BANK OF HAWAII CORP
Form 10-Q
April 23, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period
ended March 31, 2018
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number: 1-6887

BANK OF HAWAII CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	99-0148992
(State of incorporation)	(I.R.S. Employer Identification No.)
130 Merchant Street, Honolulu, Hawaii	96813
(Address of principal executive offices)	(Zip Code)

1-888-643-3888
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of April 17, 2018, there were 42,267,067 shares of common stock outstanding.

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

	Three Months Ended March 31,	
(dollars in thousands, except per share amounts)	2018	2017
Interest Income		
Interest and Fees on Loans and Leases	$97,634	$ 87,937
Income on Investment Securities		
Available-for-Sale	12,141	11,084
Held-to-Maturity	21,296	19,706
Deposits	18	5
Funds Sold	757	890
Other	300	230
Total Interest Income	132,146	119,852
Interest Expense		
Deposits	7,581	3,691
Securities Sold Under Agreements to Repurchase	4,564	5,185
Funds Purchased	53	3
Short-Term Borrowings	16	—
Other Debt	976	1,101
Total Interest Expense	13,190	9,980
Net Interest Income	118,956	109,872
Provision for Credit Losses	4,125	4,400
Net Interest Income After Provision for Credit Losses	114,831	105,472
Noninterest Income		
Trust and Asset Management	11,181	11,479
Mortgage Banking	2,145	3,300
Service Charges on Deposit Accounts	7,129	8,325
Fees, Exchange, and Other Service Charges	14,333	13,332
Investment Securities Gains (Losses), Net	(666)	12,133
Annuity and Insurance	1,206	1,995
Bank-Owned Life Insurance	1,842	1,497
Other	6,865	3,855
Total Noninterest Income	44,035	55,916
Noninterest Expense		
Salaries and Benefits	54,422	51,165
Net Occupancy	8,534	8,168
Net Equipment	5,527	5,501
Data Processing	3,891	3,410
Professional Fees	2,773	2,779
FDIC Insurance	2,157	2,209
Other	17,080	15,336
Total Noninterest Expense	94,384	88,568
Income Before Provision for Income Taxes	64,482	72,820
Provision for Income Taxes	10,442	21,644
Net Income	$54,040	$ 51,176
Basic Earnings Per Share	$1.29	$ 1.21
Diluted Earnings Per Share	$1.28	$ 1.20
Dividends Declared Per Share	$0.52	$ 0.50

Basic Weighted Average Shares	42,038,573	42,406,006
Diluted Weighted Average Shares	42,358,425	42,749,866

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

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Net Income	$54,040	$51,176
Other Comprehensive Income (Loss), Net of Tax:		
Net Unrealized Gains (Losses) on Investment Securities	(9,121)	4,894
Defined Benefit Plans	216	146
Total Other Comprehensive Income (Loss)	(8,905)	5,040
Comprehensive Income	$45,135	$56,216

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

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

(dollars in thousands)	March 31, 2018	December 31, 2017
Assets		
Interest-Bearing Deposits in Other Banks	$2,589	$3,421
Funds Sold	387,766	181,413
Investment Securities		
Available-for-Sale	2,184,187	2,232,979
Held-to-Maturity (Fair Value of $3,711,149 and $3,894,121)	3,789,092	3,928,170
Loans Held for Sale	23,548	19,231
Loans and Leases	9,916,628	9,796,947
Allowance for Loan and Lease Losses	(107,938)	(107,346)
Net Loans and Leases	9,808,690	9,689,601
Total Earning Assets	16,195,872	16,054,815
Cash and Due From Banks	174,871	263,017
Premises and Equipment, Net	137,201	130,926
Accrued Interest Receivable	52,941	50,485
Foreclosed Real Estate	2,768	1,040
Mortgage Servicing Rights	24,493	24,622
Goodwill	31,517	31,517
Bank-Owned Life Insurance	280,537	280,034
Other Assets	235,830	252,596
Total Assets	$17,136,030	$17,089,052
Liabilities		
Deposits		
Noninterest-Bearing Demand	$4,759,777	$4,724,300
Interest-Bearing Demand	3,028,373	3,082,563
Savings	5,397,291	5,389,013
Time	1,771,692	1,688,092
Total Deposits	14,957,133	14,883,968
Securities Sold Under Agreements to Repurchase	505,293	505,293
Other Debt	235,699	260,716
Retirement Benefits Payable	37,046	37,312
Accrued Interest Payable	8,229	6,946
Taxes Payable and Deferred Taxes	29,557	24,009
Other Liabilities	121,880	138,940
Total Liabilities	15,894,837	15,857,184
Shareholders’ Equity		
Common Stock ($.01 par value; authorized 500,000,000 shares; issued / outstanding: March 31, 2018 - 58,051,646 / 42,314,414 and December 31, 2017 - 57,959,074 / 42,401,443)	577	576
Capital Surplus	563,598	561,161
Accumulated Other Comprehensive Loss	(51,097)	(34,715)
Retained Earnings	1,551,900	1,512,218
Treasury Stock, at Cost (Shares: March 31, 2018 - 15,737,232 and December 31, 2017 - 15,557,631)	(823,785)	(807,372)
Total Shareholders’ Equity	1,241,193	1,231,868

Total Liabilities and Shareholders' Equity	$17,136,030	$17,089,052

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

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Bank of Hawaii Corporation and Subsidiaries
Consolidated Statements of Shareholders’ Equity (Unaudited)

(dollars in thousands)	Common Shares Outstanding	Common Stock	Capital Surplus	Accum. Other Compre-hensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance as of December 31, 2017	42,401,443	$ 576	$561,161	$(34,715)	$1,512,218	$(807,372)	$1,231,868
Net Income	—	—	—	—	54,040	—	54,040
Other Comprehensive Loss	—	—	—	(8,905)	—	—	(8,905)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI	—	—	—	(7,477)	7,477	—	—
Share-Based Compensation	—	—	1,867	—	—	—	1,867
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	121,299	1	570	—	252	1,128	1,951
Common Stock Repurchased	(208,328)	—	—	—	—	(17,541)	(17,541)
Cash Dividends Declared ($0.52 per share)	—	—	—	—	(22,087)	—	(22,087)
Balance as of March 31, 2018	42,314,414	$ 577	$563,598	$(51,097)	$1,551,900	$(823,785)	$1,241,193
Balance as of December 31, 2016	42,635,978	$ 576	$551,628	$(33,906)	$1,415,440	$(772,201)	$1,161,537
Net Income	—	—	—	—	51,176	—	51,176
Other Comprehensive Income	—	—	—	5,040	—	—	5,040
Share-Based Compensation	—	—	1,735	—	—	—	1,735
Common Stock Issued under Purchase and Equity Compensation Plans and Related Tax Benefits	235,803	—	535	—	(702)	6,744	6,577
Common Stock Repurchased	(135,749)	—	—	—	—	(11,509)	(11,509)
Cash Dividends Declared ($0.50 per share)	—	—	—	—	(21,419)	—	(21,419)
Balance as of March 31, 2017	42,736,032	$ 576	$553,898	$(28,866)	$1,444,495	$(776,966)	$1,193,137

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

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

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Operating Activities		
Net Income	$54,040	$51,176
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	4,125	4,400
Depreciation and Amortization	3,339	3,280
Amortization of Deferred Loan and Lease Fees	(151)	(427)
Amortization and Accretion of Premiums/Discounts on Investment Securities, Net	8,966	10,130
Share-Based Compensation	1,867	1,735
Benefit Plan Contributions	(375)	(334)
Deferred Income Taxes	(138)	9,161
Net Gains on Sales of Loans and Leases	(573)	(2,168)
Net Losses (Gains) on Sales of Investment Securities	666	(12,133)
Proceeds from Sales of Loans Held for Sale	66,003	68,884
Originations of Loans Held for Sale	(70,290)	(73,983)
Net Tax Benefits from Share-Based Compensation	767	1,900
Net Change in Other Assets and Other Liabilities	6,632	(19,942)
Net Cash Provided by Operating Activities	74,878	41,679
Investing Activities		
Investment Securities Available-for-Sale:		
Proceeds from Sales, Prepayments and Maturities	89,399	94,028
Purchases	(59,160)	(234,979)
Investment Securities Held-to-Maturity:		
Proceeds from Prepayments and Maturities	195,199	161,465
Purchases	(59,598)	(181,048)
Net Change in Loans and Leases	(124,225)	(198,531)
Proceeds from Sales of Loans	—	79,169
Premises and Equipment, Net	(9,614)	(4,640)
Net Cash Provided by (Used in) Investing Activities	32,001	(284,536)
Financing Activities		
Net Change in Deposits	73,165	156,293
Net Change in Short-Term Borrowings	—	(23,086)
Repayments of Long-Term Debt	(25,000)	—
Proceeds from Issuance of Common Stock	1,959	6,494
Repurchase of Common Stock	(17,541)	(11,509)
Cash Dividends Paid	(22,087)	(21,419)
Net Cash Provided by Financing Activities	10,496	106,773
Net Change in Cash and Cash Equivalents	117,375	(136,084)
Cash and Cash Equivalents at Beginning of Period	447,851	879,607
Cash and Cash Equivalents at End of Period	$565,226	$743,523
Supplemental Information		
Cash Paid for Interest	$11,908	$8,905

Cash Paid for Income Taxes	961	1,822
Non-Cash Investing Activities:		
Transfer from Loans to Foreclosed Real Estate	1,728	843
Transfers from Loans to Loans Held for Sale	—	30,477

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

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Bank of Hawaii Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Bank of Hawaii Corporation (the "Parent") is a Delaware corporation and a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its subsidiaries (collectively, the "Company") provide a broad range of financial products and services to customers in Hawaii, Guam, and other Pacific Islands. The accompanying consolidated financial statements include the accounts of the Parent and its subsidiaries. The Parent's principal operating subsidiary is Bank of Hawaii (the "Bank").

The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature. Intercompany accounts and transactions have been eliminated in consolidation. Certain prior period information has been reclassified to conform to the current period presentation. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the full fiscal year or for any future period.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Variable Interest Entities

Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value. The primary beneficiary consolidates the variable interest entity ("VIE"). The primary beneficiary is defined as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

The Company has limited partnership interests in several low-income housing partnerships. These partnerships provide funds for the construction and operation of apartment complexes that provide affordable housing to lower-income households. If these developments successfully attract a specified percentage of residents falling in that lower-income range, state and/or federal income tax credits are made available to the partners. The tax credits are generally recognized over 10 years. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained.

Prior to January 1, 2015, the Company utilized the effective yield method whereby the Company recognized tax credits generally over 10 years and amortized the initial cost of the investment to provide a constant effective yield over the period that tax credits are allocated to the Company. On January 1, 2015, the Company adopted ASU No. 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects" prospectively for new investments. ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. As permitted by ASU No. 2014-01, the Company elected to continue to utilize the effective yield method for investments made prior to January 1, 2015.

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Unfunded commitments to fund these low-income housing partnerships were $15.0 million and $17.5 million as of March 31, 2018 and December 31, 2017, respectively. These unfunded commitments are unconditional and legally binding and are recorded in other liabilities in the consolidated statements of condition. See Note 6 Affordable Housing Projects Tax Credit Partnerships for more information.

The Company also has limited partnership interests in solar energy tax credit partnership investments. These partnerships develop, build, own and operate solar renewable energy projects. Over the course of these investments, the Company expects to receive federal and state tax credits, tax-related benefits, and excess cash available for distribution, if any. The Company may be called to sell its interest in the limited partnerships through a call option once all investment tax credits have been recognized. Tax benefits associated with these investments are generally recognized over six years.
These entities meet the definition of a VIE; however, the Company is not the primary beneficiary of the entities as the general partner has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership agreements allow the limited partners, through a majority vote, to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause.

The investments in these entities are initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. The balance of the Company's investments in these entities was $86.3 million and $87.6 million as of March 31, 2018 and December 31, 2017, respectively, and is included in other assets in the consolidated statements of condition.

Tax Cuts and Jobs Act

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

Accounting Standards Adopted in 2018

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify

specific implementation issues including ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU No. 2016-10, “Identifying Performance Obligations and Licensing,” ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients,” and ASU No. 2016-20 “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Based on this assessment, the

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

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with (5) above, the Company measured the fair value of its loan portfolio as of March 31, 2018 using an exit price notion (see Note 14 Fair Value of Assets and Liabilities).

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Entities are required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. The Company adopted ASU No. 2016-15 on January 1, 2018. ASU No. 2016-15 did not have a material impact on the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers are required to present the service cost component of the net periodic benefit cost in the same income statement line item (e.g., Salaries and Benefits) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components of net periodic benefit cost separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. ASU No. 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Employers will apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively. The guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. The Company adopted ASU No. 2017-07 on January 1, 2018 and utilized the ASU's practical expedient allowing entities to estimate amounts for comparative periods using the information previously disclosed in their pension and other postretirement benefit plan footnote. ASU No. 2017-07 did not have a material impact on the Company's Consolidated Financial Statements.

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

Accounting Standards Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, "Leases." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore, not recognized on the Company's consolidated statements of condition. The Company expects the new guidance will require these lease agreements to be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated statements of condition, along with our regulatory capital ratios. However, the Company continues to evaluate the extent of potential impact the new guidance will have on the Company's Consolidated Financial Statements. The Company is nearing completion of identifying a complete inventory of arrangements containing a lease and accumulating the lease data necessary to apply the amended guidance. In addition, the Company has obtained new software to aid in the transition to the new leasing guidance.

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In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the credit losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is continuing its implementation efforts through its Company-wide implementation team. This team has assigned roles and responsibilities, key tasks to complete, and a general timeline to be followed. The implementation team meets periodically to discuss the latest developments and ensure progress is being made. The team also keeps current on evolving interpretations and industry practices related to ASU 2016-13 via webcasts, publications, conferences, and peer bank meetings. The team continues to evaluate and validate data resources and different loss methodologies. The Company has also engaged an outside consultant to assist with the methodology review and validation, as well as other key aspects of implementing the standard. The Company's preliminary evaluation indicates the provisions of ASU No. 2016-13 are expected to impact the Company's Consolidated Financial Statements, in particular the level of the reserve for credit losses. However, the Company continues to evaluate the extent of the potential impact.

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

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Note 2. Cash and Cash Equivalents

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

(dollars in thousands)	March 31, 2018	December 31, 2017
Interest-Bearing Deposits in Other Banks	$2,589	$3,421
Funds Sold	387,766	181,413
Cash and Due From Banks	174,871	263,017
Total Cash and Cash Equivalents	$565,226	$447,851

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Note 3. Investment Securities

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$438,951	$ 1,363	$(1,904)	$438,410
Debt Securities Issued by States and Political Subdivisions	606,507	7,119	(1,622)	612,004
Debt Securities Issued by Corporations	252,997	69	(2,000)	251,066
Mortgage-Backed Securities:				
Residential - Government Agencies	220,935	2,710	(1,104)	222,541
Residential - U.S. Government-Sponsored Enterprises	610,668	485	(17,058)	594,095
Commercial - Government Agencies	70,351	—	(4,280)	66,071
Total Mortgage-Backed Securities	901,954	3,195	(22,442)	882,707
Total	$2,200,409	$ 11,746	$(27,968)	$2,184,187
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$394,703	$ —	$(1,906)	$392,797
Debt Securities Issued by States and Political Subdivisions	237,539	7,511	—	245,050
Debt Securities Issued by Corporations	115,590	—	(2,405)	113,185
Mortgage-Backed Securities:				
Residential - Government Agencies	2,115,460	6,437	(60,248)	2,061,649
Residential - U.S. Government-Sponsored Enterprises	733,427	321	(22,295)	711,453
Commercial - Government Agencies	192,373	123	(5,481)	187,015
Total Mortgage-Backed Securities	3,041,260	6,881	(88,024)	2,960,117
Total	$3,789,092	$ 14,392	$(92,335)	$3,711,149
December 31, 2017				
Available-for-Sale:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$424,912	$ 2,053	$(1,035)	$425,930
Debt Securities Issued by States and Political Subdivisions	618,167	9,894	(1,042)	627,019
Debt Securities Issued by Corporations	268,003	199	(2,091)	266,111
Mortgage-Backed Securities:				
Residential - Government Agencies	233,268	3,129	(1,037)	235,360
Residential - U.S. Government-Sponsored Enterprises	619,795	420	(10,403)	609,812
Commercial - Government Agencies	71,999	—	(3,252)	68,747
Total Mortgage-Backed Securities	925,062	3,549	(14,692)	913,919
Total	$2,236,144	$ 15,695	$(18,860)	$2,232,979
Held-to-Maturity:				
Debt Securities Issued by the U.S. Treasury and Government Agencies	$375,074	$ 18	$(1,451)	$373,641
Debt Securities Issued by States and Political Subdivisions	238,504	9,125	—	247,629
Debt Securities Issued by Corporations	119,635	123	(1,591)	118,167
Mortgage-Backed Securities:				
Residential - Government Agencies	2,229,985	9,975	(37,047)	2,202,913
Residential - U.S. Government-Sponsored Enterprises	763,312	911	(11,255)	752,968
Commercial - Government Agencies	201,660	797	(3,654)	198,803

Total Mortgage-Backed Securities	3,194,957	11,683	(51,956)	3,154,684
Total	$3,928,170	$ 20,949	$(54,998)	$3,894,121

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The table below presents an analysis of the contractual maturities of the Company's investment securities as of March 31, 2018. Debt securities issued by government agencies (Small Business Administration securities) and mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-Sale:		
Due in One Year or Less	$82,510	$82,492
Due After One Year Through Five Years	610,230	609,665
Due After Five Years Through Ten Years	144,294	147,503
Due After Ten Years	23,020	23,945
	860,054	863,605
Debt Securities Issued by Government Agencies	438,401	437,875
Mortgage-Backed Securities:		
Residential - Government Agencies	220,935	222,541
Residential - U.S. Government-Sponsored Enterprises	610,668	594,095
Commercial - Government Agencies	70,351	66,071
Total Mortgage-Backed Securities	901,954	882,707
Total	$2,200,409	$2,184,187
Held-to-Maturity:		
Due in One Year or Less	$284,876	$284,063
Due After One Year Through Five Years	200,331	200,997
Due After Five Years Through Ten Years	235,187	237,411
Due After Ten Years	27,438	28,561
	747,832	751,032
Mortgage-Backed Securities:		
Residential - Government Agencies	2,115,460	2,061,649
Residential - U.S. Government-Sponsored Enterprises	733,427	711,453
Commercial - Government Agencies	192,373	187,015
Total Mortgage-Backed Securities	3,041,260	2,960,117
Total	$3,789,092	$3,711,149

Investment securities with carrying values of $2.5 billion and $2.4 billion as of March 31, 2018 and December 31, 2017, respectively, were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

The table below presents the gains and losses from the sales of investment securities for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Gross Gains on Sales of Investment Securities	$—	$12,467
Gross Losses on Sales of Investment Securities	(666)	(334)
Net Gains (Losses) on Sales of Investment Securities	$(666)	$12,133

The losses during the three months ended March 31, 2018 and 2017 were due to fees paid to the counterparties of our prior Visa Class B share sale transactions which are expensed as incurred.

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The Company's gross unrealized losses and the related fair value of investment securities, aggregated by investment category and length of time in a continuous unrealized loss position, were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2018						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$198,606	$(1,124)	$122,552	$(780)	$321,158	$(1,904)
Debt Securities Issued by States and Political Subdivisions	211,831	(1,613)	679	(9)	212,510	(1,622)
Debt Securities Issued by Corporations	39,958	(42)	186,038	(1,958)	225,996	(2,000)
Mortgage-Backed Securities:						
Residential - Government Agencies	4,782	(38)	19,530	(1,066)	24,312	(1,104)
Residential - U.S. Government-Sponsored Enterprises	400,447	(10,337)	150,143	(6,721)	550,590	(17,058)
Commercial - Government Agencies	—	—	66,071	(4,280)	66,071	(4,280)
Total Mortgage-Backed Securities	405,229	(10,375)	235,744	(12,067)	640,973	(22,442)
Total	$855,624	$(13,154)	$545,013	$(14,814)	$1,400,637	$(27,968)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$273,603	$(807)	$119,195	$(1,099)	$392,798	$(1,906)
Debt Securities Issued by Corporations	56,855	(517)	56,330	(1,888)	113,185	(2,405)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,101,266	(27,870)	666,461	(32,378)	1,767,727	(60,248)
Residential - U.S. Government-Sponsored Enterprises	383,734	(9,124)	320,791	(13,171)	704,525	(22,295)
Commercial - Government Agencies	75,948	(677)	79,496	(4,804)	155,444	(5,481)
Total Mortgage-Backed Securities	1,560,948	(37,671)	1,066,748	(50,353)	2,627,696	(88,024)
Total	$1,891,406	$(38,995)	$1,242,273	$(53,340)	$3,133,679	$(92,335)
December 31, 2017						
Available-for-Sale:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$103,842	$(599)	$132,071	$(436)	$235,913	$(1,035)
Debt Securities Issued by States and Political Subdivisions	172,343	(1,032)	734	(10)	173,077	(1,042)
Debt Securities Issued by Corporations	12,985	(15)	192,927	(2,076)	205,912	(2,091)
Mortgage-Backed Securities:						
Residential - Government Agencies	11,035	(4)	10,618	(1,033)	21,653	(1,037)
Residential - U.S. Government-Sponsored Enterprises	429,342	(5,720)	150,887	(4,683)	580,229	(10,403)
Commercial - Government Agencies	—	—	68,747	(3,252)	68,747	(3,252)
Total Mortgage-Backed Securities	440,377	(5,724)	230,252	(8,968)	670,629	(14,692)
Total	$729,547	$(7,370)	$555,984	$(11,490)	$1,285,531	$(18,860)
Held-to-Maturity:						
Debt Securities Issued by the U.S. Treasury and Government Agencies	$254,283	$(532)	$89,391	$(919)	$343,674	$(1,451)

Debt Securities Issued by Corporations	25,490	(110)	58,869	(1,481)	84,359	(1,591)
Mortgage-Backed Securities:						
Residential - Government Agencies	1,030,472	(12,262)	704,545	(24,785)	1,735,017	(37,047)
Residential - U.S. Government-Sponsored Enterprises	293,530	(3,106)	339,232	(8,149)	632,762	(11,255)
Commercial - Government Agencies	497	(5)	82,288	(3,649)	82,785	(3,654)
Total Mortgage-Backed Securities	1,324,499	(15,373)	1,126,065	(36,583)	2,450,564	(51,956)
Total	$1,604,272	$(16,015)	$1,274,325	$(38,983)	$2,878,597	$(54,998)

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The Company does not believe that the investment securities that were in an unrealized loss position as of March 31, 2018, which were comprised of 469 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As of March 31, 2018 and December 31, 2017, the gross unrealized losses reported for mortgage-backed securities were mostly related to investment securities issued by the Government National Mortgage Association. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

Interest income from taxable and non-taxable investment securities for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Taxable	$28,671	$25,767
Non-Taxable	4,766	5,023
Total Interest Income from Investment Securities	$33,437	$30,790

As of March 31, 2018, included in the Company's investment securities portfolio were debt securities issued by political subdivisions within the State of Hawaii of $488.4 million, representing 57% of the total fair value of the Company's municipal debt securities. Of the entire Hawaii municipal bond portfolio, 94% were credit-rated Aa2 or better by Moody's while the remaining Hawaii municipal bonds were credit-rated A1 or better by at least one nationally recognized statistical rating organization. Of the Company's total Hawaii municipal bond holdings, 79% were general obligation issuances. As of March 31, 2018, there were no other holdings of municipal debt securities that were issued by a single state or political subdivision which comprised more than 10% of the total fair value of the Company's municipal debt securities.

As of March 31, 2018 and December 31, 2017, the carrying value of the Company's Federal Home Loan Bank of Des Moines stock and Federal Reserve Bank stock was as follows:

(dollars in thousands)	March 31, 2018	December 31, 2017
Federal Home Loan Bank Stock	$ 19,000	$ 20,000
Federal Reserve Bank Stock	20,745	20,645
Total	$ 39,745	$ 40,645

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

Visa Class B Restricted Shares

In 2008, the Company received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the settlement of certain litigation which is indemnified by Visa members, including the Company. Visa funded an escrow account from its initial public offering to settle these litigation claims.

Should this escrow account be insufficient to cover these litigation claims, Visa is entitled to fund additional amounts to the escrow account by reducing each member bank's Class B conversion ratio to unrestricted Class A shares. As of March 31, 2018, the conversion ratio was 1.6483.

The Company occasionally sells these Visa Class B shares to other financial institutions. Concurrent with every sale the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa further reduces the conversion ratio. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 86,614 Class B shares (142,766 Class A equivalents) that the Company owns as of March 31, 2018 are carried at a zero cost basis.

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Note 4. Loans and Leases and the Allowance for Loan and Lease Losses

Loans and Leases

The Company's loan and lease portfolio was comprised of the following as of March 31, 2018 and December 31, 2017:

(dollars in thousands)	March 31, 2018	December 31, 2017
Commercial		
Commercial and Industrial	$1,329,096	$ 1,279,347
Commercial Mortgage	2,097,339	2,103,967
Construction	186,530	202,253
Lease Financing	179,771	180,931
Total Commercial	3,792,736	3,766,498
Consumer		
Residential Mortgage	3,505,239	3,466,773
Home Equity	1,601,698	1,585,455
Automobile	558,468	528,474
Other [1]	458,487	449,747
Total Consumer	6,123,892	6,030,449
Total Loans and Leases	$9,916,628	$ 9,796,947

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

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

Net gains related to sales of residential mortgage loans, recorded as a component of mortgage banking income were $0.3 million and $1.3 million for the three months ended March 31, 2018 and 2017, respectively.

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Allowance for Loan and Lease Losses (the "Allowance")

The following presents by portfolio segment, the activity in the Allowance for the three months ended March 31, 2018 and 2017. The following also presents by portfolio segment, the balance in the Allowance disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans and leases as of March 31, 2018 and 2017.

(dollars in thousands)	Commercial	Consumer	Total
Three Months Ended March 31, 2018			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$65,822	$41,524	$107,346
Loans and Leases Charged-Off	(206)	(5,782)	(5,988)
Recoveries on Loans and Leases Previously Charged-Off	328	2,127	2,455
Net Loans and Leases Recovered (Charged-Off)	122	(3,655)	(3,533)
Provision for Credit Losses	(1,834)	5,959	4,125
Balance at End of Period	$64,110	$43,828	$107,938
As of March 31, 2018			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$59	$3,783	$3,842
Collectively Evaluated for Impairment	64,051	40,045	104,096
Total	$64,110	$43,828	$107,938
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$21,095	$40,727	$61,822
Collectively Evaluated for Impairment	3,771,641	6,083,165	9,854,806
Total	$3,792,736	$6,123,892	$9,916,628
Three Months Ended March 31, 2017			
Allowance for Loan and Lease Losses:			
Balance at Beginning of Period	$65,680	$38,593	$104,273
Loans and Leases Charged-Off	(174)	(5,530)	(5,704)
Recoveries on Loans and Leases Previously Charged-Off	336	1,759	2,095
Net Loans and Leases Recovered (Charged-Off)	162	(3,771)	(3,609)
Provision for Credit Losses	1,051	3,349	4,400
Balance at End of Period	$66,893	$38,171	$105,064
As of March 31, 2017			
Allowance for Loan and Lease Losses:			
Individually Evaluated for Impairment	$38	$3,912	$3,950
Collectively Evaluated for Impairment	66,855	34,259	101,114
Total	$66,893	$38,171	$105,064
Recorded Investment in Loans and Leases:			
Individually Evaluated for Impairment	$20,902	$39,429	$60,331
Collectively Evaluated for Impairment	3,609,593	5,443,885	9,053,478
Total	$3,630,495	$5,483,314	$9,113,809

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Credit Quality Indicators

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company uses an internal credit risk rating system that categorizes loans and leases into pass, special mention, or classified categories. Credit risk ratings are applied individually to those classes of loans and leases that have significant or unique credit characteristics that benefit from a case-by-case evaluation. These are typically loans and leases to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans and leases that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk-rated and monitored collectively. These are typically loans and leases to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Company's credit quality indicators:

Pass:	Loans and leases in all classes within the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered pass.
Special Mention:	Loans and leases that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease. Management believes that there is a moderate likelihood of some loss related to those loans and leases that are considered special mention.
Classified:	Loans and leases in the classes within the commercial portfolio segment that are inadequately protected by the sound worth and paying capacity of the borrower or of the collateral pledged, if any. Classified loans and leases are also those in the classes within the consumer portfolio segment that are past due 90 days or more as to principal or interest. Residential mortgage loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection and the current loan-to-value ratio is 60% or less. Home equity loans that are past due 90 days or more as to principal or interest may be considered pass if the Company is in the process of collection, the first mortgage is with the Company, and the current combined loan-to-value ratio is 60% or less. Residential mortgage and home equity loans may be current as to principal and interest, but may be considered classified for a period of generally up to six months following a loan modification. Following a period of demonstrated performance in accordance with the modified contractual terms, the loan may be removed from classified status. Management believes that there is a distinct possibility that the Company will sustain some loss if the deficiencies related to classified loans and leases are not corrected in a timely manner.

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The Company's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of March 31, 2018 and December 31, 2017.

	March 31, 2018				
(dollars in thousands)	Commercial and Industrial	Commercial Mortgage	Construction	Lease Financing	Total Commercial
Pass	$1,289,103	$2,041,154	$ 183,240	$179,401	$3,692,898
Special Mention	22,506	36,431	—	10	58,947
Classified	17,487	19,754	3,290	360	40,891
Total	$1,329,096	$2,097,339	$ 186,530	$179,771	$3,792,736
(dollars in thousands)	Residential Mortgage	Home Equity	Automobile	Other [1]	Total Consumer
Pass	$3,498,291	$1,597,383	$ 558,135	$457,702	$6,111,511
Classified	6,948	4,315	333	785	12,381
Total	$3,505,239	$1,601,698	$ 558,468	$458,487	$6,123,892
Total Recorded Investment in Loans and Leases					$9,916,628

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

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

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Aging Analysis

The following presents by class, an aging analysis of the Company’s loan and lease portfolio as of March 31, 2018 and December 31, 2017.

(dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Past Due 90 Days or More	Non-Accrual	Total Past Due and Non-Accrual	Current	Total Loans and Leases	Non-Accrual Loans and Leases that are Current [2]
As of March 31, 2018								
Commercial								
Commercial and Industrial	$1,611	$301	$—	$ 986	$ 2,898	$1,326,198	$1,329,096	$ 735
Commercial Mortgage	423	—	—	1,367	1,790	2,095,549	2,097,339	801
Construction	—	—	—	—	—	186,530	186,530	—
Lease Financing	—	—	—	—	—	179,771	179,771	—
Total Commercial	2,034	301	—	2,353	4,688	3,788,048	3,792,736	1,536
Consumer								
Residential Mortgage	4,325	2,677	2,927	6,725	16,654	3,488,585	3,505,239	790
Home Equity	2,768	1,255	3,013	3,890	10,926	1,590,772	1,601,698	1,036
Automobile	9,172	1,577	333	—	11,082	547,386	558,468	—
Other [1]	2,896	1,587	1,895	—	6,378	452,109	458,487	—
Total Consumer	19,161	7,096	8,168	10,615	45,040	6,078,852	6,123,892	1,826
Total	$21,195	$7,397	$8,168	$ 12,968	$ 49,728	$9,866,900	$9,916,628	$ 3,362
As of December 31, 2017								
Commercial								
Commercial and Industrial	$4,196	$641	$—	$ 448	$ 5,285	$1,274,062	$1,279,347	$ 313
Commercial Mortgage	187	404	—	1,398	1,989	2,101,978	2,103,967	465
Construction	—	—	—	—	—	202,253	202,253	—
Lease Financing	—	—	—	—	—	180,931	180,931	—
Total Commercial	4,383	1,045	—	1,846	7,274	3,759,224	3,766,498	778
Consumer								
Residential Mortgage	7,815	2,008	2,703	9,243	21,769	3,445,004	3,466,773	806
Home Equity	2,532	2,736	1,624	3,991	10,883	1,574,572	1,585,455	1,312
Automobile	11,728	2,232	886	—	14,846	513,628	528,474	—
Other [1]	3,007	1,639	1,934	—	6,580	443,167	449,747	—
Total Consumer	25,082	8,615	7,147	13,234	54,078	5,976,371	6,030,449	2,118
Total	$29,465	$9,660	$7,147	$ 15,080	$ 61,352	$9,735,595	$9,796,947	$ 2,896

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

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

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Impaired Loans

The following presents by class, information related to impaired loans as of March 31, 2018 and December 31, 2017.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
March 31, 2018			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 8,982	$ 12,596	$ —
Commercial Mortgage	9,498	12,998	—
Construction	1,399	1,399	—
Total Commercial	19,879	26,993	—
Total Impaired Loans with No Related Allowance Recorded	$ 19,879	$ 26,993	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 968	$ 1,659	$ 34
Commercial Mortgage	248	248	25
Total Commercial	1,216	1,907	59
Consumer			
Residential Mortgage	20,399	25,142	3,080
Home Equity	1,953	1,953	276
Automobile	15,627	15,627	337
Other [1]	2,748	2,748	90
Total Consumer	40,727	45,470	3,783
Total Impaired Loans with an Allowance Recorded	$ 41,943	$ 47,377	$ 3,842
Impaired Loans:			
Commercial	$ 21,095	$ 28,900	$ 59
Consumer	40,727	45,470	3,783
Total Impaired Loans	$ 61,822	$ 74,370	$ 3,842
December 31, 2017			
Impaired Loans with No Related Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 8,094	$ 15,747	$ —
Commercial Mortgage	8,696	12,196	—
Construction	1,415	1,415	—
Total Commercial	18,205	29,358	—
Total Impaired Loans with No Related Allowance Recorded	$ 18,205	$ 29,358	$ —
Impaired Loans with an Allowance Recorded:			
Commercial			
Commercial and Industrial	$ 811	$ 811	$ 21
Commercial Mortgage	1,200	1,200	120
Total Commercial	2,011	2,011	141

Consumer			
Residential Mortgage	21,581	26,324	3,118
Home Equity	1,965	1,965	276
Automobile	14,811	14,811	305
Other [1]	2,645	2,645	76
Total Consumer	41,002	45,745	3,775
Total Impaired Loans with an Allowance Recorded	$ 43,013	$ 47,756	$ 3,916
Impaired Loans:			
Commercial	$ 20,216	$ 31,369	$ 141
Consumer	41,002	45,745	3,775
Total Impaired Loans	$ 61,218	$ 77,114	$ 3,916

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

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2018 and 2017.

(dollars in thousands)	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired Loans with No Related Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 8,538	$ 113	$ 9,387	$ 81
Commercial Mortgage	9,097	87	9,269	85
Construction	1,407	23	1,501	24
Total Commercial	19,042	223	20,157	190
Total Impaired Loans with No Related Allowance Recorded	$ 19,042	$ 223	$ 20,157	$ 190
Impaired Loans with an Allowance Recorded:				
Commercial				
Commercial and Industrial	$ 890	$ 10	$ 727	$ 11
Commercial Mortgage	724	3	354	4
Total Commercial	1,614	13	1,081	15
Consumer				
Residential Mortgage	20,990	212	24,987	212
Home Equity	1,959	25	1,512	17
Automobile	15,219	261	10,288	169
Other [1]	2,697	52	2,491	53
Total Consumer	40,865	550	39,278	451
Total Impaired Loans with an Allowance Recorded	$ 42,479	$ 563	$ 40,359	$ 466
Impaired Loans:				
Commercial	$ 20,656	$ 236	$ 21,238	$ 205
Consumer	40,865	550	39,278	451
Total Impaired Loans	$ 61,521	$ 786	$ 60,516	$ 656

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

For the three months ended March 31, 2018 and 2017, the amounts of interest income recognized by the Company within the periods that the loans were impaired were primarily related to loans modified in a troubled debt restructuring that remained on accrual status. For the three months ended March 31, 2018 and 2017, the amount of interest income recognized using a cash-basis method of accounting during the periods that the loans were impaired was not material.

Modifications

A modification of a loan constitutes a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans modified in a TDR were $60.2 million and $60.1 million as of March 31, 2018 and December 31, 2017, respectively. There were $1.3 million and $1.5 million commitments to lend additional funds on loans modified in a TDR as of March 31, 2018 and December 31, 2017, respectively.

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The Company offers various types of concessions when modifying a loan or lease. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a co-borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR generally include a lower interest rate and the loan being fully amortized for up to 40 years from the modification effective date. In some cases, the Company may forbear a portion of the unpaid principal balance with a balloon payment due upon maturity or pay-off of the loan. Land loans are also included in the class of residential mortgage loans. Land loans are typically structured as interest-only monthly payments with a balloon payment due at maturity. Land loan modifications usually involve extending the interest-only monthly payments up to an additional five years with a balloon payment due at maturity, or re-amortizing the remaining balance over a period up to 360 months. Interest rates are not changed for land loan modifications. Home equity modifications are made infrequently and uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Company has lowered monthly payments by extending the term.

Loans modified in a TDR are typically already on non-accrual status and partial charge-offs have in some cases already been taken against the outstanding loan balance. As a result, loans modified in a TDR may have the financial effect of increasing the specific Allowance associated with the loan. An Allowance for impaired commercial and consumer loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

The following presents by class, information related to loans modified in a TDR during the three months ended March 31, 2018 and 2017.

Troubled Debt Restructurings (dollars in thousands)	Loans Modified as a TDR for the Three Months Ended March 31, 2018			Loans Modified as a TDR for the Three Months Ended March 31, 2017		
	Number of Contracts	Recorded Investment (as of period end)[1]	Increase in Allowance (as of period end)	Number of Contracts	Recorded Investment (as of period end)[1]	Increase in Allowance (as of period end)
Commercial						
Commercial and Industrial	1	$ 503	$ —	5	$ 3,858	$ 1
Commercial Mortgage	—	—	—	1	404	—
Total Commercial	1	503	—	6	4,262	1
Consumer						
Residential Mortgage	1	112	—	1	98	—
Automobile	98	2,179	47	113	2,303	52
Other [2]	80	547	14	90	643	18
Total Consumer	179	2,838	61	204	3,044	70
Total	180	$ 3,341	$ 61	210	$ 7,306	$ 71

[1] The period end balances reflect all paydowns and charge-offs since the modification date. TDRs fully paid-off, charged-off, or foreclosed upon by period end are not included.

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

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The following presents by class, all loans modified in a TDR that defaulted during the three months ended March 31, 2018 and 2017, and within twelve months of their modification date. A TDR is considered to be in default once it becomes 60 days or more past due following a modification.

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
TDRs that Defaulted During the Period, Within Twelve Months of their Modification Date (dollars in thousands)	Number of Contracts	Recorded Investment (as of period end)[1]	Number of Contracts	Recorded Investment (as of period end)[1]
Commercial				
Commercial and Industrial	1	$ 29	2	$ 148
Commercial Mortgage	1	341	1	404
Total Commercial	2	370	3	552
Consumer				
Home Equity	1	236	—	—
Automobile	25	435	11	224
Other [2]	32	215	27	199
Total Consumer	58	886	38	423
Total	60	$ 1,256	41	$ 975

[1] The period end balances reflect all paydowns and charge-offs since the modification date. TDRs fully paid-off, charged-off, or foreclosed upon by period end are not included.

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

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

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled $3.9 million as of March 31, 2018.

Note 5. Mortgage Servicing Rights

The Company's portfolio of residential mortgage loans serviced for third parties was $2.9 billion as of March 31, 2018 and December 31, 2017. Substantially all of these loans were originated by the Company and sold to third parties on a non-recourse basis with servicing rights retained. These retained servicing rights are recorded as a servicing asset and are initially recorded at fair value (see Note 14 Fair Value of Assets and Liabilities for more information). Changes to the balance of mortgage servicing rights are recorded in mortgage banking income in the Company's consolidated statements of income.

The Company's mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was $1.8 million and $1.7 million for the three months ended March 31, 2018 and 2017, respectively. Servicing income is recorded in mortgage banking income in the Company's consolidated statements of income. The Company's residential mortgage investor loan servicing portfolio is primarily comprised of fixed rate loans concentrated in Hawaii.

For the three months ended March 31, 2018 and 2017, the change in the carrying value of the Company’s mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Balance at Beginning of Period	$1,454	$1,655
Change in Fair Value:		
Due to Payoffs	(50)	(69)
Total Changes in Fair Value of Mortgage Servicing Rights	(50)	(69)
Balance at End of Period	$1,404	$1,586

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For the three months ended March 31, 2018 and 2017, the change in the carrying value of the Company's mortgage servicing rights accounted for under the amortization method was as follows:

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Balance at Beginning of Period	$23,168	$22,008
Servicing Rights that Resulted From Asset Transfers	621	1,315
Amortization	(700)	(618)
Balance at End of Period	$23,089	$22,705
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method		
Beginning of Period	$26,716	$25,148
End of Period	$28,600	$25,946

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

	March 31, 2018	December 31, 2017
Weighted-Average Constant Prepayment Rate [1]	7.07 %	8.50 %
Weighted-Average Life (in years)	7.78	7.09
Weighted-Average Note Rate	4.04 %	4.04 %
Weighted-Average Discount Rate [2]	9.77 %	8.87 %

[1] Represents annualized loan prepayment rate assumption.

[2] Derived from multiple interest rate scenarios that incorporate a spread to a market yield curve and market volatilities.

A sensitivity analysis of the Company's fair value of mortgage servicing rights to changes in certain key assumptions as of March 31, 2018 and December 31, 2017 is presented in the following table.

(dollars in thousands)	March 31, 2018	December 31, 2017
Constant Prepayment Rate		
Decrease in fair value from 25 basis points ("bps") adverse change	$ (360)	$ (332)
Decrease in fair value from 50 bps adverse change	(717)	(657)
Discount Rate		
Decrease in fair value from 25 bps adverse change	(314)	(289)
Decrease in fair value from 50 bps adverse change	(621)	(572)

This analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's mortgage servicing rights usually is not linear. Also, the effect of changing one key assumption without changing other assumptions is not realistic.

Note 6. Affordable Housing Projects Tax Credit Partnerships

The Company makes equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of affordable housing product offerings, and to assist in achieving goals associated with the Community Reinvestment Act. The primary

activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity.

The Company is a limited partner in each LIHTC limited partnership. Each limited partnership is managed by an unrelated third party general partner who exercises significant control over the affairs of the limited partnership. The general partner has all the rights, powers and authority granted or permitted to be granted to a general partner of a limited partnership. Duties entrusted to the general partner of each limited partnership include, but are not limited to: investment in operating companies, company expenditures, investment of excess funds, borrowing funds, employment of agents, disposition of fund property, prepayment and refinancing of liabilities, votes and consents, contract authority, disbursement of funds, accounting methods,

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tax elections, bank accounts, insurance, litigation, cash reserve, and use of working capital reserve funds. Except for limited rights granted to the limited partner(s) relating to the approval of certain transactions, the limited partner(s) may not participate in the operation, management, or control of the limited partnership's business, transact any business in the limited partnership's name or have any power to sign documents for or otherwise bind the limited partnership. In addition, the general partner may only be removed by the limited partner(s) in the event the general partner fails to comply with the terms of the agreement or is negligent in performing its duties.

The general partner of each limited partnership has both the power to direct the activities which most significantly affect the performance of each partnership and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. Therefore, the Company has determined that it is not the primary beneficiary of any LIHTC partnership. The Company uses the effective yield method to account for its pre-2015 investments in these entities. Beginning January 1, 2015, any new investments that meet the requirements of the proportional amortization method are recognized using the proportional amortization method. The Company's net affordable housing tax credit investments and related unfunded commitments were $71.3 million and $71.7 million as of March 31, 2018 and December 31, 2017, respectively, and are included in other assets in the consolidated statements of condition.

Unfunded Commitments

As of March 31, 2018, the expected payments for unfunded affordable housing commitments were as follows:

(dollars in thousands)	Amount
2018	$11,147
2019	2,893
2020	51
2021	27
2022	33
Thereafter	802
Total Unfunded Commitments	$14,953

The following table presents tax credits and other tax benefits recognized and amortization expense related to affordable housing for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
(dollars in thousands)	2018	2017
Effective Yield Method		
Tax credits and other tax benefits recognized	$3,432	$3,430
Amortization Expense in Provision for Income Taxes	2,078	2,161
Proportional Amortization Method		
Tax credits and other tax benefits recognized	$410	$320
Amortization Expense in Provision for Income Taxes	333	253

There were no impairment losses related to LIHTC investments during the three months ended March 31, 2018 and 2017. During the first quarter 2018 the Company recorded a $2.0 million adjustment to increase its LIHTC investments. This adjustment resulted in a decrease to provision for income tax.

Note 7. Balance Sheet Offsetting

Interest Rate Swap Agreements ("Swap Agreements")

The Company enters into swap agreements to facilitate the risk management strategies of a small number of commercial banking customers. The Company mitigates the risk of entering into these agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. The swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities). The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Collateral, usually in the form of cash or

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marketable securities, is posted by the party (i.e., the Company or the financial institution counterparty) with net liability positions in accordance with contract thresholds. The Company had net liability positions with its financial institution counterparties totaling $0.7 million and $3.2 million as of March 31, 2018 and December 31, 2017, respectively. See Note 12 Derivative Financial Instruments for more information.

Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. Effective 2017, these payments, commonly referred to as variation margin, are recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures. This rule change effectively results in any centrally cleared derivative having a fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table at the end of this section. See Note 12 Derivative Financial Instruments for more information.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as sales and subsequent repurchases of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated statements of condition, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. As a result, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default (e.g., fail to make an interest payment to the counterparty). For private institution repurchase agreements, if the private institution counterparty were to default (e.g., declare bankruptcy), the Company could cancel the repurchase agreement (i.e., cease payment of principal and interest) and attempt collection on the amount of collateral value in excess of the repurchase agreement fair value. The collateral is held by a third party financial institution in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities. For government entity repurchase agreements, the collateral is held by the Company in a segregated custodial account under a tri-party agreement. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization in the event of counterparty default.

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The following table presents the remaining contractual maturities of the Company's repurchase agreements as of March 31, 2018 and December 31, 2017, disaggregated by the class of collateral pledged.

(dollars in thousands)	Remaining Contractual Maturity of Repurchase Agreements				
	Up to 90 days	91-365 days	1-3 Years	After 3 Years	Total
March 31, 2018					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$—	$—	$118,227	$193,803	$312,030
Debt Securities Issued by States and Political Subdivisions	1,803	2,690	—	—	4,493
Mortgage-Backed Securities:					
Residential - Government Agencies	—	800	55,046	44,868	100,714
Residential - U.S. Government-Sponsored Enterprises	—	—	51,727	36,329	88,056
Total	$1,803	$3,490	$225,000	$275,000	$505,293
December 31, 2017					
Class of Collateral Pledged:					
Debt Securities Issued by the U.S. Treasury and Government Agencies	$—	$—	$110,392	$202,484	$312,876
Debt Securities Issued by States and Political Subdivisions	1,200	2,590	—	—	3,790
Mortgage-Backed Securities:					
Residential - Government Agencies	1,503	—	18,793	80,960	101,256
Residential - U.S. Government-Sponsored Enterprises	—	—	20,815	66,556	87,371
Total	$2,703	$2,590	$150,000	$350,000	$505,293

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The following table presents the assets and liabilities subject to an enforceable master netting arrangement, or repurchase agreements, as of March 31, 2018 and December 31, 2017. The swap agreements we have with our commercial banking customers are not subject to an enforceable master netting arrangement, and therefore, are excluded from this table. As previously mentioned, centrally cleared swap agreements between the Company and institutional counterparties are also excluded from this table.

	(i)	(ii)	(iii) = (i)-(ii)	(iv)		(v) = (iii)-(iv)
				Gross Amounts Not Offset in the Statements of Condition		
(dollars in thousands)	Gross Amounts Recognized in the Statements of Condition	Gross Amounts Offset in the Statements of Condition	Net Amounts Presented in the Statements of Condition	Netting Adjustments per Master Netting Arrangements	Fair Value of Collateral Pledged [1]	Net Amount
March 31, 2018						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 10,440	$ —	$ 10,440	$ 1,898	$ 770	$ 7,772
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	1,898	—	1,898	1,898	—	—
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	5,293	—	5,293	—	5,293	—
	$ 505,293	$ —	$ 505,293	$ —	$ 505,293	$ —
December 31, 2017						
Assets:						
Interest Rate Swap Agreements:						
Institutional Counterparties	$ 5,453	$ —	$ 5,453	$ 4,017	$ —	$ 1,436
Liabilities:						
Interest Rate Swap Agreements:						
Institutional Counterparties	4,017	—	4,017	4,017	—	—
Repurchase Agreements:						
Private Institutions	500,000	—	500,000	—	500,000	—
Government Entities	5,293	—	5,293	—	5,293	—
	$ 505,293	$ —	$ 505,293	$ —	$ 505,293	$ —

[1] The application of collateral cannot reduce the net amount below zero. Therefore, excess collateral is not reflected in this table. For swap agreements with institutional counterparties, the fair value of investment securities pledged to the institutional counterparties was $0.4 million and $3.5 million as of March 31, 2018 and December 31, 2017, respectively. For repurchase agreements with private institutions, the fair value of investment securities pledged was $546.9 million and $563.3 million as of March 31, 2018 and December 31, 2017, respectively. For repurchase

agreements with government entities, the fair value of investment securities pledged was $6.9 million as of March 31, 2018 and December 31, 2017.

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Note 8. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the three months ended March 31, 2018 and 2017:

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended March 31, 2018			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ (13,057)	$ (3,452)	$ (9,605)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	659	175	484
Net Unrealized Gains (Losses) on Investment Securities	(12,398)	(3,277)	(9,121)
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	436	116	320
Amortization of Prior Service Credit	(142)	(38)	(104)
Defined Benefit Plans, Net	294	78	216
Other Comprehensive Income (Loss)	$ (12,104)	$ (3,199)	$ (8,905)
Three Months Ended March 31, 2017			
Net Unrealized Gains (Losses) on Investment Securities:			
Net Unrealized Gains (Losses) Arising During the Period	$ 7,580	$ 2,991	$ 4,589
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) that (Increase) Decrease Net Income:			
Amortization of Unrealized Holding (Gains) Losses on Held-to-Maturity Securities [1]	504	199	305
Net Unrealized Gains (Losses) on Investment Securities	8,084	3,190	4,894
Defined Benefit Plans:			
Amortization of Net Actuarial Losses (Gains)	323	128	195
Amortization of Prior Service Credit	(81)	(32)	(49)
Defined Benefit Plans, Net	242	96	146
Other Comprehensive Income (Loss)	$ 8,326	$ 3,286	$ 5,040

[1] The amount relates to the amortization/accretion of unrealized net gains and losses related to the Company's reclassification of available-for-sale investment securities to the held-to-maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2018 and 2017:

(dollars in thousands)	Investment Securities-Available-for-Sale	Investment Securities-Held-to-Maturity	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Three Months Ended March 31, 2018				
Balance at Beginning of Period	$ (1,915)	$ (5,085)	$ (27,715)	$ (34,715)
Other Comprehensive Income (Loss) Before Reclassifications	(9,605)	—	—	(9,605)
	—	484	216	700

Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)				
Total Other Comprehensive Income (Loss)	(9,605)	484	216	(8,905)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI	(412)	(1,096)	(5,969)	(7,477)
Balance at End of Period	$ (11,932)	$ (5,697)	$ (33,468)	$ (51,097)
Three Months Ended March 31, 2017				
Balance at Beginning of Period	$ 1,270	$ (6,284)	$ (28,892)	$ (33,906)
Other Comprehensive Income (Loss) Before Reclassifications	4,589	—	—	4,589
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	305	146	451
Total Other Comprehensive Income (Loss)	4,589	305	146	5,040
Balance at End of Period	$ 5,859	$ (5,979)	$ (28,746)	$ (28,866)

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2018 and 2017:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1] Three Months Ended March 31,		Affected Line Item in the Statement Where Net Income Is Presented
(dollars in thousands)	2018	2017	
Amortization of Unrealized Holding Gains (Losses) on Investment Securities Held-to-Maturity	$ (659)	$ (504)	Interest Income
	175	199	Provision for Income Tax
	(484)	(305)	Net of Tax
Amortization of Defined Benefit Plan Items			
Prior Service Credit [2]	142	81	
Net Actuarial Losses [2]	(436)	(323)	
	(294)	(242)	Total Before Tax
	78	96	Provision for Income Tax
	(216)	(146)	Net of Tax
Total Reclassifications for the Period	$ (700)	$ (451)	Net of Tax

[1] Amounts in parentheses indicate reductions to net income.

[2] These accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit cost and are included in Other Noninterest Expense on the consolidated statements of income (see Note 11 Pension Plans and Postretirement Benefit Plan for additional details).

Note 9. Earnings Per Share

There were no adjustments to net income, the numerator, for purposes of computing earnings per share. The following is a reconciliation of the weighted average number of common shares outstanding for computing diluted earnings per share and antidilutive stock options and restricted stock outstanding for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Denominator for Basic Earnings Per Share	42,038,573	42,406,006
Dilutive Effect of Equity Based Awards	319,852	343,860
Denominator for Diluted Earnings Per Share	42,358,425	42,749,866
Antidilutive Stock Options and Restricted Stock Outstanding	137	—

Note 10. Business Segments

The Company's business segments are defined as Retail Banking, Commercial Banking, Investment Services and Private Banking, and Treasury and Other. The Company's internal management accounting process measures the performance of these business segments. This process, which is not necessarily comparable with the process used by

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

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

other business segments have some latitude to retain certain interest rate exposures related to customer pricing decisions within guidelines.

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

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

The provision for income taxes is allocated to business segments using a 26% effective income tax rate. However, the provision for income taxes for our Leasing business unit (included in the Commercial Banking segment) and Auto Leasing portfolio and Pacific Century Life Insurance business unit (both included in the Retail Banking segment) are assigned their actual effective income tax rates due to the unique relationship that income taxes have with their products. The residual income tax expense or benefit to arrive at the consolidated effective income tax rate is included in Treasury and Other.

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products include residential mortgage loans, home equity lines of credit, automobile loans and leases, personal lines of credit, installment loans, small business loans and leases, and credit cards. Deposit products include checking, savings, and time deposit accounts. Retail Banking also offers some types of consumer insurance products. Products and services from Retail Banking are delivered to customers through 69 branch locations and 377 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center, and a mobile banking service.

Commercial Banking

Commercial Banking offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing, and deposit products. Commercial lending and deposit products are offered to middle-market and large companies in Hawaii and the Pacific Islands. In addition, Commercial Banking offers deposit products to government entities in Hawaii. Commercial real estate mortgages focus on customers that include investors, developers, and builders predominantly domiciled in Hawaii. Commercial Banking also includes international banking and provides merchant services to its customers.

Investment Services and Private Banking

Investment Services and Private Banking includes private banking and international client banking services, trust services, investment management, and institutional investment advisory services. A significant portion of this segment's income is derived from fees, which are generally based on the market values of assets under management. The private banking and personal trust groups assist individuals and families in building and preserving their wealth by providing investment, credit, and trust services to high-net-worth individuals. The investment management group manages portfolios utilizing a variety of investment products. Institutional client services offer investment advice to corporations, government entities, and foundations. This segment also provides a full service brokerage offering equities, mutual funds, life insurance, and annuity products.

Treasury and Other

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

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

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Selected business segment financial information as of and for the three months ended March 31, 2018 and 2017 were as follows:

(dollars in thousands)	Retail Banking	Commercial Banking	Investment Services and Private Banking	Treasury and Other	Consolidated Total
Three Months Ended March 31, 2018					
Net Interest Income	$64,397	$42,898	$9,887	$1,774	$118,956
Provision for Credit Losses	3,743	(151)	(60)	593	4,125
Net Interest Income After Provision for Credit Losses	60,654	43,049	9,947	1,181	114,831
Noninterest Income	19,253	5,642	13,670	5,470	44,035
Noninterest Expense	(54,599)	(20,332)	(16,207)	(3,246)	(94,384)
Income Before Provision for Income Taxes	25,308	28,359	7,410	3,405	64,482
Provision for Income Taxes	(6,291)	(6,824)	(1,954)	4,627	(10,442)
Net Income	$19,017	$21,535	$5,456	$8,032	$54,040
Total Assets as of March 31, 2018	$6,041,271	$3,771,678	$332,454	$6,990,627	$17,136,030
Three Months Ended March 31, 2017					
Net Interest Income	$65,158	$41,931	$6,650	$(3,867)	$109,872