>\$ 6.3</b>	<b>\$ (2.0)</b>	<b>\$ 4.3</b>

(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 \$132.2 million for the three months ended June 30, 2021, an increase of \$4.3 million or 3% compared to the same period in 2020. Our net interest margin was 2.46% for the three months ended June 30, 2021, a decrease of 12 basis points from the same period in 2020. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances in our investment securities portfolio and lower deposit funding costs, partially offset by lower average balances and yields in most loan categories during the three months ended June 30, 2021. Fees are accelerated into net interest income upon the forgiveness of PPP loans. Net interest income for the three months ended June 30, 2021 and 2020 included \$8.1 million and \$3.7 million, respectively, of fees from PPP loans. As of June 30, 2021, there were approximately \$23.0 million of additional fees remaining on our PPP loans that had not yet been recognized into income.

For the three months ended June 30, 2021, the average balance of our investment securities portfolio was \$6.8 billion, an increase of \$2.4 billion or 54% compared to the same period in 2020. For the three months ended June 30, 2021, the average balance of our loans and leases was \$13.2 billion, a decrease of \$751.6 million or 5% compared to the same period in 2020. Yields on our loans and leases were 3.37% for the three months ended June 30, 2021, a decrease of 15 basis points as compared to the same period in 2020. We experienced a decrease in our yields from total loans primarily due to decreases in our commercial real estate and residential mortgage loans. This was partially offset by an increase in our yields from commercial and industrial loans. The adjustable rate commercial real estate loans are typically based on the LIBOR. Increases in the yield on commercial and industrial loans stemmed from higher PPP loan fees as these fees were accelerated into income upon the forgiveness of the loans. Deposit funding costs were \$3.3 million for the three months ended June 30, 2021, a decrease of \$5.3 million or 62% compared to the same period in 2020, primarily due to a decrease in interest rates. Rates paid on our interest-bearing deposits were 11 basis points for the three months ended June 30, 2021, a decrease of 18 basis points compared to the same period in 2020.

For the six months ended June 30, 2021 and 2020, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 6. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 7.

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
<b>Average Balances and Interest Rates</b>						
(dollars in millions)						
<b>Earning Assets</b>						
Interest-Bearing Deposits in Other Banks	\$ 1,222.4	\$ 0.6	0.10 %	\$ 976.5	\$ 2.0	0.40 %
Available-for-Sale Investment Securities						
Taxable	6,125.1	44.6	1.46	4,211.4	38.7	1.84
Non-Taxable	373.7	4.0	2.11	0.4	—	2.58
Total Available-for-Sale Investment Securities	6,498.8	48.6	1.49	4,211.8	38.7	1.84
Loans Held for Sale	5.6	0.1	2.28	12.8	0.1	2.17
Loans and Leases <sup>(1)</sup>						
Commercial and industrial	2,954.0	41.5	2.84	3,188.4	48.9	3.08
Commercial real estate	3,402.6	50.2	2.98	3,426.3	62.9	3.69
Construction	774.0	12.1	3.16	561.5	10.6	3.79
Residential:						
Residential mortgage	3,730.9	68.7	3.68	3,711.5	73.4	3.95
Home equity line	817.3	11.2	2.76	886.3	14.5	3.28
Consumer	1,300.7	34.7	5.37	1,569.2	43.6	5.59
Lease financing	244.1	3.7	3.04	230.8	3.3	2.90
Total Loans and Leases	13,223.6	222.1	3.38	13,574.0	257.2	3.80
Other Earning Assets	60.2	0.5	1.85	59.4	1.2	3.99
Total Earning Assets <sup>(2)</sup>	21,010.6	271.9	2.60	18,834.5	299.2	3.19
Cash and Due from Banks	292.3			311.2		
Other Assets	2,179.9			2,181.8		
<b>Total Assets</b>	<b>\$ 23,482.8</b>			<b>\$ 21,327.5</b>		
<b>Interest-Bearing Liabilities</b>						
Interest-Bearing Deposits						
Savings	\$ 6,169.5	\$ 1.1	0.04 %	\$ 5,296.1	\$ 4.2	0.16 %
Money Market	3,657.3	1.0	0.05	3,167.6	5.7	0.36
Time	2,160.8	5.3	0.49	2,935.1	14.3	0.98
Total Interest-Bearing Deposits	11,987.6	7.4	0.12	11,398.8	24.2	0.43
Short-Term Borrowings	—	—	—	398.6	5.7	2.88
Long-Term Borrowings	200.0	2.7	2.76	200.0	2.7	2.77
<b>Total Interest-Bearing Liabilities</b>	<b>12,187.6</b>	<b>10.1</b>	<b>0.17</b>	<b>11,997.4</b>	<b>32.6</b>	<b>0.55</b>
<b>Net Interest Income</b>		<b>\$ 261.8</b>			<b>\$ 266.6</b>	
Interest Rate Spread			2.43 %			2.64 %
Net Interest Margin			2.50 %			2.84 %
Noninterest-Bearing Demand Deposits	8,086.1			6,143.0		
Other Liabilities	499.4			507.8		
Stockholders' Equity	2,709.7			2,679.3		
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 23,482.8</b>			<b>\$ 21,327.5</b>		

(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) Interest income includes taxable-equivalent basis adjustments of \$1.1 million and \$0.1 million for the six months ended June 30, 2021 and 2020, respectively.

**Analysis of Change in Net Interest Income**
**Table 7**

(dollars in millions)	Six Months Ended June 30, 2021 Compared to June 30, 2020		
	Volume	Rate	Total <sup>(1)</sup>
<b>Change in Interest Income:</b>			
Interest-Bearing Deposits in Other Banks	\$ 0.3	\$ (1.7)	\$ (1.4)
Available-for-Sale Investment Securities			
Taxable	15.0	(9.1)	5.9
Non-Taxable	4.0	—	4.0
Total Available-for-Sale Investment Securities	19.0	(9.1)	9.9
Loans and Leases			
Commercial and industrial	(3.6)	(3.8)	(7.4)
Commercial real estate	(0.4)	(12.3)	(12.7)
Construction	3.5	(2.0)	1.5
Residential:			
Residential mortgage	0.4	(5.1)	(4.7)
Home equity line	(1.1)	(2.2)	(3.3)
Consumer	(7.3)	(1.6)	(8.9)
Lease financing	0.2	0.2	0.4
Total Loans and Leases	(8.3)	(26.8)	(35.1)
Other Earning Assets	—	(0.7)	(0.7)
<b>Total Change in Interest Income</b>	<b>11.0</b>	<b>(38.3)</b>	<b>(27.3)</b>
<b>Change in Interest Expense:</b>			
Interest-Bearing Deposits			
Savings	0.5	(3.6)	(3.1)
Money Market	0.8	(5.5)	(4.7)
Time	(3.1)	(5.9)	(9.0)
Total Interest-Bearing Deposits	(1.8)	(15.0)	(16.8)
Short-Term Borrowings	(2.8)	(2.9)	(5.7)
<b>Total Change in Interest Expense</b>	<b>(4.6)</b>	<b>(17.9)</b>	<b>(22.5)</b>
<b>Change in Net Interest Income</b>	<b>\$ 15.6</b>	<b>\$ (20.4)</b>	<b>\$ (4.8)</b>

(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 \$261.8 million for the six months ended June 30, 2021, a decrease of \$4.8 million or 2% compared to the same period in 2020. Our net interest margin was 2.50% for the six months ended June 30, 2021, a decrease of 34 basis points from the same period in 2020. The decrease in net interest income, on a fully taxable-equivalent basis, was primarily due to lower average balances and yields in most loan categories and lower yields in our investment securities portfolio. This was partially offset by higher average balances in our investment securities portfolio and lower deposit funding costs. Fees are accelerated into net interest income upon the forgiveness of PPP loans. Net interest income for the six months ended June 30, 2021 and 2020 included \$14.0 million and \$3.7 million, respectively, of fees from PPP loans. As of June 30, 2021, there were approximately \$23.0 million of additional fees remaining on our PPP loans that had not yet been recognized into income.

For the six months ended June 30, 2021, the average balance of our loans and leases was \$13.2 billion, a decrease of \$350.4 million or 3% compared to the same period in 2020. Yields on our loans and leases were 3.38% for the six months ended June 30, 2021, a decrease of 42 basis points as compared to the same period in 2020. We experienced a decrease in our yield from total loans primarily due to decreases in commercial real estate, residential mortgage and commercial and industrial loans. The decrease in our adjustable rate commercial and industrial and commercial real estate loans are typically based on LIBOR. For the six months ended June 30, 2021, the average balance of our investment securities portfolio was \$6.5 billion, an increase of \$2.3 billion or 54% compared to the same period in 2020. For the six months ended June 30, 2021, the yield in our investment securities portfolio was 1.49%, a decrease of 35 basis points compared to the same period in 2020. Deposit funding costs were \$7.4 million for the six months ended June 30, 2021, a decrease of \$16.8 million or 69% compared to the same period in 2020. Rates paid on our interest-bearing deposits were 12 basis points for the six months ended June 30, 2021, a decrease of 31 basis points compared to the same period in 2020.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is affected by changes in the prime interest rate. The prime rate began in 2020 at 4.75%. The prime rate decreased 150 basis points in March 2020 to 3.25%, where it remained as at the end of the second quarter of 2021. As noted above, our loan portfolio is also impacted by changes in the LIBOR. At June 30, 2021, the one-month and three-month U.S. dollar LIBOR interest rates were 0.10% and 0.15%, respectively, while at June 30, 2020, the one-month and three-month U.S. dollar LIBOR interest rates were 0.16% and 0.30%, respectively. The target range for the federal funds rate, which is the cost of immediately available overnight funds, began 2020 at 1.50% to 1.75%. The target range for the federal funds rate decreased 150 basis points in March 2020 to 0.00% to 0.25%, where it remained as at the end of the second quarter of 2021. In June 2021, the Federal Reserve indicated that it expects to maintain the targeted federal funds rate at current levels through 2021. The decrease in the target range for the federal funds rate in 2020 was largely an emergency measure by the Federal Reserve aimed at mitigating the economic impact of COVID-19.

**Provision for Credit Losses**

There was a negative Provision of \$35.0 million for the three months ended June 30, 2021, compared to a Provision of \$55.4 million for the same period in 2020. This decrease was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii’s economy, key industries, businesses and our customers. We recorded net charge-offs of loans and leases of \$1.1 million and \$23.4 million for the three months ended June 30, 2021 and 2020, respectively. This represented charge-offs of 0.03% and 0.67% of average loans and leases, on an annualized basis, for the three months ended June 30, 2021 and 2020, respectively. There was a negative Provision of \$35.0 million for the six months ended June 30, 2021, compared to a Provision of \$96.6 million for the same period in 2020. We recorded net charge-offs of loans and leases of \$5.7 million and \$29.5 million for the six months ended June 30, 2021 and 2020, respectively. This represented net charge-offs of 0.09% and 0.44% of average loans and leases, on an annualized basis, for the six months ended June 30, 2021 and 2020, respectively. The ACL was \$169.1 million as of June 30, 2021, a decrease of \$39.3 million or 19% from December 31, 2020 and represented 1.29% of total outstanding loans and leases as of June 30, 2021 compared to 1.57% of total outstanding loans and leases as of December 31, 2020. The reserve for unfunded commitments was \$29.2 million as of June 30, 2021, compared to \$30.6 million as of December 31, 2020. The Provision is recorded to maintain the ACL and the reserve for unfunded commitments 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 MD&A.

**Noninterest Income**

Table 8 presents the major components of noninterest income for the three months ended June 30, 2021 and 2020 and Table 9 presents the major components of noninterest income for the six months ended June 30, 2021 and 2020:

Noninterest Income	Table 8			
	Three Months Ended		Dollar Change	Percent Change
	June 30,			
(dollars in thousands)	2021	2020		
Service charges on deposit accounts	\$ 6,632	\$ 5,927	\$ 705	12 %
Credit and debit card fees	16,746	10,870	5,876	54
Other service charges and fees	10,303	7,912	2,391	30
Trust and investment services income	8,707	8,664	43	—
Bank-owned life insurance	3,104	4,432	(1,328)	(30)
Investment securities gains (losses), net	102	(211)	313	n/m
Other	3,777	8,062	(4,285)	(53)
Total noninterest income	\$ 49,371	\$ 45,656	\$ 3,715	8 %

n/m – Denotes a variance that is not a meaningful metric to inform the change in noninterest income for the three months ended June 30, 2021 to the same period in 2020.



**Noninterest Income**
**Table 9**

(dollars in thousands)	Six Months Ended		Dollar Change	Percent Change
	June 30,			
	2021	2020		
Service charges on deposit accounts	\$ 13,350	\$ 14,877	\$ (1,527)	(10)%
Credit and debit card fees	31,297	25,819	5,478	21
Other service charges and fees	19,149	16,451	2,698	16
Trust and investment services income	17,199	18,255	(1,056)	(6)
Bank-owned life insurance	5,493	6,692	(1,199)	(18)
Investment securities gains (losses), net	102	(126)	228	n/m
Other	6,649	12,916	(6,267)	(49)
Total noninterest income	\$ 93,239	\$ 94,884	\$ (1,645)	(2)%

n/m – Denotes a variance that is not a meaningful metric to inform the change in noninterest income for the six months ended June 30, 2021 to the same period in 2020.

Total noninterest income was \$49.4 million for the three months ended June 30, 2021, an increase of \$3.7 million or 8% as compared to the same period in 2020. Total noninterest income was \$93.2 million for the six months ended June 30, 2021, a decrease of \$1.6 million or 2% as compared to the same period in 2020.

Service charges on deposit accounts were \$6.6 million for the three months ended June 30, 2021, an increase of \$0.7 million or 12% as compared to the same period in 2020. This increase was primarily due to a \$0.6 million increase in overdraft and checking account fees. Service charges on deposit accounts were \$13.4 million for the six months ended June 30, 2021, a decrease of \$1.5 million or 10% as compared to the same period in 2020. This decrease was primarily due to a \$0.8 million decrease in overdraft and checking account fees, a \$0.5 million decrease in checking account service fees and a \$0.5 million decrease in account analysis service charges, partially offset by a \$0.4 million increase in ATM interchange fees from customers.

Credit and debit card fees were \$16.7 million for the three months ended June 30, 2021, an increase of \$5.9 million or 54% as compared to the same period in 2020. This increase was primarily due to a \$2.7 million increase in interchange settlement fees, a \$2.1 million increase in merchant service revenues, a \$1.3 million increase in ATM interchange and surcharge fees and a \$0.4 million increase in debit card interchange fees. This was partially offset by a \$0.9 million increase in network association dues. Credit and debit card fees were \$31.3 million for the six months ended June 30, 2021, an increase of \$5.5 million or 21% as compared to the same period in 2020. This increase was primarily due to a \$1.4 million increase in interchange settlement fees, a \$1.1 million increase in ATM interchange and surcharge fees, a \$1.1 million increase in merchant service revenues, a \$1.1 million decrease in network association dues and a \$0.6 million increase in debit card interchange fees.

Other service charges and fees were \$10.3 million for the three months ended June 30, 2021, an increase of \$2.4 million or 30% as compared to the same period in 2020. This increase was primarily due to a \$1.2 million increase in miscellaneous service fees and a \$1.1 million increase in fees from annuities and securities. Other service charges and fees were \$19.1 million for the six months ended June 30, 2021, an increase of \$2.7 million or 16% as compared to the same period in 2020. This increase was primarily due to a \$1.7 million increase in fees from annuities and securities and a \$1.2 million increase in miscellaneous service fees.

Trust and investment services income was \$8.7 million for the three months ended June 30, 2021, a minimal change as compared to the same period in 2020. Trust and investment services income was \$17.2 million for the six months ended June 30, 2021, a decrease of \$1.1 million or 6% as compared to the same period in 2020. This decrease was primarily due to a \$1.2 million decrease in business cash management fees.

BOLI income was \$3.1 million for the three months ended June 30, 2021 a decrease of \$1.3 million or 30% as compared to the same period in 2020. This decrease was due to a \$0.7 million decrease in death benefit proceeds from life insurance policies and a \$0.6 million decrease in BOLI earnings. BOLI income was \$5.5 million for the six months ended June 30, 2021, a decrease of \$1.2 million or 18% as compared to the same period in 2020. This decrease was due to a \$0.7 million decrease in death benefit proceeds from life insurance policies and a \$0.5 million decrease in BOLI earnings.

Net gains on the sale of investment securities were \$0.1 million for the three months ended June 30, 2021, an increase of \$0.3 million as compared to the same period in 2020. Net gains on the sale of investment securities were \$0.1 million for the six months ended June 30, 2021, an increase of \$0.2 million as compared to the same period in 2020.

Other noninterest income was \$3.8 million for the three months ended June 30, 2021, a decrease of \$4.3 million or 53% as compared to the same period in 2020. This decrease was primarily due to a \$3.4 million decrease in customer-related interest rate swap fees, a \$0.9 million decrease in volume-based incentives, a \$0.8 million decrease in gains on the sale of residential loans to government-sponsored enterprises, and a \$0.5 million decrease in net mortgage servicing rights, partially offset by a \$0.6 million increase in gains on the sale of bank properties and a \$0.4 million increase in market adjustments on mutual funds purchased. Other noninterest income was \$6.6 million for six months ended June 30, 2021, a decrease of \$6.3 million or 49% as compared to the same period in 2020. This decrease was primarily due to a \$4.8 million decrease in customer-related interest rate swap fees, a \$1.2 million decrease in gains on the sale of residential loans to government-sponsored enterprises, a \$0.7 million decrease in market adjustments on mutual funds purchased and a \$0.5 million decrease in market adjustments for foreign exchange transactions. This was partially offset by a \$0.6 million increase in gains on the sale of bank properties.

**Noninterest Expense**

Table 10 presents the major components of noninterest expense for the three months ended June 30, 2021 and 2020 and Table 11 presents the major components of noninterest expense for the six months ended June 30, 2021 and 2020:

Noninterest Expense	Table 10			
	Three Months Ended		Dollar Change	Percentage Change
	June 30,			
(dollars in thousands)	2021	2020		
Salaries and employee benefits	\$ 45,982	\$ 42,414	\$ 3,568	8 %
Contracted services and professional fees	16,516	15,478	1,038	7
Occupancy	7,314	7,302	12	—
Equipment	6,362	5,207	1,155	22
Regulatory assessment and fees	1,826	2,100	(274)	(13)
Advertising and marketing	1,469	1,402	67	5
Card rewards program	6,262	5,163	1,099	21
Other	13,657	12,384	1,273	10
Total noninterest expense	\$ 99,388	\$ 91,450	\$ 7,938	9 %

Noninterest Expense	Table 11			
	Six Months Ended		Dollar Change	Percentage Change
	June 30,			
(dollars in thousands)	2021	2020		
Salaries and employee benefits	\$ 89,918	\$ 87,243	\$ 2,675	3 %
Contracted services and professional fees	33,704	31,533	2,171	7
Occupancy	14,484	14,545	(61)	—
Equipment	11,853	9,915	1,938	20
Regulatory assessment and fees	3,860	4,046	(186)	(5)
Advertising and marketing	3,060	3,225	(165)	(5)
Card rewards program	11,097	12,178	(1,081)	(9)
Other	27,718	25,231	2,487	10
Total noninterest expense	\$ 195,694	\$ 187,916	\$ 7,778	4 %

Total noninterest expense was \$99.4 million for the three months ended June 30, 2021, an increase of \$7.9 million or 9% as compared to the same period in 2020. Total noninterest expense was \$195.7 million for the six months ended June 30, 2021, an increase of \$7.8 million or 4% as compared to the same period in 2020.

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Salaries and employee benefits expense was \$46.0 million for the three months ended June 30, 2021, an increase of \$3.6 million or 8% as compared to the same period in 2020. This increase was primarily due to a \$1.5 million increase in other compensation, including a nonrecurring severance cost of \$1.2 million, a \$0.9 million increase in temporary help expenses, a \$0.7 million increase in base salaries and related payroll taxes, and a \$0.4 million increase in group health plan costs. Salaries and employee benefits expense was \$89.9 million for the six months ended June 30, 2021, an increase of \$2.7 million or 3% as compared to the same period in 2020. This increase was primarily due to a \$3.0 million increase in other compensation, including a nonrecurring severance cost of \$1.2 million, a \$1.7 million increase in base salaries and related payroll taxes, a \$1.6 million increase in temporary help expenses, a \$0.6 million increase in retirement plan expenses, and a \$0.6 million increase in group health plan costs. This was partially offset by a \$4.7 million increase in payroll and benefit costs being deferred as loan origination costs.

Contracted services and professional fees were \$16.5 million for the three months ended June 30, 2021, an increase of \$1.0 million or 7% as compared to the same period in 2020. This increase was primarily due to a \$0.8 million increase in outside services, primarily attributable to marketing and new customer services. Contracted services and professional fees were \$33.7 million for the six months ended June 30, 2021, an increase of \$2.2 million or 7% as compared to the same period in 2020. This increase was primarily due to a \$1.7 million increase in outside services, primarily attributable to marketing and new customer services, and a \$0.3 million increase in contracted data processing expenses, primarily related to system upgrades and product enhancements.

Occupancy expense was \$7.3 million for the three months ended June 30, 2021, a minimal change as compared to the same period in 2020. Occupancy expense was \$14.5 million for the six months ended June 30, 2021, a decrease of \$0.1 million as compared to the same period in 2020.

Equipment expense was \$6.4 million for the three months ended June 30, 2021, an increase of \$1.2 million or 22% as compared to the same period in 2020. This increase was primarily due to a \$1.5 million increase in technology-related license and maintenance fees. Equipment expense was \$11.9 million for the six months ended June 30, 2021, an increase of \$1.9 million or 20% as compared to the same period in 2020. This increase was primarily due to a \$2.1 million increase in technology-related license and maintenance fees.

Regulatory assessment and fees were \$1.8 million for the three months ended June 30, 2021, a decrease of \$0.3 million or 13% as compared to the same period in 2020. Regulatory assessment and fees were \$3.9 million for the six months ended June 30, 2021, a decrease of \$0.2 million or 5% as compared to the same period in 2020.

Advertising and marketing expense was \$1.5 million for the three months ended June 30, 2021, an increase of \$0.1 million or 5% as compared to the same period in 2020. Advertising and marketing expense was \$3.1 million for the six months ended June 30, 2021, a decrease of \$0.2 million or 5% as compared to the same period in 2020.

Card rewards program expense was \$6.3 million for the three months ended June 30, 2021, an increase of \$1.1 million or 21% as compared to the same period in 2020. This increase was primarily due to a \$0.5 million increase in credit card cash reward redemptions and a \$0.4 million increase in priority rewards card redemptions. Card rewards program expense was \$11.1 million for the six months ended June 30, 2021, a decrease of \$1.1 million or 9% as compared to the same period in 2020. This decrease was primarily due to a \$1.3 million decrease in priority rewards card redemptions.

Other noninterest expense was \$13.7 million for the three months ended June 30, 2021, an increase of \$1.3 million or 10% as compared to the same period in 2020. This increase was primarily due to a \$1.0 million increase in software amortization, a \$0.3 million increase in pension-related expenses, a \$0.2 million increase in brokers fees, and a \$0.2 million increase in operational losses (which includes losses as a result of bank error, fraud, items processing, or theft). This was partially offset by a \$0.5 million decrease in charitable contributions. Other noninterest expense was \$27.7 million for the six months ended June 30, 2021, an increase of \$2.5 million or 10% as compared to the same period in 2020. This increase was primarily due to a \$2.1 million increase in software amortization, a \$0.7 million increase in pension-related expenses and a \$0.4 million increase in other tax expense, partially offset by a \$0.7 million decrease in charitable contributions.

**Provision for Income Taxes**

The provision for income taxes was \$29.7 million (an effective tax rate of 25.52%) for the three months ended June 30, 2021, compared with the provision for income taxes of \$6.5 million (an effective tax rate of 24.58%) for the same period in 2020. The provision for income taxes was \$48.8 million (an effective tax rate of 25.24%) for the six months ended June 30, 2021, compared with the provision for income taxes of \$17.9 million (an effective tax rate of 23.32%) for the same period in 2020. The increase in the effective tax rate was primarily from the recognition of a tax benefit for the six months ended June 30, 2020, due to a state tax settlement with BNP Paribas USA, Inc. related to periods during which the Company was included in the state combined returns of BNP Paribas USA, Inc. A similar tax benefit was not recognized during the six months ended June 30, 2021. In addition, the significant increase in pre-tax income for the three and six months ended June 30, 2021 caused the permanent tax benefit to have a disproportionately lesser impact on the effective tax rate as compared to the same periods in 2020.

**Analysis of Business Segments**

Our business segments are Retail Banking, Commercial Banking and Treasury and Other. Table 12 summarizes net income from our business segments for the three and six months ended June 30, 2021 and 2020. Additional information about operating segment performance is presented in “Note 17. Reportable Operating Segments” contained in our unaudited interim consolidated financial statements.

In the second quarter of 2021, the Company made changes to the internal measurement of segment operating profits for the purpose of evaluating segment performance and resource allocation. The primary reason for the change was to align PPP loan balances within the business segment that directly manages them. Specifically, PPP loan balances previously included as part of the Retail Banking segment have been reclassified to the Commercial Banking segment. The reallocation of select PPP loan balances affected net interest income, net interest income after provision for credit losses, noninterest expense, provision for income taxes, net income and asset balances. The Company has reported its selected financial information using the new PPP loan balance alignments for the three and six months ended June 30, 2021. The Company has restated the selected financial information for the three and six months ended June 30, 2020 in order to conform with the current presentation.

Business Segment Net Income  (dollars in thousands)	Table 12			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Retail Banking	\$ 52,256	\$ 21,960	\$ 94,740	\$ 48,987
Commercial Banking	38,949	9,419	64,464	16,695
Treasury and Other	(4,464)	(11,330)	(14,770)	(6,768)
<b>Total</b>	<b>\$ 86,741</b>	<b>\$ 20,049</b>	<b>\$ 144,434</b>	<b>\$ 58,914</b>

*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 \$52.3 million for the three months ended June 30, 2021, an increase of \$30.3 million as compared to the same period in 2020. The increase in net income for the Retail Banking segment was primarily due to a negative Provision of \$12.7 million for the three months ended June 30, 2021, compared to a Provision of \$24.3 million for the three months ended June 30, 2020. The increase in net income for the Retail Banking segment also stemmed from a \$5.4 million increase in net interest income. This was partially offset by a \$10.3 million increase in the provision for income taxes and a \$2.1 million increase in noninterest expense. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii’s economy, key industries, businesses and our customers. The increase in net interest income was primarily due to a higher spread on our residential mortgage loan portfolio and an increase in net transfer pricing credits on interest expenses from deposits as a result of higher average deposit balances, partially offset by lower yields on our deposit portfolio. The increase in the provision for income taxes was primarily due to the increase in pretax income. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Retail Banking segment, partially offset by decreases in salaries and benefits expense and occupancy expense.

Net income for the Retail Banking segment was \$94.7 million for the six months ended June 30, 2021, an increase of \$45.8 million or 93% as compared to the same period in 2020. The increase in net income for the Retail Banking segment was primarily due to a negative Provision of \$14.1 million for the six months ended June 30, 2021, compared to a Provision of \$44.4 million for the six months ended June 30, 2020. The increase in net income for the Retail Banking segment also stemmed from a \$10.0 million increase in net interest income. This was partially offset by a \$16.9 million increase in the provision for income taxes, a \$3.3 million increase in noninterest expense and a \$2.5 million decrease in noninterest income. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The increase in net interest income was primarily due to a higher spread on our residential mortgage loan portfolio and an increase in net transfer pricing credits on interest expenses from deposits as a result of higher average deposit balances, partially offset by lower yields on our deposit portfolio. The increase in the provision for income taxes was primarily due to the increase in pretax income. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Retail Banking segment, partially offset by decreases in salaries and benefits expense and occupancy expense. The decrease in noninterest income was primarily due to decreases in service charges and deposit accounts, trust and investment services income and market adjustments for foreign exchange transactions and lower gains on the sale of residential mortgage loans, partially offset by an increase in other service charges and fees.

Total assets for the Retail Banking segment was relatively flat during the six months ended June 30, 2021.

*Commercial Banking.* Our Commercial Banking segment includes our corporate banking, 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 \$38.9 million for the three months ended June 30, 2021, an increase of \$29.5 million as compared to the same period in 2020. The increase in net income for the Commercial Banking segment was primarily due to a negative Provision of \$17.5 million for the three months ended June 30, 2021, compared to a Provision of \$25.2 million for the three months ended June 30, 2020. The increase in net income for the Commercial Banking segment also stemmed from a \$2.7 million increase in net interest income and a \$1.5 million increase in noninterest income, partially offset by a \$10.3 million increase in the provision for income taxes and a \$6.9 million increase in noninterest expense. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The increase in net interest income was primarily due to an increase in loan fees, partially offset by a decrease in commercial loan income. The increase in noninterest income was primarily due to an increase in credit and debit card fees and miscellaneous service charge fees, partially offset by decreases in customer-related interest rate swap fees and volume-based incentives. The increase in the provision for income taxes was primarily due to the increase in pretax income. The increase in noninterest expense was primarily due to increases in salaries and benefits expense, card rewards program expense, higher overall expenses that were allocated to the Commercial Banking segment and an increase in supplies, partially offset by a decrease in contracted services and professional fees.

Net income for the Commercial Banking segment was \$64.5 million for the six months ended June 30, 2021, an increase of \$47.8 million as compared to the same period in 2020. The increase in net income for the Commercial Banking segment was primarily due to a negative Provision of \$19.5 million for the six months ended June 30, 2021, compared to a Provision of \$46.0 million for the six months ended June 30, 2020. The increase in net income for the Commercial Banking segment also stemmed from a \$6.5 million increase in net interest income, partially offset by a \$16.0 million increase in the provision for income taxes and a \$7.9 million increase in noninterest expense. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The increase in net interest income was primarily due to an increase in loan fees, partially offset by a decrease in credit card loan income. The increase in the provision for income taxes was primarily due to the increase in pretax income. The increase in noninterest expense was primarily due to increases in salaries and benefits expense, higher overall expenses that were allocated to the Commercial Banking segment and an increase in other tax expense, partially offset by a decrease in card rewards program expenses.

The decrease in total assets for the Commercial Banking segment was primarily due to a decrease in dealer flooring, partially offset by increases in our commercial real estate and construction portfolios during the six months ended June 30, 2021.

*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 \$4.5 million for the three months ended June 30, 2021, a decrease in loss of \$6.9 million or 61% as compared to the same period in 2020. The decrease in the net loss was primarily due to a negative Provision of \$4.9 million for the three months ended June 30, 2021, compared to a Provision of \$6.0 million for the three months ended June 30, 2020. The decrease in net loss for the Treasury and Other segment also stemmed from a \$1.9 million increase in noninterest income and a \$1.1 million decrease in noninterest expense, partially offset by a \$4.4 million increase in net interest expense and a \$2.5 million decrease in the benefit for income taxes. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The increase in noninterest income was primarily due to increases in ATM interchange and surcharge fees and gains on the sale of bank properties. The decrease in noninterest expense was primarily due to lower overall expenses that were allocated to the Treasury and Other segment and a decrease in supplies, partially offset by increases in contracted services and professional fees, software depreciation, equipment expense and salaries and employee benefits expense. The decrease in the benefit for income taxes was primarily due to the decrease in pretax loss. The increase in net interest expense was primarily due to lower earnings credits as a result of lower average yields in our loan portfolio, partially offset by higher average balances in our investment securities portfolio, a decrease in net transfer pricing charges on interest expenses from deposits as a result of higher average deposit balances, partially offset by lower yields on our deposit portfolio and a decrease in borrowings.

Net loss for the Treasury and Other segment was \$14.8 million for the six months ended June 30, 2021, an increase in loss of \$8.0 million as compared to the same period in 2020. The increase in net loss was primarily due to a \$22.4 million increase in net interest expense. This was partially offset due to a negative Provision of \$1.4 million, for the six months ended June 30, 2021, compared to a Provision of \$6.3 million for the three months ended June 30, 2020. The partial offset to the increase in net loss for the Treasury and Other segment also stemmed from a \$3.5 million decrease in noninterest expense, a \$2.1 million increase in the benefit for income taxes and a \$1.1 million increase in noninterest income. The increase in net interest expense was primarily due to lower earnings credits as a result of lower average yields in our loan portfolio and a decrease in interest-bearing deposits in other banks due to lower yields, partially offset by a decrease in net transfer pricing charges on interest expenses from deposits as a result of higher average deposit balances, partially offset by lower yields on our deposit portfolio, higher average balances in our investment securities portfolio and a decrease in borrowings. The decrease in the Provision was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. The decrease in noninterest expense was primarily due to higher overall expenses that led to a larger credit allocation to the Treasury and Other segment and a decrease in charitable contributions, partially offset by increases in salaries and benefits expense, contracted services and professional fees, software depreciation, equipment expenses and pension-related expenses. The increase in the benefit for income taxes was primarily due to the increase in pretax loss. The increase in noninterest income was primarily due to increases in ATM interchange fees from customers and other service charges and fees, gains on the sale of bank properties, customer-related interest rate swap fees allocated to the Treasury and Other segment and higher net gains on the sale of investment securities, partially offset by decreases in BOLI income and market adjustments on mutual funds purchased.

The increase in total assets for the Treasury and Other segment was primarily due to increases in our investment securities portfolio and interest-bearing deposits in other banks during the six months ended June 30, 2021.

## **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 Federal Reserve Bank of San Francisco (the "FRB"). As of June 30, 2021 and December 31, 2020, cash and cash equivalents were \$1.9 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 were \$7.0 billion and \$6.1 billion as of June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021 and December 31, 2020, we maintained our excess liquidity primarily in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac and mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae and Municipal Housing Authorities. As of June 30, 2021, our available-for-sale investment securities portfolio was comprised of securities with a weighted average life of approximately 5.5 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 FHLB and the FRB. As of June 30, 2021, we have borrowing capacity of \$1.8 billion from the FHLB and \$1.1 billion 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 \$20.0 billion and \$17.9 billion as of June 30, 2021 and December 31, 2020, which represented 96% and 93%, respectively, of our total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company, however, 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 capital to be returned to our shareholders. We expect to meet these obligations 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, taking out short- and long-term borrowings and issuing long-term debt and equity securities. At the start of the pandemic, we increased our liquidity position through additional public time deposits in anticipation of a surge in funding needs due to our participation in the PPP and other additional liquidity needs. While our public time deposits have since decreased from the fourth quarter of 2020, we have continued to maintain strong levels of liquidity as of June 30, 2021.

**Investment Securities**

Table 13 presents the estimated fair value of our available-for-sale investment securities portfolio as of June 30, 2021 and December 31, 2020:

(dollars in thousands)	June 30, 2021	December 31, 2020
U.S. Treasury and government agency debt securities	\$ 180,772	\$ 171,421
Mortgage-backed securities:		
Residential - Government agency	113,289	160,462
Residential - Government-sponsored enterprises	1,263,448	447,200
Commercial - Government agency	491,447	599,650
Commercial - Government-sponsored enterprises	1,223,805	932,157
Collateralized mortgage obligations:		
Government agency	1,662,134	1,933,553
Government-sponsored enterprises	2,019,035	1,826,972
<b>Total available-for-sale securities</b>	<b>\$ 6,953,930</b>	<b>\$ 6,071,415</b>

Table 14 presents the maturity distribution at amortized cost and weighted-average yield to maturity of our available-for-sale investment securities portfolio as of June 30, 2021:

(dollars in millions)	1 Year or Less		After 1 Year - 5 Years		After 5 Years - 10 Years		Over 10 Years		Total		Fair Value
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	
<b>As of June 30, 2021</b>											
<b>Available-for-sale securities</b>											
U.S. Treasury and government agency debt securities	\$ —	— %	\$ 41.5	0.84 %	\$ 83.6	1.03 %	\$ 57.3	1.56 %	\$ 182.4	1.15 %	\$ 180.8
Mortgage-backed securities <sup>(2)</sup> :											
Residential - Government agency	—	—	110.1	2.29	—	—	—	—	110.1	2.29	113.3
Residential - Government-sponsored enterprises	—	—	962.5	1.52	294.5	1.30	—	—	1,257.0	1.47	1,263.5
Commercial - Government agency	—	—	411.1	2.08	76.5	1.77	—	—	487.6	2.03	491.4
Commercial - Government-sponsored enterprises	—	—	87.4	1.75	611.1	1.56	545.5	2.08	1,244.0	1.80	1,223.8
Collateralized mortgage obligations <sup>(2)</sup> :											
Government agency	23.9	1.85	1,232.8	1.69	388.5	1.20	—	—	1,645.2	1.58	1,662.1
Government-sponsored enterprises	31.9	2.02	977.4	1.25	1,015.6	1.38	—	—	2,024.9	1.33	2,019.0
<b>Total available-for-sale securities as of June 30, 2021</b>	<b>\$ 55.8</b>	<b>1.95 %</b>	<b>\$ 3,822.8</b>	<b>1.59 %</b>	<b>\$ 2,469.8</b>	<b>1.38 %</b>	<b>\$ 602.8</b>	<b>2.03 %</b>	<b>\$ 6,951.2</b>	<b>1.56 %</b>	<b>\$ 6,953.9</b>

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

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

The fair value of our available-for-sale investment securities portfolio was \$7.0 billion as of June 30, 2021, an increase of \$882.5 million or 15% compared to December 31, 2020. Our available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income or through the Provision.

As of June 30, 2021, 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 \$3.7 billion invested in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. Our available-for-sale portfolio also included \$3.1 billion in mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae and Municipal Housing Authorities and \$180.8 million in debt securities issued by the U.S Treasury and government agencies (US International Development Finance Corporation bonds).

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 \$62.4 million and \$97.1 million as of June 30, 2021 and December 31, 2020, respectively. Gross unrealized losses in our investment securities portfolio were \$59.6 million and \$10.7 million as of June 30, 2021 and December 31, 2020, respectively. The decrease in unrealized gains and increase in unrealized loss in our investment securities portfolio was primarily due to higher market interest rates as of June 30, 2021, relative to December 31, 2020, resulting in a lower valuation. Additionally, the decrease in unrealized gains and increase in unrealized loss positions was primarily related to our commercial mortgage-backed securities, mortgage-backed securities and collateralized mortgage obligations, the fair values of which are sensitive to changes in market interest rates.

We conduct a regular assessment of our investment securities portfolio to determine whether any securities are impaired. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and the ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through the ACL is recognized in other comprehensive income. For the three and six months ended June 30, 2021, we did not record any credit losses related to our investment securities portfolio.

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 June 30, 2021 and December 31, 2020, we held FHLB stock of \$18.1 million, 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 15 presents the composition of our loan and lease portfolio by major categories as of June 30, 2021 and December 31, 2020:

<b>Loans and Leases</b>	<b>Table 15</b>	
(dollars in thousands)	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>Commercial and industrial:</b>		
Commercial and industrial excluding Paycheck Protection Program loans	<b>\$ 1,753,444</b>	\$ 2,218,266
Paycheck Protection Program loans	<b>811,103</b>	801,241
<b>Total commercial and industrial</b>	<b>2,564,547</b>	3,019,507
<b>Commercial real estate</b>	<b>3,528,068</b>	3,392,676
<b>Construction</b>	<b>853,865</b>	735,819
<b>Residential:</b>		
Residential mortgage	<b>3,821,407</b>	3,690,218
Home equity line	<b>825,368</b>	841,624
<b>Total residential</b>	<b>4,646,775</b>	4,531,842
<b>Consumer</b>	<b>1,267,559</b>	1,353,842
<b>Lease financing</b>	<b>242,971</b>	245,411
<b>Total loans and leases</b>	<b>\$ 13,103,785</b>	<b>\$ 13,279,097</b>

Total loans and leases were \$13.1 billion as of June 30, 2021, a decrease of \$175.3 million or 1% from December 31, 2020. The decrease in total loans and leases was primarily due to decreases in commercial and industrial loans and consumer loans, partially offset by increases in commercial real estate loans, construction loans and residential mortgage loans. It is possible that the continued effects of COVID-19 on the economy could result in less demand for our loan products.

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 \$2.6 billion as of June 30, 2021, a decrease of \$455.0 million or 15% from December 31, 2020. This decrease was primarily due to a decrease in dealer flooring, partially offset by an increase in our Shared National Credits during the six months ended June 30, 2021.

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 and owner-occupied property is cash flow from the property and operating cash flow from the business, respectively. Commercial real estate loans were \$3.5 billion as of June 30, 2021, an increase of \$135.4 million or 4% from December 31, 2020. This increase was primarily due to an increase in U.S. Mainland commercial real estate loans during six months ended June 30, 2021.

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 completion of the construction phase, 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 \$853.9 million as of June 30, 2021, an increase of \$118.0 million or 16% from December 31, 2020. The increase in construction loans was primarily due to the funding of U.S. Mainland and Hawaii construction loan draws during the six months ended June 30, 2021.

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 \$4.6 billion as of June 30, 2021, an increase of \$114.9 million or 3% from December 31, 2020. This increase was primarily due to an increase in residential mortgages of \$131.2 million, partially offset by a decrease in home equity lines of \$16.3 million during the six months ended June 30, 2021.

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 \$1.3 billion as of June 30, 2021, a decrease of \$86.3 million or 6% from December 31, 2020. The decrease in consumer loans was primarily due to decreases in indirect automobile loans and other unsecured consumer loans.

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 \$243.0 million as of June 30, 2021, a decrease of \$2.4 million or 1% from December 31, 2020. The reduction was reflective of weak demand for new business equipment and vehicles in the Hawaii market.

See “Note 3. Loans and Leases” and “Note 4. Allowance for Credit Losses” contained in our unaudited interim consolidated financial statements and the discussion in “Analysis of Financial Condition — Allowance for Credit 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 16 presents the recorded investment in our loan and lease portfolio as of June 30, 2021 by rate type:

**Loans and Leases by Rate Type** Table 16

(dollars in thousands)	June 30, 2021					Hybrid Rate	Fixed Rate	Total
	Prime	LIBOR	Adjustable Rate		Total			
			Treasury	Other				
Commercial and industrial	\$ 228,807	\$ 1,163,018	\$ —	\$ 1,037	\$ 1,392,862	\$ 34,631	\$ 1,137,054	\$ 2,564,547
Commercial real estate	276,351	2,019,321	319	810,509	3,106,500	131,720	289,848	3,528,068
Construction	126,206	598,065	26	26,218	750,515	3,676	99,674	853,865
Residential:								
Residential mortgage	21,943	176,737	78,714	55,974	333,368	312,888	3,175,151	3,821,407
Home equity line	358,019	—	5,914	—	363,933	461,413	22	825,368
Total residential	379,962	176,737	84,628	55,974	697,301	774,301	3,175,173	4,646,775
Consumer	295,572	3,920	1,074	92	300,658	76	966,825	1,267,559
Lease financing	—	—	—	—	—	—	242,971	242,971
<b>Total loans and leases</b>	<b>\$ 1,306,898</b>	<b>\$ 3,961,061</b>	<b>\$ 86,047</b>	<b>\$ 893,830</b>	<b>\$ 6,247,836</b>	<b>\$ 944,404</b>	<b>\$ 5,911,545</b>	<b>\$ 13,103,785</b>
% by rate type at June 30, 2021	10 %	30 %	1 %	7 %	48 %	7 %	45 %	100 %

Tables 17 and 18 present the geographic distribution of our loan and lease portfolio as of June 30, 2021 and December 31, 2020:

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

(dollars in thousands)	June 30, 2021				Total
	Hawaii	U.S. Mainland <sup>(1)</sup>	Guam & Saipan	Foreign & Other	
Commercial and industrial	\$ 1,570,734	\$ 833,195	\$ 151,861	\$ 8,757	\$ 2,564,547
Commercial real estate	2,185,928	945,579	396,361	200	3,528,068
Construction	438,599	408,969	6,297	—	853,865
Residential:					
Residential mortgage	3,697,534	1,416	122,457	—	3,821,407
Home equity line	796,868	—	28,500	—	825,368
Total residential	4,494,402	1,416	150,957	—	4,646,775
Consumer	942,951	17,057	306,060	1,491	1,267,559
Lease financing	75,041	151,568	16,362	—	242,971
<b>Total Loans and Leases</b>	<b>\$ 9,707,655</b>	<b>\$ 2,357,784</b>	<b>\$ 1,027,898</b>	<b>\$ 10,448</b>	<b>\$ 13,103,785</b>
<b>Percentage of Total Loans and Leases</b>	<b>73%</b>	<b>18%</b>	<b>8%</b>	<b>1%</b>	<b>100%</b>

(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 18**

(dollars in thousands)	December 31, 2020				Total
	Hawaii	U.S. Mainland <sup>(1)</sup>	Guam & Saipan	Foreign & Other	
Commercial and industrial	\$ 1,755,804	\$ 1,042,318	\$ 193,829	\$ 27,556	\$ 3,019,507
Commercial real estate	2,180,829	809,493	402,142	212	3,392,676
Construction	333,112	398,218	4,489	—	735,819
Residential:					
Residential mortgage	3,568,827	1,662	119,729	—	3,690,218
Home equity line	811,964	—	29,660	—	841,624
Total residential	4,380,791	1,662	149,389	—	4,531,842
Consumer	1,001,868	18,993	331,255	1,726	1,353,842
Lease financing	80,670	149,934	14,807	—	245,411
<b>Total Loans and Leases</b>	<b>\$ 9,733,074</b>	<b>\$ 2,420,618</b>	<b>\$ 1,095,911</b>	<b>\$ 29,494</b>	<b>\$ 13,279,097</b>
<b>Percentage of Total Loans and Leases</b>	<b>73%</b>	<b>18%</b>	<b>8%</b>	<b>1%</b>	<b>100%</b>

(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, participation in the Shared National Credits Program and selective commercial real estate projects based on existing customer relationships. Our lease financing portfolio includes commercial leveraged and single investor lease financing activities both in Hawaii and on the U.S. mainland. However, no new leveraged leases are being added to the portfolio and all remaining leveraged leases are running off. Our consumer lending activities are concentrated primarily in Hawaii and, to a smaller extent, in Guam and Saipan.

Table 19 presents certain contractual loan maturity categories and the sensitivities of those loans to changes in interest rates as of June 30, 2021:

**Maturities for Selected Loan Categories<sup>(1)</sup>**
**Table 19**

(dollars in thousands)	June 30, 2021			Total
	Due in One Year or Less	Due After One to Five Years	Due After Five Years	
Commercial and industrial	\$ 883,527	\$ 1,330,547	\$ 350,473	\$ 2,564,547
Construction	290,816	428,008	135,041	853,865
<b>Total Selected Loans</b>	<b>\$ 1,174,343</b>	<b>\$ 1,758,555</b>	<b>\$ 485,514</b>	<b>\$ 3,418,412</b>
Total of loans with:				
Adjustable interest rates	\$ 748,477	\$ 999,531	\$ 395,369	\$ 2,143,377
Hybrid interest rates	92	29,233	8,982	38,307
Fixed interest rates	425,774	729,791	81,163	1,236,728
<b>Total Selected Loans</b>	<b>\$ 1,174,343</b>	<b>\$ 1,758,555</b>	<b>\$ 485,514</b>	<b>\$ 3,418,412</b>

(1) Based on contractual maturities.

### Credit Quality

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

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For purposes of managing credit risk and estimating the ACL, management has identified three portfolio segments (commercial, residential and consumer) that we use to develop our systematic methodology to determine the ACL. 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 Credit Losses” contained in our unaudited interim consolidated financial statements for more information about our approach to estimating the ACL.

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 20 presents information on our non-performing assets and accruing loans and leases past due 90 days or more as of June 30, 2021 and December 31, 2020:

<b>Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More</b>	<b>Table 20</b>	
(dollars in thousands)	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>Non-Performing Assets</b>		
Non-Accrual Loans and Leases		
Commercial Loans:		
Commercial and industrial	\$ 828	\$ 518
Commercial real estate	937	80
Construction	—	2,043
<b>Total Commercial Loans</b>	<b>1,765</b>	<b>2,641</b>
Residential Loans:		
Residential mortgage	7,140	6,441
<b>Total Residential Loans</b>	<b>7,140</b>	<b>6,441</b>
<b>Total Non-Accrual Loans and Leases</b>	<b>8,905</b>	<b>9,082</b>
Other Real Estate Owned ("OREO")	—	—
<b>Total Non-Performing Assets</b>	<b>\$ 8,905</b>	<b>\$ 9,082</b>
<b>Accruing Loans and Leases Past Due 90 Days or More</b>		
Commercial Loans:		
Commercial and industrial	\$ 494	\$ 2,108
Commercial real estate	—	882
Construction	60	93
<b>Total Commercial Loans</b>	<b>554</b>	<b>3,083</b>
Residential Loans:		
Home equity line	4,680	4,818
<b>Total Residential Loans</b>	<b>4,680</b>	<b>4,818</b>
Consumer	1,134	3,266
<b>Total Accruing Loans and Leases Past Due 90 Days or More</b>	<b>\$ 6,368</b>	<b>\$ 11,167</b>
<b>Restructured Loans on Accrual Status and Not Past Due 90 Days or More</b>	<b>\$ 36,668</b>	<b>\$ 16,684</b>
<b>Total Loans and Leases</b>	<b>\$ 13,103,785</b>	<b>\$ 13,279,097</b>
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	<b>0.07 %</b>	<b>0.07 %</b>
Ratio of Non-Performing Assets to Total Loans and Leases and OREO	<b>0.07 %</b>	<b>0.07 %</b>
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and OREO	<b>0.12 %</b>	<b>0.15 %</b>

Table 21 presents the activity in Non-Performing Assets (“NPAs”) for the six months ended June 30, 2021:

<b>Non-Performing Assets</b>	<b>Table 21</b>
(dollars in thousands)	<b>Six Months Ended June 30, 2021</b>
Balance at beginning of period	\$ 9,082
Additions	4,180
Reductions	
Payments	(1,253)
Return to accrual status	(1,146)
Transfers to loans held for sale	(1,840)
Charge-offs/write-downs	(118)
Total Reductions	(4,357)
<b>Balance at end of period</b>	<b>\$ 8,905</b>

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 held for sale classification, 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 \$8.9 million as of June 30, 2021, a decrease of \$0.2 million or 2% from December 31, 2020. The ratio of our NPAs to total loans and leases and other real estate owned was 0.12% as of June 30, 2021, a decrease of three basis points from December 31, 2020. During the six months ended June 30, 2021, construction non-accrual loans decreased by \$2.0 million, offset by increases in commercial real estate non-accrual loans of \$0.9 million, residential mortgage non-accrual loans of \$0.7 million and commercial and industrial non-accrual loans of \$0.3 million.

As of June 30, 2021, commercial real estate non-accrual loans were \$0.9 million, an increase of \$0.9 million from December 31, 2020. This increase was due to the addition of a \$0.9 million commercial real estate loan.

As of June 30, 2021, commercial and industrial non-accrual loans were \$0.8 million, an increase of \$0.3 million or 60% from December 31, 2020. This increase was primarily due to additions in commercial and industrial loans totaling \$0.5 million, partially offset by payments and charge-offs.

As of June 30, 2021, construction non-accrual loans were nil, a decrease of \$2.0 million from December 31, 2020. This decrease was primarily due to a \$1.8 million transfer to loans held for sale.

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 June 30, 2021, residential mortgage non-accrual loans were \$7.1 million, an increase of \$0.7 million or 11% from December 31, 2020. This increase was primarily due to additions of residential mortgage non-accrual loans totaling \$2.4 million, partially offset by returns to accrual status of \$1.1 million, payments of \$0.5 million, and charge-offs of \$0.1 million. As of June 30, 2021, our residential mortgage non-accrual loans were comprised of 35 loans with a weighted average current LTV ratio of 47%.

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. As of both June 30, 2021 and December 31, 2020, there were no other real estate owned.

*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 June 30, 2021, a decrease of \$4.8 million or 43% as compared to December 31, 2020. This decrease was primarily due to decreases in consumer loans of \$2.1 million, commercial and industrial loans of \$1.6 million and commercial real estate loans of \$0.9 million that were past due 90 days or more and still accruing interest.

*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.

Total impaired loans were \$45.7 million and \$25.8 million as of June 30, 2021 and December 31, 2020, respectively. These impaired loans had a related ACL of \$4.6 million and \$2.4 million as of June 30, 2021 and December 31, 2020, respectively. The increase in impaired loans during the six months ended June 30, 2021, was due to increases in consumer loans of \$15.8 million, residential mortgage loans of \$3.9 million, commercial real estate loans of \$1.0 million and commercial and industrial loans of \$0.5 million, partially offset by a decrease in construction loans of \$1.3 million. The change in the impaired loans balance includes charge-offs and paydowns. For the three and six months ended June 30, 2021, we recorded charge-offs of \$0.4 million and \$0.8 million, respectively, and \$16.4 million during both the three and six months ended June 30, 2020, related to our total impaired loans. Our impaired loans are considered in management’s assessment of the overall adequacy of the ACL.

If interest due on the balances of all non-accrual loans as of June 30, 2021 had been accrued under the original terms, approximately \$0.1 million and \$0.2 million in additional interest income would have been recorded during the three and six months ended June 30, 2021, respectively, and \$0.5 million and \$0.6 million during the three and six months ended June 30, 2020, respectively. Actual interest income recorded on these loans was \$0.1 million and \$0.2 million, for the three and six months ended June 30, 2021, respectively, compared to \$0.1 million during both the three and six months ended June 30, 2020.

*COVID-19 Financial Hardship Relief Programs*

Certain borrowers have been unable to meet their contractual payment obligations because of the adverse effects of COVID-19. To help mitigate these effects, we have been offering various relief programs to assist customers who are experiencing financial hardship due to COVID-19. For example, for certain residential mortgage and commercial loans, various relief options were available on a case-by-case basis, including payment deferrals for up to six months. For certain consumer loans, loan assistance was being offered in the form of payment deferrals for up to three months, which extended the term of the loan by the number of months deferred, and interest continued to accrue on the principal balance. The short-term modifications for payment deferrals, extensions of repayment terms, or delays in payment described above that are insignificant and made on a good faith basis in response to borrowers impacted by COVID-19 who were current prior to any relief are not required to be accounted for and disclosed as TDRs under GAAP. See “Note 4. Allowance for Credit Losses” in the notes to our unaudited interim consolidated financial statements for further discussion on short-term modifications.

Table 22 presents information on our loans and leases that received payment deferrals under our COVID-19 financial hardship relief programs as of June 30, 2021:

(dollars in thousands)	June 30, 2021	
	Number of Loans and Leases	Amortized Cost Basis
<b>Loans and Leases that Received Payment Deferrals under COVID-19 Financial Hardship Relief Programs</b>		
Commercial and industrial	840	\$ 490,863
Commercial real estate	403	1,098,810
Construction	26	50,471
Lease financing	52	10,175
Residential mortgage	1,306	522,554
Consumer	18,914	204,046
<b>Total Loans and Leases that Received Payment Deferrals under COVID-19 Financial Hardship Relief Programs</b>	<b>21,541</b>	<b>\$ 2,376,919</b>
<b>Total Loans and Leases</b>		<b>\$ 13,103,785</b>
Ratio of Loans and Leases that Received Payment Deferrals under COVID-19 Financial Hardship Relief Programs to Total Loans and Leases		<b>18.1 %</b>

In addition to the relief programs described above, we also participated in the PPP offered by the SBA. The PPP is intended to help small businesses impacted by the COVID-19 pandemic by providing “fully forgivable” loans for up to \$10 million to cover payroll expenses, including employee benefits, and can also be used for various other eligible expenses. PPP loans have a fixed interest rate of one percent per annum and a maturity date of up to five years, with the ability to prepay the loan in full without penalty. The first payment is deferred until the date the SBA remits the borrower’s loan forgiveness amount to the Bank, or if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period. Interest will continue to accrue during the initial deferment period. The borrower may apply with the Bank for loan forgiveness of the amount due on the loan in an amount equal to payroll, employee benefits, and other eligible expenses incurred, subject to limitations, in accordance with the PPP and CARES Act, as amended by the PPPF Act and CAA. Because the purpose of the PPP is to help small businesses keep their workers employed and paid, if the business spends less than 60% of loan proceeds on payroll costs, uses the loan proceeds for non-payroll costs that are not eligible expenses, or significantly reduces its employee count or compensation levels without qualifying for other exceptions, a portion of the loan will not be forgiven, and the business will be required to repay that portion of the loan to the Bank over the remaining term of the loan.

Table 23 presents information on our PPP loans outstanding as of June 30, 2021 to borrowers operating in industries we consider to be the most impacted by the COVID-19 pandemic (“high impact industries”) and all other industries:

	June 30, 2021	
	Number	Amortized
(dollars in thousands)	of Loans	Cost Basis
<b>PPP Loans Outstanding to Borrowers by Industry</b>		
High Impact Industries:		
Food service	722	\$ 163,872
Automobile dealers	43	37,881
Retail	466	49,601
Hospitality/Hotel	132	69,225
Transportation	172	36,264
Total PPP Loans Outstanding to Borrowers Operating in High Impact Industries	1,535	356,843
All other industries <sup>(1)</sup>	3,708	454,260
<b>Total PPP Loans Outstanding <sup>(2)</sup></b>	<b>5,243</b>	<b>\$ 811,103</b>
<b>Total Loans and Leases</b>		<b>\$ 13,103,785</b>
Ratio of PPP Loans Outstanding to Borrowers Operating in High Impact Industries to Total Loans and Leases		2.7 %
Ratio of PPP Loans Outstanding to Total Loans and Leases		6.2 %

(1) “All other industries” represent borrowers that received PPP loans that did not operate in the five high impact industries listed above, which is primarily comprised of the construction, health care, professional services, and administrative and support services industries.

(2) Outstanding loan balances are reported net of deferred loan costs and fees of \$1.6 million and \$23.0 million, respectively, at June 30, 2021.



### *Loans Modified in a Troubled Debt Restructuring*

Table 24 presents information on loans whose terms have been modified in a TDR as of June 30, 2021 and December 31, 2020:

<b>Loans Modified in a Troubled Debt Restructuring</b>	<b>Table 24</b>	
(dollars in thousands)	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Commercial and industrial	\$ 2,645	\$ 2,298
Commercial real estate	7,310	7,126
Construction	708	—
Total commercial	10,663	9,424
Residential mortgage	11,504	7,553
Total residential	11,504	7,553
Consumer	15,834	—
<b>Total</b>	<b>\$ 38,001</b>	<b>\$ 16,977</b>

Loans modified in a TDR were \$38.0 million as of June 30, 2021, an increase of \$21.0 million from December 31, 2020. This increase was primarily due to increases in consumer loans of \$15.8 million, residential mortgages of \$4.0 million and construction loans of \$0.7 million. As of June 30, 2021, \$36.7 million or 96% of our loans modified in a TDR were performing in accordance with their modified contractual terms and were on accrual status.

Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated performance under the modified terms by making six consecutive timely payments. See “Note 4. Allowance for Credit Losses” contained in our unaudited interim consolidated financial statements and “Analysis of Financial Condition — COVID-19 Financial Hardship Relief Programs” for more information and a description of the modification programs that we currently offer to our customers.

As noted above, we have been providing our borrowers with opportunities to defer payments, or portions thereof. In the absence of intervening factors, such short-term modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the deferral).

### ***Allowance for Credit Losses for Loans and Leases & Reserve for Unfunded Commitments***

We adopted the provisions of Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* on January 1, 2020. This guidance changed the accounting for credit losses from an “incurred loss” model, which estimates a loss allowance based on current known and inherent losses within a loan portfolio to an “expected loss” model, which estimates a loss based on losses expected to be recorded over the life of the loan portfolio.

Effective January 1, 2020, we recorded a pre-tax cumulative effect adjustment to increase the ACL by \$0.8 million and to increase the reserve for unfunded commitments by \$16.3 million. The Company’s ACL under CECL is significantly more dependent on the quantitative model and less on the qualitative assessment, compared to the previous incurred loss model. The increase in the ACL was primarily related to our indirect auto, commercial real estate and consumer loan products. This was partially offset by the decrease in the ACL related to our commercial and industrial, home equity lines and residential real estate loan products. These directional changes were predominantly due to differences between the loss emergence periods previously used under the incurred loss methodology and the remaining life of the loan as required under CECL. The large increase to our reserve for unfunded commitments was primarily due to an increase in utilization rates estimated using our CECL methodology.

Table 25 presents an analysis of our ACL for the periods indicated:

Allowance for Credit Losses	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2021	2020	2021	2020
<b>Balance at Beginning of Period</b>	\$ 200,366	\$ 166,013	\$ 208,454	\$ 130,530
<b>Adjustment to Adopt ASC Topic 326</b>	—	—	—	770
<b>After Adoption of ASC Topic 326</b>	<u>200,366</u>	<u>166,013</u>	<u>208,454</u>	<u>131,300</u>
Loans and Leases Charged-Off				
Commercial Loans:				
Commercial and industrial	(330)	(13,974)	(1,293)	(14,175)
Commercial real estate	—	(2,723)	(66)	(2,723)
Construction	—	(379)	—	(379)
<b>Total Commercial Loans</b>	<u>(330)</u>	<u>(17,076)</u>	<u>(1,359)</u>	<u>(17,277)</u>
Residential Loans:				
Residential mortgage	—	(14)	(98)	(14)
Home equity line	—	—	—	(8)
<b>Total Residential Loans</b>	<u>—</u>	<u>(14)</u>	<u>(98)</u>	<u>(22)</u>
Consumer	(3,917)	(8,907)	(10,458)	(17,504)
<b>Total Loans and Leases Charged-Off</b>	<u>(4,247)</u>	<u>(25,997)</u>	<u>(11,915)</u>	<u>(34,803)</u>
Recoveries on Loans and Leases Previously Charged-Off				
Commercial Loans:				
Commercial and industrial	287	100	502	320
Commercial real estate	12	—	15	—
Construction	—	30	166	140
<b>Total Commercial Loans</b>	<u>299</u>	<u>130</u>	<u>683</u>	<u>460</u>
Residential Loans:				
Residential mortgage	14	17	31	152
Home equity line	38	8	62	130
<b>Total Residential Loans</b>	<u>52</u>	<u>25</u>	<u>93</u>	<u>282</u>
Consumer	2,797	2,456	5,452	4,539
<b>Total Recoveries on Loans and Leases Previously Charged-Off</b>	<u>3,148</u>	<u>2,611</u>	<u>6,228</u>	<u>5,281</u>
Net Loans and Leases Charged-Off	(1,099)	(23,386)	(5,687)	(29,522)
Provision for Credit Losses - Loans and Leases	(30,119)	49,493	(33,619)	90,342
<b>Balance at End of Period</b>	<u>\$ 169,148</u>	<u>\$ 192,120</u>	<u>\$ 169,148</u>	<u>\$ 192,120</u>
Average Loans and Leases Outstanding	<u>\$ 13,205,086</u>	<u>\$ 13,956,669</u>	<u>\$ 13,223,575</u>	<u>\$ 13,574,048</u>
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding <sup>(1)</sup>	0.03 %	0.67 %	0.09 %	0.44 %
Ratio of Allowance for Credit Losses for Loans and Leases to Loans and Leases Outstanding	1.29 %	1.40 %	1.29 %	1.40 %

(1) Annualized for the three and six months ended June 30, 2021 and 2020.

Tables 26 and 27 present the allocation of the ACL by loan and lease category, in both dollars and as a percentage of total loans and leases outstanding as of June 30, 2021 and December 31, 2020:

Allocation of the Allowance for Credit Losses by Loan and Lease Category	June 30, 2021	December 31, 2020
(dollars in thousands)		
Commercial and industrial	\$ 23,063	\$ 24,711
Commercial real estate	47,033	58,123
Construction	10,152	10,039
Lease financing	3,067	3,298
<b>Total commercial</b>	<u>83,315</u>	<u>96,171</u>
Residential mortgage	34,208	40,461
Home equity line	6,250	7,163
<b>Total residential</b>	<u>40,458</u>	<u>47,624</u>
Consumer	45,375	64,659
<b>Total Allowance for Credit Losses for Loans and Leases</b>	<u>\$ 169,148</u>	<u>\$ 208,454</u>

**Allocation of the Allowance for Credit Losses by Loan and Lease Category (as a percentage of total loans and leases outstanding) Table 27**

	June 30, 2021		December 31, 2020	
	Allocated ACL as % of loan or lease category	Loan category as % of total loans and leases	Allocated ACL as % of loan or lease category	Loan category as % of total loans and leases
Commercial and industrial	0.90 %	19.57 %	0.82 %	22.74 %
Commercial real estate	1.33	26.92	1.71	25.55
Construction	1.19	6.52	1.36	5.54
Lease financing	1.26	1.86	1.34	1.85
Total commercial	1.16	54.87	1.30	55.68
Residential mortgage	0.90	29.16	1.10	27.78
Home equity line	0.76	6.30	0.85	6.34
Total residential	0.87	35.46	1.05	34.12
Consumer	3.58	9.67	4.78	10.20
<b>Total</b>	<b>1.29 %</b>	<b>100.00 %</b>	<b>1.57 %</b>	<b>100.00 %</b>

As of June 30, 2021, the ACL was \$169.1 million or 1.29% of total loans and leases outstanding, compared with an ACL of \$208.5 million or 1.57% of total loans and leases outstanding as of December 31, 2020. The level of the ACL was commensurate with the adverse impacts that COVID-19 is having on the Hawaii and global economy.

Net charge-offs of loans and leases were \$1.1 million or 0.03% of total average loans and leases, on an annualized basis, for the three months ended June 30, 2021, compared to net charge-offs of \$23.4 million or 0.67% of total average loans and leases, on an annualized basis, for the three months ended June 30, 2020. Net charge-offs in our commercial lending portfolio were nil and \$16.9 million for the three months ended June 30, 2021 and 2020, respectively. The decrease in net charge-offs in our commercial lending portfolio was primarily due to \$16.0 million in charge-offs related to several loans that were adversely impacted by the shut-down of the tourism industry in Hawaii during the three months ended June 30, 2020. Net recoveries in our residential lending portfolio were \$0.1 million and nil for the three months ended June 30, 2021 and 2020, respectively. Net charge-offs in our consumer lending portfolio were \$1.1 million and \$6.5 million for the three months ended June 30, 2021 and 2020, 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.

Net charge-offs of loans and leases were \$5.7 million or 0.09% of total average loans and leases on an annualized basis, for the six months ended June 30, 2021, compared to \$29.5 million or 0.44% of total average loans and leases, on an annualized basis, for the six months ended June 30, 2020. Net charge-offs in our commercial lending portfolio were \$0.7 million and \$16.8 million for the six months ended June 30, 2021 and 2020, respectively. The decrease in net charge-offs in our commercial lending portfolio was primarily due to \$16.0 million in charge-offs related to several loans that were adversely impacted by the shut-down of the tourism industry in Hawaii during the six months ended June 30, 2020. Net recoveries in our residential lending portfolio were nil and \$0.3 million for the six months ended June 30, 2021 and 2020, respectively. Net charge-offs in our consumer lending portfolio were \$5.0 million and \$13.0 million for the six months ended June 30, 2021 and 2020, respectively. Net charge-offs in our consumer portfolio segment include those related to credit card, automobile loans, installment loans and small business lines of credit and reflect the inherent risk associated with these loans.

The decrease in the ACL was primarily due to lower expected credit losses as the economic outlook and credit quality improved during the second quarter of 2021. However, we continued to retain a COVID-19 related overlay as a component of the ACL as Hawaii's economy continues to be significantly impacted by COVID-19. As noted earlier, a significant number of our customers (primarily individuals and small businesses) have taken advantage of payment deferral programs in assisting them while they may be temporarily unemployed or while their businesses have closed. We continue to closely monitor the impact of COVID-19 on our tourism industry and the re-opening of the Hawaii economy under new guidelines. While we have begun to see and may continue to see a gradual improvement in unemployment as local businesses and the Hawaii tourism industry continues to reopen in 2021 and the COVID-19 vaccine becomes more widely administered, the timing and extent of the return of air travel and the recovery of the Hawaii tourism industry is highly uncertain and beyond our control.

As of June 30, 2021, while the allocation of our ACL to our commercial, residential and consumer portfolio segments was lower as compared to December 31, 2020, the ACL was considered adequate based on our ongoing analysis of estimated expected credit losses, credit risk profiles, current economic outlook, coverage ratios and other relevant factors. We will continue to monitor factors that drive expected credit losses including COVID-19 and the impact on the Hawaii economy, local businesses and our customers. See "Note 4. Allowance for Credit Losses" contained in our unaudited interim consolidated financial statements for more information on the ACL.

### **Goodwill**

Goodwill was \$995.5 million as of both June 30, 2021 and December 31, 2020. Our goodwill originated from the acquisition of the Company by BNP Paribas in December of 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.

The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of a reporting unit exceeds its fair value. There was no impairment in our goodwill for the three and six months ended June 30, 2021. Future events, including the ongoing impacts of the COVID-19 pandemic, 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.

### **Other Assets**

Other assets were \$592.1 million as of June 30, 2021, a decrease of \$11.3 million or 2% from December 31, 2020. This decrease was primarily due to a \$47.2 million decrease in interest rate swap agreements, partially offset by a \$13.1 million increase in municipal advances, a \$12.9 million increase in current tax receivables and deferred tax assets, and a \$9.4 million increase in prepaid 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 28 presents the composition of our deposits as of June 30, 2021 and December 31, 2020:

<b>Deposits</b>	<b>Table 28</b>	
(dollars in thousands)	June 30, 2021	December 31, 2020
Demand	<b>\$ 8,589,922</b>	\$ 7,522,114
Savings	<b>6,421,053</b>	6,020,075
Money Market	<b>3,920,477</b>	3,337,236
Time	<b>1,903,663</b>	2,348,298
<b>Total Deposits<sup>(1)</sup></b>	<b>\$ 20,835,115</b>	<b>\$ 19,227,723</b>

(1) Public deposits were \$1.3 billion as of June 30, 2021, a decrease of \$336.3 million or 20% compared to December 31, 2020.

Total deposits were \$20.8 billion as of June 30, 2021, an increase of \$1.6 billion or 8% from December 31, 2020. The increase in deposit balances stemmed primarily from a \$1.1 billion increase in non-public demand deposit balances, a \$583.2 million increase in non-public money market deposit balances and a \$462.8 million increase in non-public savings deposit balances, partially offset by a \$444.6 million decrease in time deposit balances. We increased our liquidity position in anticipation of a surge in funding needs, primarily due to our participation in the PPP.

### **Long-term Borrowings**

Long-term borrowings were \$200.0 million as of both June 30, 2021 and December 31, 2020. The Company's long-term borrowings included \$200.0 million in FHLB fixed-rate advances with a weighted average interest rate of 2.73% and maturity dates ranging from 2023 to 2024. Long-term borrowings mature in excess of one year from the unaudited interim consolidated balance sheet date.

As of June 30, 2021 and December 31, 2020, the available remaining borrowing capacity with the FHLB was \$1.8 billion and \$2.0 billion, respectively. The FHLB fixed-rate advances and remaining borrowing capacity were secured by residential real estate loan collateral as of June 30, 2021 and December 31, 2020.

### ***Pension and Postretirement Plan Obligations***

We have a noncontributory qualified defined benefit pension plan, an unfunded supplemental executive retirement plan (“SERP”), 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 are 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 \$128.1 million as of June 30, 2021, an increase of \$1.0 million or 1% from December 31, 2020. This increase was primarily due to net periodic benefit costs for the six months ended June 30, 2021 of \$5.2 million, offset by payments of \$4.2 million.

See “Note 15. Noninterest Income and Noninterest Expense” 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 June 30, 2021 and December 31, 2020, there were no aggregate cross-border outstandings in other countries which amounted to 0.75% to 1% of our total consolidated assets. Additionally, there were no cross-border outstandings in excess of 1% of our total consolidated assets as of both June 30, 2021 and December 31, 2020.

### **Capital**

The bank regulators currently use a combination of risk-based ratios and a leverage ratio to evaluate capital adequacy. The Company and the Bank are subject to the federal bank regulators’ final rules implementing Basel III and various provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Capital Rules”).

The Capital Rules, among other things impose a capital measure called CET1, to which most deductions/adjustments to regulatory capital must be made. In addition, the Capital Rules specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain specified requirements.

Under the Capital Rules, the minimum capital ratios are 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.

The Capital Rules also require a 2.5% capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk weighted asset ratios, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets.

As of June 30, 2021, 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 29 below. There have been no conditions or events since June 30, 2021 that management believes have changed either the Company’s or the Bank’s capital classifications. CET1 was 12.76% as of June 30, 2021, an increase of 29 basis points from December 31, 2020. The increase in CET1 was primarily due to earnings for the six months ended June 30, 2021, including the \$35.0 million negative Provision, partially offset by the dividends declared and paid to the Company’s stockholders.

**Regulatory Capital**
**Table 29**

(dollars in thousands)	June 30, 2021	December 31, 2020
Stockholders' Equity	\$ 2,731,341	\$ 2,744,104
Less:		
Goodwill	995,492	995,492
Accumulated other comprehensive (loss) income, net	(29,702)	31,604
Common Equity Tier 1 Capital and Tier 1 Capital	\$ 1,765,551	\$ 1,717,008
Add:		
Qualifying allowance for credit losses and reserve for unfunded commitments	173,278	172,950
Total Capital	\$ 1,938,829	\$ 1,889,958
Risk-Weighted Assets	\$ 13,837,108	\$ 13,769,885

**Key Regulatory Capital Ratios**

Common Equity Tier 1 Capital Ratio	12.76 %	12.47 %
Tier 1 Capital Ratio	12.76 %	12.47 %
Total Capital Ratio	14.01 %	13.73 %
Tier 1 Leverage Ratio	7.68 %	8.00 %

Total stockholders' equity was \$2.7 billion as of June 30, 2021, a decrease of \$12.8 million from December 31, 2020. The decrease in stockholders' equity was primarily due to dividends declared and paid to the Company's stockholders of \$67.4 million, a net unrealized loss in the fair value of our investment securities net of tax of \$61.3 million and share repurchases of \$31.9 million, partially offset by earnings for the period of \$144.4 million during the six months ended June 30, 2021.

In February 2021, the Company announced a stock repurchase program for up to \$75.0 million of its outstanding common stock during 2021. As of June 30, 2021, \$43.1 million remained of the \$75 million total repurchase amount authorized under the stock repurchase program for 2021. The timing and amount of stock repurchases are influenced by various internal and external factors.

In July 2021, 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 September 3, 2021 to shareholders of record at the close of business on August 23, 2021.

**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 on 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 June 30, 2021 and December 31, 2020, the unpaid principal balance of our portfolio of residential mortgage loans sold was \$1.9 billion and \$2.2 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 six months ended June 30, 2021, there were two residential mortgage loan repurchases totaling \$0.6 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 six months ended June 30, 2021, we had no repurchase requests related to loan servicing activities, nor were there any pending repurchase requests as of June 30, 2021.

Although to-date repurchase requests related to representation and warranty provisions and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of June 30, 2021, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of June 30, 2021, 97% 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, 2020.

#### **Future Application of Accounting Pronouncements**

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of June 30, 2021, 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 ACL: commercial, residential 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 lending 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 \$368,000. 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 in 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 lock 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 June 30, 2021 and December 31, 2020, 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 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 and (5) varying loan prepayment speeds for different interest rate scenarios. 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 30 presents, for the twelve months subsequent to June 30, 2021 and December 31, 2020, an estimate of the changes in net interest income that would result from ramps (gradual changes) and shocks (immediate changes) in market interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base case scenario. Shock scenarios assume an immediate and sustained parallel shift in interest rates across the entire yield curve, relative to the 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 June 30, 2021 and December 31, 2020 are held constant.

**Net Interest Income Sensitivity Profile - Estimated Percentage Change Over 12 Months** **Table 30**

	Static Forecast	Static Forecast
	June 30, 2021	December 31, 2020
<b>Ramp Change in Interest Rates (basis points)</b>		
+100	<b>6.9 %</b>	6.4 %
+50	<b>3.5</b>	3.2
(50)	<b>(1.6)</b>	(1.7)
(100)	<b>(2.4)</b>	(2.5)
<b>Immediate Change in Interest Rates (basis points)</b>		
+100	<b>13.4 %</b>	12.4 %
+50	<b>6.8</b>	6.3
(50)	<b>(3.1)</b>	(3.0)
(100)	<b>(5.0)</b>	(4.4)

The table above shows the effects of a simulation which estimates the effect of a gradual and immediate sustained parallel shift in the yield curve of -100, -50, +50 and +100 basis points in market interest rates over a twelve-month period on our net interest income.

Currently, our interest rate profile is such that we project net interest income will benefit from higher interest rates as our assets would reprice faster and to a greater degree than our liabilities, while in the case of lower interest rates, our assets would reprice downward and to a greater degree than our liabilities.

Under the static balance sheet forecast as of June 30, 2021 our net interest income sensitivity profile is slightly higher in higher interest rate scenarios compared to similar forecasts as of December 31, 2020. The sensitivity outcomes described above are primarily due to the impact of holding a larger federal funds position as of June 30, 2021 as compared with December 31, 2020. A larger federal funds position has the effect of magnifying the impact of higher interest rate scenarios.

The comparisons above provide insight into the potential effects of changes in interest rates on net interest income. The Company believes that its approach to interest rate risk has appropriately considered its susceptibility to both rising and falling rates and has adopted strategies which minimize the impact of such risks.

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.

### ***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 high levels of liquidity, 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.

In addition, our business relies upon a large volume of loans, derivative contracts and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR to establish their interest rate and/or value. In 2017, the U.K. Financial Conduct Authority announced that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. The administrator of LIBOR has stated it will extend publication of the most commonly used U.S. Dollar LIBOR settings to June 30, 2023 and to cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies issued guidance strongly encouraging banking organizations to cease using U.S. dollar LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021. It is not possible to know whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may have on the financial markets for LIBOR-linked financial instruments. The full impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known; however, the primary instruments that may be impacted include loans, securities and derivatives indexed to LIBOR that mature after December 31, 2021. We have established a working group, consisting of key stakeholders from throughout the Company, to monitor developments relating to LIBOR uncertainty and changes and to guide the Bank’s response. This team is currently working to ensure that our technology systems are prepared for the transition, our loan documents that reference LIBOR-based rates have been appropriately amended to reference other methods of interest rate determinations and internal and external stakeholders are apprised of the transition.

***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 June 30, 2021. 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 June 30, 2021

#### *Changes in Internal Control over Financial Reporting*

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2021 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.

### **ITEM 1A. RISK FACTORS**

Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 25, 2021 contain a discussion of our risk factors. Except to the extent that additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such 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, 2020.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides certain information with respect to our purchases of shares of the Company's common stock during the three months ended June 30, 2021:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased<sup>1</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>2</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>2</sup></b>
April 1, 2021 through April 30, 2021	294,423	\$ 27.45	294,423	\$ 57,374,434
May 1, 2021 through May 31, 2021	223,390	28.05	206,000	51,581,319
June 1, 2021 through June 30, 2021	299,424	28.42	299,424	43,071,663
<b>Total</b>	<b>817,237</b>	<b>\$ 27.97</b>	<b>799,847</b>	

(1) Includes 17,390 shares acquired from employees to satisfy income tax withholding requirements in connection with vested share awards during the three months ended June 30, 2021.

(2) In February 2021, the Company announced a stock repurchase program for up to \$75 million of its outstanding common stock during 2021. As of June 30, 2021, \$43.1 million remained of the \$75 million total repurchase amount authorized under the stock repurchase program for 2021. The timing and amount of stock repurchases are influenced by various internal and external factors.

## ITEM 6. EXHIBITS

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

### Exhibit Index

#### **Exhibit Number**

10.1	<a href="#">First Hawaiian, Inc. Amended &amp; Restated 2016 Non-Employee Director Plan (incorporated by reference to Annex B of the Registrant's Definitive Proxy Statement on Schedule 14A filed by First Hawaiian, Inc. on March 12, 2021 (File No. 001-14585))</a>
31.1	<a href="#">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</a>
31.2	<a href="#">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</a>
32.1	<a href="#">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</a>
32.2	<a href="#">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</a>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)

### 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: August 2, 2021

First Hawaiian, Inc.

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

By: /s/ Ravi Mallela  
Ravi Mallela  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)



**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: August 2, 2021

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

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**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: August 2, 2021

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

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**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 June 30, 2021 (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: August 2, 2021

/s/ Robert S. Harrison  
\_\_\_\_\_  
Robert S. Harrison  
Chairman of the Board, President 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.

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**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 June 30, 2021 (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: August 2, 2021

/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.

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