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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

or

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

For the transition period from ______ to _______

Commission File Number 001-14585

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

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

Large Accelerated Filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 127,698,700 shares of Common Stock, par value $0.01 per share, were outstanding as of July 29, 2022.

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ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share amounts)	**2022**	**2021**	**2022**	**2021**
Interest income				
Loans and lease financing	**$ 111,916**	$ 110,919	**$ 215,648**	$ 221,858
Available-for-sale investment securities	**16,643**	24,637	**48,750**	47,783
Held-to-maturity investment securities	**18,289**	—	**18,289**	—
Other	**2,896**	666	**3,678**	1,157
Total interest income	**149,744**	136,222	**286,365**	270,798
Interest expense				
Deposits	**4,597**	3,363	**7,346**	7,419
Short-term and long-term borrowings	**—**	1,378	**—**	2,740
Total interest expense	**4,597**	4,741	**7,346**	10,159
Net interest income	**145,147**	131,481	**279,019**	260,639
Provision for credit losses	**1,000**	(35,000)	**(4,747)**	(35,000)
Net interest income after provision for credit losses	**144,147**	166,481	**283,766**	295,639
Noninterest income				
Service charges on deposit accounts	**6,843**	6,632	**14,344**	13,350
Credit and debit card fees	**17,056**	16,746	**31,906**	31,297
Other service charges and fees	**9,018**	10,303	**18,672**	19,149
Trust and investment services income	**8,759**	8,707	**17,642**	17,199
Bank-owned life insurance	**(859)**	3,104	**(1,276)**	5,493
Investment securities gains, net	**—**	102	**—**	102
Other	**3,320**	3,777	**4,229**	6,649
Total noninterest income	**44,137**	49,371	**85,517**	93,239
Noninterest expense				
Salaries and employee benefits	**49,902**	45,982	**98,128**	89,918
Contracted services and professional fees	**18,617**	16,516	**35,764**	33,704
Occupancy	**7,334**	7,314	**14,744**	14,484
Equipment	**7,754**	6,362	**13,731**	11,853
Regulatory assessment and fees	**2,301**	1,826	**4,525**	3,860
Advertising and marketing	**1,994**	1,469	**4,022**	3,060
Card rewards program	**7,285**	6,262	**14,168**	11,097
Other	**13,988**	13,657	**28,135**	27,718
Total noninterest expense	**109,175**	99,388	**213,217**	195,694
Income before provision for income taxes	**79,109**	116,464	**156,066**	193,184
Provision for income taxes	**19,749**	29,723	**38,987**	48,750
Net income	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434
Basic earnings per share	**$ 0.46**	$ 0.67	**$ 0.92**	$ 1.11
Diluted earnings per share	**$ 0.46**	$ 0.67	**$ 0.91**	$ 1.11
Basic weighted-average outstanding shares	**127,672,244**	129,392,339	**127,614,564**	129,661,228
Diluted weighted-average outstanding shares	**128,014,777**	129,828,847	**128,108,630**	130,164,762

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2022	2021	2022	2021
Net income	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434
Other comprehensive (loss) income, net of tax:				
Net change in investment securities	**(52,371)**	13,733	**(446,922)**	(61,306)
Net change in cash flow derivative hedges	**(1,584)**	—	**(2,842)**	—
Other comprehensive (loss) income	**(53,955)**	13,733	**(449,764)**	(61,306)
Total comprehensive income (loss)	**$ 5,405**	$ 100,474	**$ (332,685)**	$ 83,128

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

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

(dollars in thousands, except share amount)	June 30, 2022	December 31, 2021
Assets		
Cash and due from banks	**$ 279,629**	$ 246,716
Interest-bearing deposits in other banks	**1,254,047**	1,011,753
Investment securities:		
Available-for-sale, at fair value (amortized cost: $4,267,809 as of June 30, 2022 and $8,560,733 as of December 31, 2021)	**3,967,746**	8,428,032
Held-to-maturity, at amortized cost (fair value: $3,910,780 as of June 30, 2022 and nil as of December 31, 2021)	**4,093,215**	—
Loans held for sale	**180**	538
Loans and leases	**13,262,781**	12,961,999
Less: allowance for credit losses	**148,942**	157,262
Net loans and leases	**13,113,839**	12,804,737
Premises and equipment, net	**310,047**	318,448
Other real estate owned and repossessed personal property	**—**	175
Accrued interest receivable	**63,240**	63,158
Bank-owned life insurance	**470,542**	471,819
Goodwill	**995,492**	995,492
Mortgage servicing rights	**7,152**	8,302
Other assets	**822,404**	643,240
Total assets	**$ 25,377,533**	$ 24,992,410
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	**$ 12,990,571**	$ 12,422,283
Noninterest-bearing	**9,610,883**	9,393,863
Total deposits	**22,601,454**	21,816,146
Retirement benefits payable	**134,151**	134,491
Other liabilities	**389,317**	384,861
Total liabilities	**23,124,922**	22,335,498
Commitments and contingent liabilities (Note 11)		
Stockholders' equity		
Common stock ($0.01 par value; authorized 300,000,000 shares; issued/outstanding: 140,943,908 / 127,451,087 as of June 30, 2022; issued/outstanding: 140,581,715 / 127,502,472 as of December 31, 2021)	**1,409**	1,406
Additional paid-in capital	**2,533,407**	2,527,663
Retained earnings	**654,777**	604,534
Accumulated other comprehensive loss, net	**(571,457)**	(121,693)
Treasury stock (13,492,821 shares as of June 30, 2022 and 13,079,243 shares as of December 31, 2021)	**(365,525)**	(354,998)
Total stockholders' equity	**2,252,611**	2,656,912
Total liabilities and stockholders' equity	**$ 25,377,533**	$ 24,992,410

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

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

	Three Months Ended June 30, 2022						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury	
(dollars in thousands, except share amounts)	Shares	Amount	Capital	Earnings	Loss	Stock	Total
Balance as of March 31, 2022	127,686,307	$ 1,409	$ 2,530,795	$ 628,642	$ (517,502)	$ (358,195)	$ 2,285,149
Net income	**—**	**—**	**—**	**59,360**	**—**	**—**	**59,360**
Cash dividends declared ($0.26 per share)	**—**	**—**	**—**	**(33,212)**	**—**	**—**	**(33,212)**
Equity-based awards	**55,338**	**—**	**2,612**	**(13)**	**—**	**(330)**	**2,269**
Common stock repurchased	**(290,558)**	**—**	**—**	**—**	**—**	**(7,000)**	**(7,000)**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**(53,955)**	**—**	**(53,955)**
Balance as of June 30, 2022	**127,451,087**	**$ 1,409**	**$ 2,533,407**	**$ 654,777**	**$ (571,457)**	**$ (365,525)**	**$ 2,252,611**

	Six Months Ended June 30, 2022						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury	
(dollars in thousands, except share amounts)	Shares	Amount	Capital	Earnings	Loss	Stock	Total
Balance as of December 31, 2021	127,502,472	$ 1,406	$ 2,527,663	$ 604,534	$ (121,693)	$ (354,998)	$ 2,656,912
Net income	**—**	**—**	**—**	**117,079**	**—**	**—**	**117,079**
Cash dividends declared ($0.52 per share)	**—**	**—**	**—**	**(66,363)**	**—**	**—**	**(66,363)**
Equity-based awards	**239,173**	**3**	**5,744**	**(473)**	**—**	**(3,527)**	**1,747**
Common stock repurchased	**(290,558)**	**—**	**—**	**—**	**—**	**(7,000)**	**(7,000)**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**(449,764)**	**—**	**(449,764)**
Balance as of June 30, 2022	**127,451,087**	**$ 1,409**	**$ 2,533,407**	**$ 654,777**	**$ (571,457)**	**$ (365,525)**	**$ 2,252,611**

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

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

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

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

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

(dollars in thousands)	Six Months Ended June 30, 2022	2021
Cash flows from operating activities		
Net income	**$ 117,079**	$ 144,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**(4,747)**	(35,000)
Depreciation, amortization and accretion, net	**30,872**	27,567
Deferred income tax provision	**14,228**	7,168
Stock-based compensation	**5,747**	6,779
Other losses	**2,304**	76
Originations of loans held for sale	**(10,256)**	(73,368)
Proceeds from sales of loans held for sale	**9,744**	85,787
Net losses (gains) on sales of loans originated for investment and held for sale	**36**	(2,442)
Net gains on investment securities	**—**	(102)
Change in assets and liabilities:		
Net (increase) decrease in other assets	**(49,614)**	19,740
Net increase in other liabilities	**50,351**	67,557
Net cash provided by operating activities	**165,744**	248,196
Cash flows from investing activities		
Available-for-sale securities:		
Proceeds from maturities and principal repayments	**598,865**	920,073
Proceeds from calls and sales	**1,080**	2,820
Purchases	**(913,268)**	(1,900,080)
Held-to-maturity securities:		
Proceeds from maturities and principal repayments	**137,014**	—
Proceeds from calls	**110**	—
Purchases	**(79,470)**	—
Other investments:		
Proceeds from sales	**4,132**	7,956
Purchases	**(21,386)**	(60,155)
Loans:		
Net (increase) decrease in loans and leases resulting from originations and principal repayments	**(168,986)**	183,820
Proceeds from sales of loans originated for investment	**—**	2,200
Purchases of loans	**(149,512)**	(39,558)
Proceeds from bank-owned life insurance	**—**	5,628
Purchases of premises, equipment and software	**(5,966)**	(9,689)
Proceeds from sales of premises and equipment	**—**	1,394
Proceeds from sales of other real estate owned	**176**	—
Other	**(1,744)**	(2,422)
Net cash used in investing activities	**(598,955)**	(888,013)
Cash flows from financing activities		
Net increase in deposits	**785,308**	1,607,392
Dividends paid	**(66,363)**	(67,448)
Stock tendered for payment of withholding taxes	**(3,527)**	(2,845)
Common stock repurchased	**(7,000)**	(31,928)
Net cash provided by financing activities	**708,418**	1,505,171
Net increase in cash and cash equivalents	**275,207**	865,354
Cash and cash equivalents at beginning of period	**1,258,469**	1,040,944
Cash and cash equivalents at end of period	**$ 1,533,676**	$ 1,906,298
Supplemental disclosures		
Interest paid	**$ 8,015**	$ 14,464
Income taxes paid, net of income tax refunds	**5,356**	30,399
Noncash investing and financing activities:		
Operating lease right-of-use assets obtained in exchange for new lease obligations	**4,979**	7,221
Transfers (to) from loans and leases (from) to loans held for sale	**(834)**	1,839
Obligation to fund low-income housing partnerships	**—**	15,314
Transfers of securities from available-for-sale to held-to-maturity	**4,133,363**	—

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

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

1. Organization and Basis of Presentation

First Hawaiian, Inc. ("FHI" or the "Parent"), a bank holding company, owns 100% of the outstanding common stock of First Hawaiian Bank ("FHB" or the "Bank"), its only direct, wholly owned subsidiary. FHB offers a comprehensive suite of banking services, including loans, deposit products, wealth management, insurance, trust, retirement planning, credit card and merchant processing services, to consumer and commercial customers.

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

The accompanying unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the Company's audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

Use of Estimates in the Preparation of Financial Statements

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

Investment Securities

As of June 30, 2022 and December 31, 2021, investment securities were comprised primarily of debt securities, mortgage-backed securities and collateralized mortgage obligations issued by the U.S. Government, its agencies and government-sponsored enterprises, with under 4% of the investment securities comprised of collateralized loan obligations rated AA or better and obligations issued by local state and political subdivisions rated AA or better. The Company amortizes premiums and accretes discounts using the interest method over the expected lives of the individual securities. Premiums on callable debt securities are amortized to their next call date. All investment securities transactions are recorded on a trade-date basis.

As of June 30, 2022, the Company's investment securities were categorized as either available-for-sale (investment securities that may be sold before maturity at the discretion of management) or held-to-maturity (investment securities that management has the positive intent and ability to hold to maturity). As of December 31, 2021, all of the Company's investment securities were categorized as available-for-sale. Available-for-sale investment securities are reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income. Gains and losses realized on sales of available-for-sale investment securities are determined using the specific identification method. Held-to-maturity investment securities are reported at amortized cost and may have a realized gain or loss if the investment security is retired or redeemed before the original maturity date.

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

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates at the individual security level whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

For held-to-maturity debt securities, the Company utilizes the Current Expected Credit Loss ("CECL") approach to estimate lifetime expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of held-to-maturity debt securities to present the net amount expected to be collected from held-to-maturity debt securities.

Changes in the allowance for credit losses, if any, are recorded as a provision for (or reversal of) credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale or held-to-maturity investment security is confirmed or when either of the criteria regarding intent or requirement to sell an available-for-sale investment security is met. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. As of June 30, 2022, the Company's available-for-sale and held-to-maturity investment securities were comprised primarily of debt, mortgage-backed securities and collateralized mortgage obligations issued by the U.S. Government, its agencies and government-sponsored enterprises. Management has concluded that the long history with no credit losses from these issuers indicates an expectation that nonpayment of the amortized cost basis is zero, and these securities are explicitly or implicitly fully guaranteed by the U.S. government. The U.S. government can print its own currency and its currency is routinely held by central banks and other major financial institutions. The dollar is used in international commerce, and commonly is viewed as a reserve currency, all of which qualitatively indicates that historical credit loss information should be minimally affected by current conditions and reasonable and supportable forecasts. Under 4% of the investment securities were comprised of collateralized loan obligations rated AA or better and obligations issued by local state and political subdivisions rated AA or better. These securities are investment grade and highly rated and carry either sufficient credit enhancement or days cash on hand to support timely payments of principal and interest. As a result, the Company does not expect any future payment defaults and has not recorded an allowance for credit losses for its available-for-sale and held-to-maturity debt securities as of June 30, 2022. Similarly, for the same reasons noted above, the Company did not record an allowance for credit losses for its available-for-sale debt securities as of December 31, 2021.

Accrued interest receivable related to available-for-sale and held-to-maturity investment securities are recorded separately from the amortized cost basis of investment securities on the Company's unaudited interim consolidated balance sheets.

Accounting Standards Adopted in 2022

In July 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-05, *Leases (Topic 842), Lessors – Certain Leases with Variable Lease Payments.* This guidance amends the Topic 842 lease classification requirements for lessors to align them with practice under Topic 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the Topic 842 lease classification criteria, and 2) the lessor would have otherwise recognized a day-one loss. The Company adopted the provisions of ASU No. 2021-05 on January 1, 2022 and it did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

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

In March 2022, the FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815), Fair Value Hedging – Portfolio Layer Method.* This update clarifies the guidance in Topic 815 on fair value hedge accounting of interest rate risk for portfolios of financial assets. Under current hedge accounting guidance, the "last-of-layer" method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets without having to consider prepayment risk or credit risk when measuring those assets. The hedged item represents a single layer within that closed portfolio. This update expands the scope of this guidance to allow entities to apply the "portfolio layer" method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. The current model is expanded to 1) explicitly allow entities to designate multiple layers in a single portfolio as individual hedged items and 2) also allow entities the flexibility to use any type of derivative (or combination of derivatives) by applying the multiple-layer model that aligns with its risk management strategy. Although no assets may be added to a closed portfolio once it is designated in a portfolio layer method hedge, at any time after the initial hedge designation, new hedging relationships associated with the portfolio may be designated and existing hedging relationships associated with the portfolio may be dedesignated to align with an entity's evolving strategy for managing interest rate risk on a timely basis. Under the portfolio layer method, the basis of the portfolio assets is generally adjusted at the portfolio level rather than being allocated to individual assets within the portfolio, except when the allocation of basis adjustments is required by other areas of GAAP. The intent of this update is consistent with the FASB's efforts to better align an entity's financial reporting with the results of its risk management strategy and to further simplify the hedge accounting model. This update is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. The adoption of ASU No. 2022-01 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. This update eliminates the accounting guidance on troubled debt restructurings (TDRs) for creditors in Subtopic 310-40 and amends the guidance on vintage disclosures to require disclosure of current-period gross write-offs by year of origination. This ASU also updates the requirements related to accounting for credit losses under Topic 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. This update is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of evaluating the impact that this new guidance may have on the Company's consolidated financial statements.

2. Investment Securities

As of June 30, 2022 and December 31, 2021, investment securities consisted predominantly of the following investment categories:

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

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

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

Collateralized loan obligations – includes structured debt securities backed by a pool of loans, consisting of primarily non-investment grade broadly syndicated corporate loans with additional credit enhancement. These are floating rate securities that have an investment grade rating of AA or better.

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

As of June 30, 2022, the Company's investment securities were classified as either available-for-sale or held-to-maturity. As of December 31, 2021, all of the Company's investment securities were classified as available-for-sale. Amortized cost and fair value of securities as of June 30, 2022 and December 31, 2021 were as follows:

	June 30, 2022				**December 31, 2021**			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury and government agency debt securities	**$ 168,129**	**$ —**	**$ (8,964)**	**$ 159,165**	$ 196,662	$ 125	$ (4,224)	$ 192,563
Government-sponsored enterprises debt securities	**20,000**	**—**	**(37)**	**19,963**	—	—	—	—
Mortgage-backed securities:								
Residential - Government agency	**72,027**	**—**	**(4,069)**	**67,958**	135,764	1,791	(291)	137,264
Residential - Government-sponsored enterprises	**1,444,461**	**24**	**(111,470)**	**1,333,015**	1,496,605	6,914	(12,419)	1,491,100
Commercial - Government agency	**297,271**	**—**	**(29,614)**	**267,657**	392,443	1,741	(6,521)	387,663
Commercial - Government-sponsored enterprises	**147,160**	**918**	**(6,242)**	**141,836**	1,415,511	2,646	(48,714)	1,369,443
Commercial - Non-agency	**21,957**	**—**	**(407)**	**21,550**	—	—	—	—
Collateralized mortgage obligations:								
Government agency	**1,102,277**	**—**	**(76,938)**	**1,025,339**	2,103,187	7,768	(31,432)	2,079,523
Government-sponsored enterprises	**744,622**	**—**	**(60,062)**	**684,560**	2,671,131	3,608	(53,695)	2,621,044
Collateralized loan obligations	**249,905**	**45**	**(3,247)**	**246,703**	105,245	2	—	105,247
Debt securities issued by states and political subdivisions	**—**	**—**	**—**	**—**	44,185	—	—	44,185
Total available-for-sale securities	**$ 4,267,809**	**$ 987**	**$ (301,050)**	**$ 3,967,746**	$ 8,560,733	$ 24,595	$ (157,296)	$ 8,428,032
Government agency debt securities	**$ 55,148**	**$ —**	**$ (2,405)**	**$ 52,743**	$ —	$ —	$ —	$ —
Mortgage-backed securities:								
Residential - Government agency	**47,309**	**—**	**(3,031)**	**44,278**	—	—	—	—
Residential - Government-sponsored enterprises	**93,458**	**—**	**(6,117)**	**87,341**	—	—	—	—
Commercial - Government agency	**30,497**	**—**	**(2,685)**	**27,812**	—	—	—	—
Commercial - Government-sponsored enterprises	**1,173,398**	**—**	**(63,627)**	**1,109,771**	—	—	—	—
Collateralized mortgage obligations:								
Government agency	**879,010**	**—**	**(31,243)**	**847,767**	—	—	—	—
Government-sponsored enterprises	**1,760,755**	**—**	**(69,483)**	**1,691,272**	—	—	—	—
Debt securities issued by states and political subdivisions	**53,640**	**—**	**(3,844)**	**49,796**	—	—	—	—
Total held-to-maturity securities	**$ 4,093,215**	**$ —**	**$ (182,435)**	**$ 3,910,780**	$ —	$ —	$ —	$ —

During the three and six months ended June 30, 2022, the Company reclassified at fair value approximately $4.1 billion in available-for-sale investment securities to the held-to-maturity category. The related unrealized after-tax losses of approximately $338.8 million remained in accumulated other comprehensive income to be amortized over the estimated remaining life of the securities as an adjustment of yield, offsetting the related accretion of the discount on the transferred securities. No gains or losses were recognized at the time of reclassification. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity. As of June 30, 2022, the weighted average life of the transferred securities was approximately 8.0 years. Material changes in prepayment speeds may result in a significant impact to the estimated remaining life of these securities.

Accrued interest receivable related to available-for-sale investment securities was $8.7 million and $14.1 million as of June 30, 2022 and December 31, 2021, respectively. Accrued interest receivable related to held-to-maturity investment securities was $7.0 million and nil as of June 30, 2022 and December 31, 2021, respectively. Accrued interest receivable is recorded separately from the amortized cost basis of investment securities on the Company's unaudited interim consolidated balance sheets.

Proceeds from calls and sales of investment securities were $0.2 million and nil, respectively, for the three months ended June 30, 2022, and $1.2 million and nil, respectively, for the six months ended June 30, 2022. Proceeds from calls and sales of investment securities were $0.2 million and $2.5 million, respectively, for the three months ended June 30, 2021, and $0.3 million and $2.5 million, respectively, for the six months ended June 30, 2021. The Company recorded gross realized gains of nil and gross realized losses of nil for the three and six months ended June 30, 2022. The Company recorded gross realized gains of $0.1 million and gross realized losses of nil during both the three and six months ended June 30, 2021. The income tax expense related to the Company's net realized gains on the sale of investment securities was nil for the three and six months ended June 30, 2022. The income tax expense related to the Company's net realized gains on the sale of investment securities was nil during both the three and six months ended June 30, 2021. Gains and losses realized on sales of securities are determined using the specific identification method.

Interest income from taxable investment securities was $31.6 million and $22.4 million, respectively, for the three months ended June 30, 2022 and 2021, and $60.7 million and $44.6 million, respectively, for the six months ended June 30, 2022 and 2021. Interest income from non-taxable investment securities was $3.3 million and $2.2 million, respectively, for the three months ended June 30, 2022 and 2021, and $6.3 million and $3.2 million, respectively, for the six months ended June 30, 2022 and 2021.

The amortized cost and fair value of debt securities issued by the U.S. Treasury, government agencies, government-sponsored enterprises and states and political subdivisions, non-agency mortgage-backed securities and collateralized loan obligations as of June 30, 2022, by contractual maturity, are shown below. Mortgage-backed securities and collateralized mortgage obligations issued by government agencies and government-sponsored enterprises are disclosed separately in the table below as remaining expected maturities will differ from contractual maturities as borrowers have the right to prepay obligations.

(dollars in thousands)	June 30, 2022 Amortized Cost	June 30, 2022 Fair Value
Due in one year or less	$ 30,106	$ 29,762
Due after one year through five years	79,915	77,983
Due after five years through ten years	177,556	170,656
Due after ten years	172,414	168,980
	459,991	447,381
Mortgage-backed securities:		
Residential - Government agency	72,027	67,958
Residential - Government-sponsored enterprises	1,444,461	1,333,015
Commercial - Government agency	297,271	267,657
Commercial - Government-sponsored enterprises	147,160	141,836
Total mortgage-backed securities	1,960,919	1,810,466
Collateralized mortgage obligations:		
Government agency	1,102,277	1,025,339
Government-sponsored enterprises	744,622	684,560
Total collateralized mortgage obligations	1,846,899	1,709,899
Total available-for-sale securities	$ 4,267,809	$ 3,967,746
Due in one year or less	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	108,788	102,539
	108,788	102,539
Mortgage-backed securities:		
Residential - Government agency	47,309	44,278
Residential - Government-sponsored enterprises	93,458	87,341
Commercial - Government agency	30,497	27,812
Commercial - Government-sponsored enterprises	1,173,398	1,109,771
Total mortgage-backed securities	1,344,662	1,269,202
Collateralized mortgage obligations:		
Government agency	879,010	847,767
Government-sponsored enterprises	1,760,755	1,691,272
Total collateralized mortgage obligations	2,639,765	2,539,039
Total held-to-maturity securities	$ 4,093,215	$ 3,910,780

At June 30, 2022, pledged securities totaled $2.6 billion, of which $2.4 billion was pledged to secure public deposits and $191.3 million was pledged to secure other financial transactions. At December 31, 2021, pledged securities totaled $2.1 billion, of which $1.9 billion was pledged to secure public deposits and $193.2 million was pledged to secure other financial transactions.

The Company held no securities of any single issuer, other than debt securities issued by the U.S. government, government agencies and government-sponsored enterprises, taken in the aggregate, which were in excess of 10% of stockholders' equity as of June 30, 2022 or December 31, 2021.

The following tables present the unrealized gross losses and fair values of securities in the available-for-sale portfolio by length of time that the 296 and 318 individual securities in each category have been in a continuous loss position as of June 30, 2022 and December 31, 2021, respectively. The unrealized losses on available-for-sale investment securities were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities.

	Time in Continuous Loss as of June 30, 2022					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and government agency debt securities	$ (2,239)	$ 87,782	$ (6,725)	$ 71,383	$ (8,964)	$ 159,165
Government-sponsored enterprises debt securities	(37)	19,964	—	—	(37)	19,964
Mortgage-backed securities:						
Residential - Government agency	(4,069)	67,958	—	—	(4,069)	67,958
Residential - Government-sponsored enterprises	(110,301)	1,303,823	(1,169)	9,196	(111,470)	1,313,019
Commercial - Government agency	(12,813)	150,595	(16,801)	116,854	(29,614)	267,449
Commercial - Government-sponsored enterprises	(4,482)	77,564	(1,760)	18,478	(6,242)	96,042
Commercial - Non-agency	(407)	21,550	—	—	(407)	21,550
Collateralized mortgage obligations:						
Government agency	(74,997)	988,818	(1,941)	16,549	(76,938)	1,005,367
Government-sponsored enterprises	(41,157)	517,636	(18,905)	166,924	(60,062)	684,560
Collateralized loan obligations:	(3,247)	170,425	—	—	(3,247)	170,425
Total available-for-sale securities with unrealized losses	$ (253,749)	$ 3,406,115	$ (47,301)	$ 399,384	$ (301,050)	$ 3,805,499

	Time in Continuous Loss as of December 31, 2021					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury and government agency debt securities	$ (3,355)	$ 134,468	$ (869)	$ 16,642	$ (4,224)	$ 151,110
Mortgage-backed securities:						
Residential - Government agency	(291)	51,231	—	—	(291)	51,231
Residential - Government-sponsored enterprises	(10,876)	1,230,104	(1,543)	32,415	(12,419)	1,262,519
Commercial - Government agency	(5,239)	186,024	(1,282)	26,063	(6,521)	212,087
Commercial - Government-sponsored enterprises	(22,179)	744,819	(26,535)	397,123	(48,714)	1,141,942
Collateralized mortgage obligations:						
Government agency	(31,432)	1,441,848	—	—	(31,432)	1,441,848
Government-sponsored enterprises	(52,551)	2,255,535	(1,144)	24,959	(53,695)	2,280,494
Total available-for-sale securities with unrealized losses	$ (125,923)	$ 6,044,029	$ (31,373)	$ 497,202	$ (157,296)	$ 6,541,231

At June 30, 2022 and December 31, 2021, the Company did not have any available-for-sale securities with the intent to sell and determined it was more likely than not that the Company would not be required to sell these securities prior to recovery of the amortized cost basis. As the Company had the intent and ability to hold the remaining available-for-sale securities in an unrealized loss position as of June 30, 2022 and December 31, 2021, each security with an unrealized loss position in the above tables has been further assessed to determine if a credit loss exists. As of June 30, 2022 and December 31, 2021, the Company did not expect any credit losses in its available-for-sale debt securities and no credit losses were recognized on available-for-sale securities during the three and six months ended June 30, 2022 and for the year ended December 31, 2021.

As of June 30, 2022 and December 31, 2021, the Company's investment securities were comprised primarily of debt securities, mortgage-backed securities and collateralized mortgage obligations issued by the U.S. Government, its agencies and government-sponsored enterprises, with under 4% of the investment securities comprised of collateralized loan obligations rated AA or better and obligations issued by local state and political subdivisions rated AA or better. For investment securities issued by the U.S. Government, its agencies and government-sponsored enterprises, management has concluded that the long history with no credit losses from these issuers indicates an expectation that nonpayment of the amortized cost basis is zero, and these securities are explicitly or implicitly fully guaranteed by the U.S. government. The U.S. government can print its own currency and its currency is routinely held by central banks and other major financial institutions. The dollar is used in international commerce, and commonly is viewed as a reserve currency, all of which qualitatively indicates that historical credit loss information should be minimally affected by current conditions and reasonable and supportable forecasts. For collateralized loan obligations and debt securities issued by local state and political subdivisions, these securities are investment grade and highly rated and carry either sufficient credit enhancement or days cash on hand to support timely payments of principal and interest. As a result, the Company does not expect any future payment defaults and has not recorded an allowance for credit losses for its available-for-sale and held-to-maturity debt securities as of June 30, 2022. Similarly, for the same reasons noted above, the Company did not record an allowance for credit losses for its available-for-sale debt securities as of December 31, 2021.

The Company holds approximately 120,000 Visa Class B restricted shares as of both June 30, 2022 and December 31, 2021. These shares continued to be carried at $0 cost basis as of both June 30, 2022 and December 31, 2021.

3. Loans and Leases

As of June 30, 2022 and December 31, 2021, loans and leases were comprised of the following:

(dollars in thousands)	June 30, 2022	December 31, 2021
Commercial and industrial	**$ 1,942,132**	$ 2,087,099
Commercial real estate	**3,956,828**	3,639,623
Construction	**727,771**	813,969
Residential:		
Residential mortgage	**4,212,768**	4,083,367
Home equity line	**971,569**	876,608
Total residential	**5,184,337**	4,959,975
Consumer	**1,207,051**	1,229,939
Lease financing	**244,662**	231,394
Total loans and leases	**$ 13,262,781**	$ 12,961,999

Outstanding loan balances are reported net of deferred loan costs and fees of $52.1 million and $42.2 million at June 30, 2022 and December 31, 2021, respectively.

Accrued interest receivable related to loans and leases was $47.4 million and $49.0 million as of June 30, 2022 and December 31, 2021, respectively, and is recorded separately from the amortized cost basis of loans and leases on the Company's unaudited interim consolidated balance sheets.

As of June 30, 2022, residential real estate loans totaling $2.2 billion were pledged to collateralize the Company's borrowing capacity at the Federal Home Loan Bank of Des Moines ("FHLB"), and consumer, commercial and industrial, commercial real estate and residential real estate loans totaling $1.7 billion were pledged to collateralize the Company's borrowing capacity at the Federal Reserve Bank of San Francisco ("FRB"). As of December 31, 2021, residential real estate loans totaling $2.4 billion were pledged to collateralize the Company's borrowing capacity at the FHLB, and consumer, commercial and industrial, commercial real estate and residential real estate loans totaling $1.7 billion were pledged to collateralize the Company's borrowing capacity at the FRB. Residential real estate loans collateralized by properties that were in the process of foreclosure totaled $4.7 million as of both June 30, 2022 and December 31, 2021.

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

4. Allowance for Credit Losses

The Company maintains the allowance for credit losses for loans and leases (the "ACL") that is deducted from the amortized cost basis of loans and leases to present the net carrying value of loans and leases expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of loans and leases. While management utilizes its best judgment and information available, the ultimate appropriateness of the ACL is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. The Company's methodology is more fully described in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

Rollforward of the Allowance for Credit Losses

The following presents the activity in the ACL by class of loans and leases for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30, 2022							
	Commercial Lending				Residential Lending			
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
Allowance for credit losses:								
Balance at beginning of period	**$ 19,160**	**$ 45,238**	**$ 8,908**	**$ 1,362**	**$ 30,888**	**$ 5,084**	**$ 39,640**	**$ 150,280**
Charge-offs	**(243)**	**—**	**—**	**—**	**—**	**(1,120)**	**(3,659)**	**(5,022)**
Recoveries	**301**	**—**	**—**	**60**	**192**	**191**	**1,940**	**2,684**
Provision	**(3,294)**	**(512)**	**(3,541)**	**(24)**	**2,555**	**579**	**5,237**	**1,000**
Balance at end of period	**$ 15,924**	**$ 44,726**	**$ 5,367**	**$ 1,398**	**$ 33,635**	**$ 4,734**	**$ 43,158**	**$ 148,942**

	Six Months Ended June 30, 2022							
	Commercial Lending				Residential Lending			
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
Allowance for credit losses:								
Balance at beginning of period	**$ 20,080**	**$ 42,951**	**$ 9,773**	**$ 1,659**	**$ 34,364**	**$ 5,642**	**$ 42,793**	**$ 157,262**
Charge-offs	**(949)**	**—**	**—**	**—**	**—**	**(1,163)**	**(7,768)**	**(9,880)**
Recoveries	**354**	**14**	**—**	**60**	**208**	**219**	**4,088**	**4,943**
Provision	**(3,561)**	**1,761**	**(4,406)**	**(321)**	**(937)**	**36**	**4,045**	**(3,383)**
Balance at end of period	**$ 15,924**	**$ 44,726**	**$ 5,367**	**$ 1,398**	**$ 33,635**	**$ 4,734**	**$ 43,158**	**$ 148,942**

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

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

Rollforward of the Reserve for Unfunded Commitments

The following presents the activity in the Reserve for Unfunded Commitments for the three and six months ended June 30, 2022:

	Three Months Ended June 30, 2022							
	Commercial Lending				Residential Lending			
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
Reserve for unfunded commitments:								
Balance at beginning of period	**$ 9,308**	**$ 1,789**	**$ 8,046**	**$ —**	**$ 3**	**$ 9,766**	**$ 46**	**$ 28,958**
Provision	**(1,668)**	**1,961**	**(1,962)**	**—**	**29**	**1,657**	**(17)**	**—**
Balance at end of period	**$ 7,640**	**$ 3,750**	**$ 6,084**	**$ —**	**$ 32**	**$ 11,423**	**$ 29**	**$ 28,958**

	Six Months Ended June 30, 2022							
	Commercial Lending				Residential Lending			
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential Mortgage	Home Equity Line	Consumer	Total
Reserve for unfunded commitments:								
Balance at beginning of period	**$ 8,615**	**$ 2,114**	**$ 8,963**	**$ —**	**$ 15**	**$ 10,546**	**$ 69**	**$ 30,322**
Provision	**(975)**	**1,636**	**(2,879)**	**—**	**17**	**877**	**(40)**	**(1,364)**
Balance at end of period	**$ 7,640**	**$ 3,750**	**$ 6,084**	**$ —**	**$ 32**	**$ 11,423**	**$ 29**	**$ 28,958**

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

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

Credit Quality Information

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

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

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

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

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

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

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

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

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

The amortized cost basis by year of origination and credit quality indicator of the Company’s loans and leases as of June 30, 2022 was as follows:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Commercial Lending									
Commercial and Industrial									
Risk rating:									
Pass	$ 216,303	$ 421,981	$ 66,601	$ 182,175	$ 60,586	$ 156,647	$ 697,256	$ 19,128	$ 1,820,677
Special Mention	2,816	316	1,628	2,822	748	5,295	1,073	841	15,539
Substandard	—	320	1,103	1,605	1,019	879	16,214	114	21,254
Other (1)	12,807	9,613	11,531	5,366	3,075	1,576	40,694	—	84,662
Total Commercial and Industrial	231,926	432,230	80,863	191,968	65,428	164,397	755,237	20,083	1,942,132
Commercial Real Estate									
Risk rating:									
Pass	516,062	695,446	338,391	516,210	459,372	1,270,438	84,174	—	3,880,093
Special Mention	—	—	562	47,781	—	11,140	695	—	60,178
Substandard	—	—	180	—	1,742	14,476	3	—	16,401
Other (1)	—	—	—	—	—	156	—	—	156
Total Commercial Real Estate	516,062	695,446	339,133	563,991	461,114	1,296,210	84,872	—	3,956,828
Construction									
Risk rating:									
Pass	39,575	193,588	127,677	85,471	115,881	88,509	14,965	—	665,666
Special Mention	—	—	—	236	—	350	—	—	586
Substandard	—	—	—	—	351	498	—	—	849
Other (1)	13,228	29,529	6,049	2,849	3,913	4,151	951	—	60,670
Total Construction	52,803	223,117	133,726	88,556	120,145	93,508	15,916	—	727,771
Lease Financing									
Risk rating:									
Pass	41,656	26,813	49,889	43,989	7,801	68,457	—	—	238,605
Special Mention	—	457	2,642	1,358	11	17	—	—	4,485
Substandard	—	—	195	16	14	1,347	—	—	1,572
Total Lease Financing	41,656	27,270	52,726	45,363	7,826	69,821	—	—	244,662
Total Commercial Lending	$ 842,447	$ 1,378,063	$ 606,448	$ 889,878	$ 654,513	$ 1,623,936	$ 856,025	$ 20,083	$ 6,871,393

(continued)

(continued) (dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Residential Lending									
Residential Mortgage									
FICO:									
740 and greater	$ 352,342	$ 1,069,214	$ 587,478	$ 252,428	$ 178,752	$ 974,057	$ —	$ —	$ 3,414,271
680 - 739	46,224	124,306	79,422	45,117	21,882	144,226	—	—	461,177
620 - 679	5,305	19,143	14,291	5,405	3,892	38,470	—	—	86,506
550 - 619	169	1,943	294	226	2,073	8,017	—	—	12,722
Less than 550	2,085	1,242	60	—	340	4,656	—	—	8,383
No Score (3)	10,652	14,868	7,544	13,471	16,488	54,373	—	—	117,396
Other (2)	20,365	19,445	15,580	9,552	9,757	31,304	4,999	1,311	112,313
Total Residential Mortgage	437,142	1,250,161	704,669	326,199	233,184	1,255,103	4,999	1,311	4,212,768
Home Equity Line									
FICO:									
740 and greater	—	—	—	—	—	—	748,148	2,227	750,375
680 - 739	—	—	—	—	—	—	157,042	3,106	160,148
620 - 679	—	—	—	—	—	—	40,070	2,454	42,524
550 - 619	—	—	—	—	—	—	9,202	1,601	10,803
Less than 550	—	—	—	—	—	—	1,159	491	1,650
No Score (3)	—	—	—	—	—	—	6,069	—	6,069
Total Home Equity Line	—	—	—	—	—	—	961,690	9,879	971,569
Total Residential Lending	437,142	1,250,161	704,669	326,199	233,184	1,255,103	966,689	11,190	5,184,337
Consumer Lending									
FICO:									
740 and greater	115,911	132,565	66,828	59,155	38,001	17,426	117,266	203	547,355
680 - 739	53,590	80,240	45,783	41,393	23,562	13,947	67,636	566	326,717
620 - 679	11,760	35,430	17,746	22,180	13,928	11,374	30,079	1,018	143,515
550 - 619	1,000	6,548	6,576	10,400	7,652	6,801	10,044	1,026	50,047
Less than 550	379	1,758	2,973	5,022	2,547	2,525	3,047	483	18,734
No Score (3)	1,087	402	9	52	31	45	37,536	303	39,465
Other (2)	1,675	4,218	358	1,674	—	2,152	71,141	—	81,218
Total Consumer Lending	185,402	261,161	140,273	139,876	85,721	54,270	336,749	3,599	1,207,051
Total Loans and Leases	$ 1,464,991	$ 2,889,385	$ 1,451,390	$ 1,355,953	$ 973,418	$ 2,933,309	$ 2,159,463	$ 34,872	$ 13,262,781

(1) Other credit quality indicators used for monitoring purposes are primarily FICO scores. The majority of the loans in this population were originated to borrowers with a prime FICO score.

(2) Other credit quality indicators used for monitoring purposes are primarily internal risk ratings. The majority of the loans in this population were graded with a "Pass" rating.

(3) No FICO scores are primarily related to loans and leases extended to non-residents. Loans and leases of this nature are primarily secured by collateral and/or are closely monitored for performance.

The amortized cost basis by year of origination and credit quality indicator of the Company's loans and leases as of December 31, 2021 was as follows:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	
(dollars in thousands)	2021	2020	2019	2018	2017	Prior			Total
Commercial Lending									
Commercial and Industrial									
Risk rating:									
Pass	$ 623,098	$ 129,665	$ 223,388	$ 88,409	$ 29,380	$ 168,591	$ 644,947	$ 40,193	$ 1,947,671
Special Mention	397	4,382	4,213	12,552	974	5,313	4,804	986	33,621
Substandard	354	1,380	1,951	1,285	60	3,551	17,893	1,043	27,517
Other (1)	13,277	7,070	7,741	4,453	1,995	370	43,384	—	78,290
Total Commercial and Industrial	637,126	142,497	237,293	106,699	32,409	177,825	711,028	42,222	2,087,099
Commercial Real Estate									
Risk rating:									
Pass	693,370	338,140	533,887	487,739	415,186	940,732	78,479	14,891	3,502,424
Special Mention	—	—	48,499	7,470	25,513	30,255	7,600	—	119,337
Substandard	—	—	—	1,776	164	15,303	459	—	17,702
Other (1)	—	—	—	—	—	160	—	—	160
Total Commercial Real Estate	693,370	338,140	582,386	496,985	440,863	986,450	86,538	14,891	3,639,623
Construction									
Risk rating:									
Pass	154,558	107,767	210,314	155,311	62,770	48,021	22,859	—	761,600
Special Mention	—	—	244	707	—	356	—	—	1,307
Substandard	—	—	—	363	—	839	—	—	1,202
Other (1)	26,835	8,875	4,317	4,308	2,684	2,048	793	—	49,860
Total Construction	181,393	116,642	214,875	160,689	65,454	51,264	23,652	—	813,969
Lease Financing									
Risk rating:									
Pass	33,980	60,650	48,236	9,449	15,009	57,130	—	—	224,454
Special Mention	501	2,702	1,506	311	153	—	—	—	5,173
Substandard	—	270	140	16	871	470	—	—	1,767
Total Lease Financing	34,481	63,622	49,882	9,776	16,033	57,600	—	—	231,394
Total Commercial Lending	$ 1,546,370	$ 660,901	$ 1,084,436	$ 774,149	$ 554,759	$ 1,273,139	$ 821,218	$ 57,113	$ 6,772,085

(continued)

(continued) (dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Residential Lending									
Residential Mortgage									
FICO:									
740 and greater	$ 1,101,958	$ 635,061	$ 286,993	$ 198,622	$ 251,906	$ 829,175	$ —	$ —	$ 3,303,715
680 - 739	140,997	81,590	45,163	27,315	32,855	125,906	—	—	453,826
620 - 679	15,781	11,943	5,268	10,149	9,069	37,404	—	—	89,614
550 - 619	1,735	873	698	533	2,033	7,475	—	—	13,347
Less than 550	—	—	—	345	2,603	2,838	—	—	5,786
No Score (3)	18,882	7,938	15,051	18,107	17,333	42,185	—	—	119,496
Other (2)	25,625	16,263	10,242	11,297	16,242	17,152	44	718	97,583
Total Residential Mortgage	1,304,978	753,668	363,415	266,368	332,041	1,062,135	44	718	4,083,367
Home Equity Line									
FICO:									
740 and greater	—	—	—	—	—	—	671,566	1,873	673,439
680 - 739	—	—	—	—	—	—	141,889	3,968	145,857
620 - 679	—	—	—	—	—	—	37,815	2,500	40,315
550 - 619	—	—	—	—	—	—	9,090	948	10,038
Less than 550	—	—	—	—	—	—	2,574	68	2,642
No Score (3)	—	—	—	—	—	—	4,317	—	4,317
Total Home Equity Line	—	—	—	—	—	—	867,251	9,357	876,608
Total Residential Lending	1,304,978	753,668	363,415	266,368	332,041	1,062,135	867,295	10,075	4,959,975
Consumer Lending									
FICO:									
740 and greater	155,929	83,337	79,617	56,707	24,525	8,067	117,843	209	526,234
680 - 739	93,214	56,327	55,126	34,049	17,527	6,315	69,366	707	332,631
620 - 679	41,671	21,986	28,491	19,403	12,952	5,324	31,165	1,175	162,167
550 - 619	7,836	8,265	13,265	10,497	7,469	3,244	10,359	1,089	62,024
Less than 550	2,272	3,867	6,646	3,484	2,739	1,175	3,195	536	23,914
No Score (3)	481	19	56	40	65	2	35,414	320	36,397
Other (2)	4,737	365	1,712	17	2,182	31	77,528	—	86,572
Total Consumer Lending	306,140	174,166	184,913	124,197	67,459	24,158	344,870	4,036	1,229,939
Total Loans and Leases	$ 3,157,488	$ 1,588,735	$ 1,632,764	$ 1,164,714	$ 954,259	$ 2,359,432	$ 2,033,383	$ 71,224	$ 12,961,999

(1) Other credit quality indicators used for monitoring purposes are primarily FICO scores. The majority of the loans in this population were originated to borrowers with a prime FICO score.

(2) Other credit quality indicators used for monitoring purposes are primarily internal risk ratings. The majority of the loans in this population were graded with a "Pass" rating.

(3) No FICO scores are primarily related to loans and leases extended to non-residents. Loans and leases of this nature are primarily secured by collateral and/or are closely monitored for performance.

There were no loans and leases graded as Loss as of June 30, 2022 and December 31, 2021.

The amortized cost basis of revolving loans that were converted to term loans during the three and six months ended June 30, 2022 and 2021 was as follows:

(dollars in thousands)	Three Months Ended June 30, 2022
Commercial and industrial	$ 277
Home equity line	1,057
Consumer	336
Total Revolving Loans Converted to Term Loans During the Period	$ 1,670

(dollars in thousands)	Six Months Ended June 30, 2022
Commercial and industrial	**$ 480**
Home equity line	**2,072**
Consumer	**690**
Total Revolving Loans Converted to Term Loans During the Period	**$ 3,242**

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

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

Past-Due Status

The Company continually updates its aging analysis for loans and leases to monitor the migration of loans and leases into past due categories. The Company considers loans and leases that are delinquent for 30 days or more to be past due. As of June 30, 2022 and December 31, 2021, the aging analysis of the amortized cost basis of the Company's past due loans and leases was as follows:

	June 30, 2022						
	Past Due						
(dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than or Equal to 90 Days Past Due**	**Total Past Due**	**Current**	**Total Loans and Leases**	**Loans and Leases Past Due 90 Days or More and Still Accruing Interest**
Commercial and industrial	**$ 4,848**	**$ 630**	**$ 2,798**	**$ 8,276**	**$ 1,933,856**	**$ 1,942,132**	**$ 2,230**
Commercial real estate	**5,101**	**—**	**903**	**6,004**	**3,950,824**	**3,956,828**	**176**
Construction	**93**	**—**	**352**	**445**	**727,326**	**727,771**	**352**
Lease financing	**—**	**—**	**—**	**—**	**244,662**	**244,662**	**—**
Residential mortgage	**4,445**	**2,090**	**3,955**	**10,490**	**4,202,278**	**4,212,768**	**750**
Home equity line	**8,627**	**551**	**1,039**	**10,217**	**961,352**	**971,569**	**1,039**
Consumer	**24,744**	**3,544**	**1,218**	**29,506**	**1,177,545**	**1,207,051**	**1,218**
Total	**$ 47,858**	**$ 6,815**	**$ 10,265**	**$ 64,938**	**$ 13,197,843**	**$ 13,262,781**	**$ 5,765**

	December 31, 2021						
	Past Due						
(dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than or Equal to 90 Days Past Due**	**Total Past Due**	**Current**	**Total Loans and Leases**	**Loans and Leases Past Due 90 Days or More and Still Accruing Interest**
Commercial and industrial	$ 1,195	$ 1,195	$ 1,318	$ 3,708	$ 2,083,391	$ 2,087,099	$ 740
Commercial real estate	631	—	—	631	3,638,992	3,639,623	—
Construction	162	—	—	162	813,807	813,969	—
Lease financing	—	—	—	—	231,394	231,394	—
Residential mortgage	3,030	1,002	5,617	9,649	4,073,718	4,083,367	987
Home equity line	1,538	538	3,681	5,757	870,851	876,608	3,681
Consumer	16,534	3,366	1,800	21,700	1,208,239	1,229,939	1,800
Total	$ 23,090	$ 6,101	$ 12,416	$ 41,607	$ 12,920,392	$ 12,961,999	$ 7,208

Nonaccrual Loans and Leases

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

The amortized cost basis of loans and leases on nonaccrual status as of June 30, 2022 and December 31, 2021 and the amortized cost basis of loans and leases on nonaccrual status with no ACL as of June 30, 2022 and December 31, 2021 were as follows:

	June 30, 2022	
(dollars in thousands)	Nonaccrual Loans and Leases With No Allowance for Credit Losses	Nonaccrual Loans and Leases
Commercial and industrial	$ —	$ 682
Commercial real estate	727	727
Residential mortgage	2,153	6,450
Total Nonaccrual Loans and Leases	$ 2,880	$ 7,859

	December 31, 2021	
(dollars in thousands)	Nonaccrual Loans and Leases With No Allowance for Credit Losses	Nonaccrual Loans and Leases
Commercial and industrial	$ —	$ 718
Commercial real estate	727	727
Residential mortgage	1,192	5,637
Total Nonaccrual Loans and Leases	$ 1,919	$ 7,082

For both the three and six months ended June 30, 2022, the Company recognized interest income of $0.1 million, on nonaccrual loans and leases, and for the three and six months ended June 30, 2021, the Company recognized interest income of $0.1 million and $0.2 million, respectively, on nonaccrual loans and leases. Furthermore, for the three and six months ended June 30, 2022, the amount of accrued interest receivables written off by reversing interest income was $0.2 million and $0.4 million, respectively, and for the three and six months ended June 30, 2021, the amount of accrued interest receivables written off by reversing interest income was $0.1 million and $0.5 million, respectively.

Collateral-Dependent Loans and Leases

Collateral-dependent loans and leases are those for which repayment (on the basis of the Company's assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. As of June 30, 2022 and December 31, 2021, the amortized cost basis of collateral-dependent loans were $7.6 million and $7.5 million, respectively. As of both June 30, 2022 and December 31, 2021, these loans were primarily collateralized by residential real estate property. As of both June 30, 2022 and December 31, 2021, the fair value of collateral on substantially all collateral-dependent loans were significantly in excess of their amortized cost basis.

Modifications

Commercial and industrial loans modified in a TDR may involve temporary interest-only payments, term and amortization extensions, and converting revolving credit lines to term loans. Modifications of commercial real estate and construction loans in a TDR may involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Modifications of construction loans in a TDR may also involve extending the interest-only payment period. Interest continues to accrue on the missed payments and as a result, the effective yield on the loan remains unchanged. Residential real estate loans modified in a TDR may be comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, including extended interest-only periods and re-amortization of the balance. Modifications of consumer loans in a TDR may involve temporary or permanent reduced payments, temporary interest-only payments and below-market interest rates.

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

The following presents, by class, information related to loans modified in a TDR during the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
(dollars in thousands)	Number of Contracts[(1)]	Recorded Investment[(2)]	Related ACL	Number of Contracts[(1)]	Recorded Investment[(2)]	Related ACL
Residential mortgage	**1**	**$ 260**	**$ 34**	**1**	**$ 260**	**$ 34**
Consumer	**66**	**514**	**143**	**201**	**2,107**	**346**
Total	**67**	**$ 774**	**$ 177**	**202**	**$ 2,367**	**$ 380**

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

(1) The number of contracts does not include TDRs that have been fully paid off, charged off, or foreclosed upon by the end of the period.

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

The above loans were modified in a TDR through an extension of maturity dates, temporary interest-only payments, temporary payment deferrals, reduced payments, converting revolving credit lines to term loans or below-market interest rates.

The Company had commitments to extend credit, standby letters of credit, and commercial letters of credit totaling $6.8 billion and $6.7 billion as of June 30, 2022 and December 31, 2021, respectively. Of the $6.8 billion at June 30, 2022, there were commitments of $0.1 million to lend additional funds related to borrowers who had loan terms modified in a TDR. Of the $6.7 billion at December 31, 2021, there were commitments of $0.2 million to lend additional funds related to borrowers who had loan terms modified in a TDR.

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

	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022		Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
(dollars in thousands)	Number of Contracts(1)	Recorded Investment(2)	Number of Contracts(1)	Recorded Investment(2)	Number of Contracts(1)	Recorded Investment(2)	Number of Contracts(1)	Recorded Investment(2)
Commercial and industrial	**2**	**$ 541**	**3**	**$ 655**	—	$ —	2	$ 387
Construction	**—**	**—**	**—**	**—**	—	—	1	361
Residential mortgage	**—**	**—**	**—**	**—**	1	371	1	371
Consumer	**151**	**2,197**	**229**	**3,250**	135	1,944	158	2,260
Total	**153**	**$ 2,738**	**232**	**$ 3,905**	136	$ 2,315	162	$ 3,379

(1) The number of contracts does not include TDRs that have been fully paid off, charged off, or foreclosed upon by the end of the period.

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

Foreclosure Proceedings

As of both June 30, 2022 and December 31, 2021, there was one residential mortgage loan of $0.3 million collateralized by real estate property that was modified in a TDR that was in process of foreclosure.

Foreclosed Property

As of June 30, 2022, there were no residential real estate properties held from foreclosed residential real estate loans. As of December 31, 2021, residential real estate property held from one foreclosed residential mortgage loan of $0.2 million was included in other real estate owned and repossessed personal property shown in the unaudited interim consolidated balance sheets.

5. Mortgage Servicing Rights

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

Mortgage loan servicing income is recorded in noninterest income as a part of other service charges and fees and amortization of the servicing assets is recorded in noninterest income as part of other income. The unpaid principal amount of residential real estate loans serviced for others was $1.5 billion and $1.7 billion as of June 30, 2022 and December 31, 2021. Servicing fees include contractually specified fees, late charges, and ancillary fees, and were $1.0 million and $1.2 million for the three months ended June 30, 2022 and 2021, respectively, and $2.0 million and $2.5 million for the six months ended June 30, 2022 and 2021, respectively.

Amortization of mortgage servicing rights (“MSRs”) was $0.5 million and $1.3 million for the three months ended June 30, 2022 and 2021, respectively and $1.3 million and $1.8 million for the six months ended June 30, 2022 and 2021, respectively. The estimated future amortization expenses for MSRs over the next five years are as follows:

(dollars in thousands)	Estimated Amortization
Under one year	**$ 1,075**
One to two years	**942**
Two to three years	**826**
Three to four years	**722**
Four to five years	**632**

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

(dollars in thousands)	June 30, 2022	December 31, 2021
Gross carrying amount	**$ 69,207**	$ 69,103
Less: accumulated amortization	**62,055**	60,801
Net carrying value	**$ 7,152**	$ 8,302

The following table presents changes in amortized MSRs for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2022	2021	2022	2021
Balance at beginning of period	**$ 7,650**	$ 10,869	**$ 8,302**	$ 10,731
Originations	**20**	421	**105**	1,105
Amortization	**(518)**	(1,283)	**(1,255)**	(1,829)
Balance at end of period	**$ 7,152**	$ 10,007	**$ 7,152**	$ 10,007
Fair value of amortized MSRs at beginning of period	**$ 13,585**	$ 14,921	**$ 12,243**	$ 14,029
Fair value of amortized MSRs at end of period	**$ 14,969**	$ 13,480	**$ 14,969**	$ 13,480

MSRs are evaluated for impairment if events and circumstances indicate a possible impairment. No impairment of MSRs was recorded for the three and six months ended June 30, 2022 and 2021.

The quantitative assumptions used in determining the lower of cost or fair value of the Company's MSRs as of June 30, 2022 and December 31, 2021 were as follows:

	June 30, 2022		December 31, 2021	
	Range	Weighted Average	Range	Weighted Average
Conditional prepayment rate	**8.09 % - 25.35 %**	**8.45 %**	13.77 % - 25.19 %	14.61 %
Life in years (of the MSR)	**2.39 - 7.11**	**6.87**	1.99 - 5.31	5.03
Weighted-average coupon rate	**3.55 % - 6.37 %**	**3.68 %**	3.58 % - 6.56 %	3.71 %
Discount rate	**10.00 % - 10.01 %**	**10.00 %**	10.00 % - 10.01 %	10.00 %

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

6. Transfers of Financial Assets

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

For public deposits and repurchase agreements, the Company enters into bilateral agreements with the entity to pledge investment securities as collateral in the event of default. The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The counterparty has the right to sell or repledge the investment securities. The Company is required by the counterparty to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional investment securities. For transfers of assets with the FHLB and the FRB, the Company enters into bilateral agreements to pledge loans as collateral to secure borrowing capacity. For ACH transactions, the Company enters into bilateral agreements to collateralize possible daylight overdrafts. For interest rate swaps, the Company enters into bilateral agreements to pledge collateral when either party is in a negative fair value position to mitigate counterparty credit risk. Counterparties to ACH transactions, certain interest rate swaps, the FHLB and the FRB do not have the right to sell or repledge the collateral.

The carrying amounts of the assets pledged as collateral to secure public deposits, borrowing arrangements and other transactions as of June 30, 2022 and December 31, 2021 were as follows:

(dollars in thousands)	June 30, 2022	December 31, 2021
Public deposits	**$ 2,402,529**	$ 1,913,369
Federal Home Loan Bank	**2,161,017**	2,380,042
Federal Reserve Bank	**1,711,775**	1,724,279
ACH transactions	**118,408**	115,038
Interest rate swaps	**29,762**	48,430
Total	**$ 6,423,491**	$ 6,181,158

As of June 30, 2022 and December 31, 2021, the borrowing capacity with the FHLB was $1.6 billion and $1.8 billion, respectively. The FHLB fixed-rate advances and remaining borrowing capacity were secured by residential real estate loan collateral as of June 30, 2022 and December 31, 2021. As of June 30, 2022 and December 31, 2021, the Company had an undrawn line of credit of $1.3 billion and $1.1 billion, respectively, from the FRB. The borrowing capacity with the FRB was secured by consumer, commercial and industrial, commercial real estate and residential real estate loans as of June 30, 2022 and December 31, 2021.

As the Company did not enter into reverse repurchase agreements or repurchase agreements, no collateral was accepted or pledged as of June 30, 2022 and December 31, 2021. In addition, no debt was extinguished by in-substance defeasance.

7. Deposits

As of June 30, 2022 and December 31, 2021, deposits were categorized as interest-bearing or noninterest-bearing as follows:

(dollars in thousands)	June 30, 2022	December 31, 2021
U.S.:		
Interest-bearing	**$ 12,115,934**	$ 11,553,298
Noninterest-bearing	**8,667,756**	8,498,187
Foreign:		
Interest-bearing	**874,637**	868,985
Noninterest-bearing	**943,127**	895,676
Total deposits	**$ 22,601,454**	$ 21,816,146

The following table presents the maturity distribution of time certificates of deposit as of June 30, 2022:

(dollars in thousands)	Under $250,000	$250,000 or More	Total
Three months or less	**$ 171,772**	**$ 180,025**	**$ 351,797**
Over three through six months	**182,045**	**199,301**	**381,346**
Over six through twelve months	**361,888**	**293,603**	**655,491**
One to two years	**89,003**	**21,527**	**110,530**
Two to three years	**49,814**	**11,053**	**60,867**
Three to four years	**43,595**	**17,297**	**60,892**
Four to five years	**38,887**	**6,754**	**45,641**
Thereafter	**416**	**700**	**1,116**
Total	**$ 937,420**	**$ 730,260**	**$ 1,667,680**

Time certificates of deposit in denominations of $250,000 or more, in the aggregate, were $0.7 billion and $0.8 billion as of June 30, 2022 and December 31, 2021, respectively. Overdrawn deposit accounts are classified as loans and totaled $7.0 million and $2.1 million as of June 30, 2022 and December 31, 2021, respectively.

8. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is defined as the revenues, expenses, gains and losses that are included in comprehensive loss but excluded from net income. The Company's significant items of accumulated other comprehensive loss are pension and other benefits, net unrealized gains or losses on investment securities and net unrealized gains or losses on cash flow derivative hedges.

Changes in accumulated other comprehensive loss for the three and six months ended June 30, 2022 and 2021 are presented below:

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at March 31, 2022	$ (705,768)	$ 188,266	$ (517,502)
Three months ended June 30, 2022			
Investment securities:			
Unrealized net losses arising during the period	**(91,352)**	**24,369**	**(66,983)**
Reclassification of net losses to net income:			
Amortization of unrealized holding losses on held-to-maturity securities	**19,929**	**(5,317)**	**14,612**
Net change in investment securities	**(71,423)**	**19,052**	**(52,371)**
Cash flow derivative hedges:			
Unrealized net losses arising during the period	**(1,523)**	**407**	**(1,116)**
Reclassification of net gains included in net income	**(638)**	**170**	**(468)**
Net change in cash flow derivative hedges	**(2,161)**	**577**	**(1,584)**
Other comprehensive loss	**(73,584)**	**19,629**	**(53,955)**
Accumulated other comprehensive loss at June 30, 2022	**$ (779,352)**	**$ 207,895**	**$ (571,457)**

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2021	$ (165,967)	$ 44,274	$ (121,693)
Six months ended June 30, 2022			
Investment securities:			
Unrealized net losses arising during the period	**(629,437)**	**167,903**	**(461,534)**
Reclassification of net losses to net income:			
Amortization of unrealized holding losses on held-to-maturity securities	**19,929**	**(5,317)**	**14,612**
Net change in investment securities	**(609,508)**	**162,586**	**(446,922)**
Cash flow derivative hedges:			
Unrealized net losses arising during the period	**(3,239)**	**865**	**(2,374)**
Reclassification of net gains included in net income	**(638)**	**170**	**(468)**
Net change in cash flow derivative hedges	**(3,877)**	**1,035**	**(2,842)**
Other comprehensive loss	**(613,385)**	**163,621**	**(449,764)**
Accumulated other comprehensive loss at June 30, 2022	**$ (779,352)**	**$ 207,895**	**$ (571,457)**

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

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

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

(dollars in thousands)	Pensions and Other Benefits	Available-for-Sale Investment Securities	Held-to-Maturity Investment Securities	Cash Flow Derivative Hedges	Accumulated Other Comprehensive Loss
Three Months Ended June 30, 2022					
Balance at beginning of period	**$ (24,390)**	**$ (491,854)**	**$ —**	**$ (1,258)**	**$ (517,502)**
Unrealized net losses related to the transfer of securities from available-for-sale to held-to-maturity	**—**	**338,816**	**(338,816)**	**—**	**—**
Other comprehensive (loss) income	**—**	**(66,983)**	**14,612**	**(1,584)**	**(53,955)**
Balance at end of period	**$ (24,390)**	**$ (220,021)**	**$ (324,204)**	**$ (2,842)**	**$ (571,457)**
Six Months Ended June 30, 2022					
Balance at beginning of year	**$ (24,390)**	**$ (97,303)**	**$ —**	**$ —**	**$ (121,693)**
Unrealized net losses related to the transfer of securities from available-for-sale to held-to-maturity	**—**	**338,816**	**(338,816)**	**—**	**—**
Other comprehensive (loss) income	**—**	**(461,534)**	**14,612**	**(2,842)**	**(449,764)**
Balance at end of period	**$ (24,390)**	**$ (220,021)**	**$ (324,204)**	**$ (2,842)**	**$ (571,457)**
Three Months Ended June 30, 2021					
Balance at beginning of period	$ (31,737)	$ (11,698)	$ —	$ —	$ (43,435)
Other comprehensive income	—	13,733	—	—	13,733
Balance at end of period	$ (31,737)	$ 2,035	$ —	$ —	$ (29,702)
Six Months Ended June 30, 2021					
Balance at beginning of year	$ (31,737)	$ 63,341	$ —	$ —	$ 31,604
Other comprehensive loss	—	(61,306)	—	—	(61,306)
Balance at end of period	$ (31,737)	$ 2,035	$ —	$ —	$ (29,702)

9. Regulatory Capital Requirements

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

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

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

The table below sets forth those ratios at June 30, 2022 and December 31, 2021:

	First Hawaiian, Inc.		First Hawaiian Bank		Minimum Capital	Well-Capitalized
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Ratio[1]	Ratio[1]
June 30, 2022:						
Common equity tier 1 capital to risk-weighted assets	**$ 1,828,576**	**11.98 %**	**$ 1,818,243**	**11.91 %**	**4.50 %**	**6.50 %**
Tier 1 capital to risk-weighted assets	**1,828,576**	**11.98 %**	**1,818,243**	**11.91 %**	**6.00 %**	**8.00 %**
Total capital to risk-weighted assets	**2,006,476**	**13.14 %**	**1,996,143**	**13.07 %**	**8.00 %**	**10.00 %**
Tier 1 capital to average assets (leverage ratio)	**1,828,576**	**7.54 %**	**1,818,243**	**7.50 %**	**4.00 %**	**5.00 %**
December 31, 2021:						
Common equity tier 1 capital to risk-weighted assets	$ 1,783,113	12.24 %	$ 1,769,214	12.14 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,783,113	12.24 %	1,769,214	12.14 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,965,280	13.49 %	1,951,377	13.40 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,783,113	7.24 %	1,769,214	7.18 %	4.00 %	5.00 %

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

Federal regulations require a 2.5% capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk weighted asset ratios, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, and (iii) 10.5% total capital to risk-weighted assets. As of June 30, 2022, under the bank regulatory capital guidelines, the Company and Bank were both classified as well-capitalized. Management is not aware of any conditions or events that have occurred since June 30, 2022, to change the capital adequacy category of the Company or the Bank.

10. Derivative Financial Instruments

The Company enters into derivative contracts primarily to manage its interest rate risk, as well as for customer accommodation purposes. Derivatives used for risk management purposes consist of interest rate swaps that are designated as a fair value hedge or cash flow hedge. The derivatives are recognized on the unaudited interim consolidated balance sheets as either assets or liabilities at fair value. Derivatives entered into for customer accommodation purposes consist of various free-standing interest rate derivative products and foreign exchange contracts. The Company is party to master netting arrangements with its financial institution counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes.

The following table summarizes the notional amounts and fair values of derivatives held by the Company as of June 30, 2022 and December 31, 2021:

	June 30, 2022			December 31, 2021		
		Fair Value			Fair Value	
(dollars in thousands)	Notional Amount	Asset Derivatives(1)	Liability Derivatives(2)	Notional Amount	Asset Derivatives(1)	Liability Derivatives(2)
Derivatives designated as hedging instruments:						
Interest rate swaps	**$ 267,500**	**$ 4,932**	**$ (3,877)**	$ 67,500	$ —	$ (1,211)
Derivatives not designated as hedging instruments:						
Interest rate swaps	**2,937,558**	**5,454**	**(23,984)**	2,827,582	50,898	—
Visa derivative	**107,464**	**—**	**(3,786)**	105,916	—	(5,530)
Interest rate caps and floors	**—**	**—**	**—**	148,800	27	(27)
Foreign exchange contracts	**232**	**—**	**—**	217	—	—

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

Certain interest rate swaps noted above, are cleared through clearinghouses, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and variation margin payments depending on the contracts being in a net asset or liability position. As of June 30, 2022 and December 31, 2021, the amount of initial margin cash collateral received by the Company was $0.8 million and $1.7 million, respectively. As of June 30, 2022 and December 31, 2021, the variation margin was $18.5 million and $50.9 million, respectively.

As of June 30, 2022, the Company pledged $29.8 million in financial instruments and received $30.7 million in cash as collateral for interest rate swaps. As of December 31, 2021, the Company pledged $30.3 million in financial instruments and $18.1 million in cash as collateral for interest rate swaps. As of June 30, 2022 and December 31, 2021, the cash collateral includes the excess initial margin for interest rate swaps cleared through clearinghouses and cash collateral for interest rate swaps with financial institution counterparties.

Fair Value Hedges

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

At June 30, 2022 and December 31, 2021, the Company carried one interest rate swap with a notional amount of $67.5 million, which was designated and qualified as a fair value hedge for a commercial and industrial loan. As of June 30, 2022 and December 31, 2021, the interest rate swap had a positive fair value of $4.9 million and a negative fair value of $1.0 million, respectively. The swap was executed in the fourth quarter of 2021, will start in the fourth quarter of 2023, and will mature in 2041. The Company will receive a USD Federal Funds floating rate and will pay a fixed rate of 2.07%.

The following table shows the gains and losses recognized in income related to derivatives in fair value hedging relationships for the three and six months ended June 30, 2022 and 2021:

(dollars in thousands)	Gains (losses) recognized in the consolidated statements of income line item	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Gains (losses) on fair value hedging relationships recognized in interest income:					
Recognized on interest rate swap	Loans and lease financing	**$ 4,631**	$ 121	**$ 6,143**	$ 313
Recognized on hedged item	Loans and lease financing	**(4,729)**	(138)	**(6,346)**	(387)

As of June 30, 2022 and December 31, 2021, the following amounts were recorded in the unaudited interim consolidated balance sheets related to the cumulative basis adjustments for fair value hedges:

(dollars in thousands)	Carrying Amount of the Hedged Asset		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Asset	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Line item in the consolidated balance sheets in which the hedged item is included				
Loans and leases	**$ 62,542**	$ 68,707	**$ (4,958)**	$ 1,207

Cash Flow Hedges

The Company utilized interest rate swaps to reduce asset sensitivity and enhance current yields associated with interest payments received on a pool of floating-rate loans. The Company entered into interest rate swaps paying floating rates and receiving fixed rates. The floating-rate index (Bloomberg Short-Term Bank Yield Index, or "BSBY") corresponds to the floating-rate nature of the interest receipts being hedged (based on USD Prime). The swaps provide an initial benefit to interest income as the Company receives the higher fixed rate, which persists for as long as the floating rate remains below the swap's fixed rate. By hedging with interest rate swaps, the Company minimizes the adverse impact on interest income associated with a low interest rate environment on floating-rate loans.

As of June 30, 2022, the Company carried two interest rate swaps with notional amounts totaling $200.0 million, with a negative fair value totaling $3.9 million. The swaps mature in 2024. The Company received fixed rates ranging from 1.70% to 2.08% and paid 1-month BSBY.

The interest rate swaps are designated and qualify as cash flow hedges. To the extent that the hedge is considered highly effective, the gain or loss on the interest rate swaps is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period that the hedged transaction affects earnings.

The following table summarizes the effect of cash flow hedging relationships for the three and six months ended June 30, 2022:

(dollars in thousands)	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Pretax net losses recognized in other comprehensive income on cash flow derivative hedges	**$ (1,523)**	**$ (3,239)**
Pretax net gains reclassified from accumulated other comprehensive income to interest income from loans and lease financing	**(638)**	**(638)**

The estimated net amount to be reclassified within the next 12 months out of accumulated other comprehensive income (loss) into earnings is $2.2 million as a decrease to interest income from loans and lease financing. As of June 30, 2022, the maximum length of time over which forecasted transactions are hedged is approximately two years.

Free-Standing Derivative Instruments

For the derivatives that are not designated as hedges, changes in fair value are reported in current period earnings. The following table summarizes the impact on pretax earnings of derivatives not designated as hedges, as reported on the unaudited interim consolidated statements of income for the three and six months ended June 30, 2022 and 2021:

(dollars in thousands)	Net gains (losses) recognized in the consolidated statements of income line item	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
Derivatives Not Designated As Hedging Instruments:					
Visa derivative	Other noninterest income	**$ 123**	$ (23)	**(1,357)**	3
Foreign exchange contracts	Other noninterest income	**(6)**	—	**—**	—

As of June 30, 2022, the Company carried multiple interest rate swaps with notional amounts totaling $2.9 billion, all of which were related to the Company's customer swap program, with a positive fair value of $5.5 million and a negative fair value of $24.0 million. The Company received floating rates ranging from 1.06% to 4.06% and paid fixed rates ranging from 2.06% to 6.19%. The swaps mature between July 2022 and June 2040. As of December 31, 2021, the Company carried multiple interest rate swaps with notional amounts totaling $2.8 billion, all of which were related to the Company's customer swap program, with a positive fair value of $50.9 million and a negative fair value of nil. The Company received floating rates ranging from 0.00% to 3.55% and paid fixed rates ranging from 2.02% to 6.19%. These swaps resulted in net interest expense of nil during both the three and six months ended June 30, 2022 and 2021.

The Company's customer swap program is designed by offering customers a variable-rate loan that is swapped to fixed-rate through an interest rate swap. The Company simultaneously executes an offsetting interest rate swap with a swap dealer. Upfront fees on the dealer swap are recorded in other noninterest income and totaled $0.5 million and $1.3 million for the three months ended June 30, 2022 and 2021, respectively, and $1.4 million and $1.7 million for the six months ended June 30, 2022 and 2021, respectively.

Visa Class B Restricted Shares

In 2016, the Company recorded a $22.7 million net realized gain related to the sale of 274,000 Visa Class B restricted shares. Concurrent with the sale of the Visa Class B restricted shares, the Company entered into a funding swap agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion rate to unrestricted Class A common shares. During 2018 through 2022, Visa funded its litigation escrow account, thereby reducing each member bank's Class B conversion rate to unrestricted Class A common shares from 1.6483 to the current conversion rate of 1.6059. Under the terms of the funding swap agreement, the Company will make monthly payments to the buyer based on Visa's Class A stock price and the number of Visa Class B restricted shares that were sold until the date on which the covered litigation is settled. A derivative liability ("Visa derivative") of $3.8 million and $5.5 million was included in the unaudited interim consolidated balance sheets at June 30, 2022 and December 31, 2021, respectively, to provide for the fair value of this liability. There were no sales of these shares prior to 2016. See "Note 15. Fair Value" for more information.

Counterparty Credit Risk

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

The Company's interest rate swap agreements include bilateral collateral agreements with collateral requirements, which begin with exposures in excess of $0.3 million. For each counterparty, the Company reviews the interest rate swap collateral daily. Collateral for customer interest rate swap agreements, calculated as the pledged asset less loan balance, requires valuation of the pledged asset. Counterparty credit risk adjustments of nil were recognized during both the three months ended June 30, 2022 and 2021, and $0.1 million were recognized during both the six months ended June 30, 2022 and 2021.

Credit-Risk Related Contingent Features

Some of our derivative contracts contain provisions whereby if the Company's credit rating were to be downgraded by certain major credit rating agencies as a result of a merger or material adverse change in the Company's financial condition, the counterparty could require an early termination of derivative instruments in a net liability position. The aggregate fair value of all derivative instruments with such credit-risk related contingent features that are in a net liability position was $0.1 million and $26.9 million at June 30, 2022 and December 31, 2021, respectively, for which we posted nil and $19.8 million, respectively, in collateral in the normal course of business. If the Company's credit rating had been downgraded as of June 30, 2022 and December 31, 2021, we may have been required to settle the contracts in an amount equal to their fair value.

11. Commitments and Contingent Liabilities

Contingencies

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

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

Financial Instruments with Off-Balance Sheet Risk

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

Unfunded Commitments to Extend Credit

A commitment to extend credit is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specified purpose. Commitments are reported net of participations sold to other institutions. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Company will experience is expected to be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being drawn upon. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans. In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate, by monitoring the size and expiration structure of these portfolios and by applying the same credit standards maintained for all of its related credit activities. Commitments to extend credit are reported net of participations sold to other institutions of $91.7 million and $95.5 million at June 30, 2022 and December 31, 2021, respectively.

Standby and Commercial Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. Standby letters of credit are reported net of participations sold to other institutions of $8.2 million and $10.7 million at June 30, 2022 and December 31, 2021, respectively. The Company also had commitments for commercial and similar letters of credit. Commercial letters of credit are issued specifically to facilitate commerce whereby the commitment is typically drawn upon when the underlying transaction between the customer and a third-party is consummated. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held supports those commitments for which collateral is deemed necessary. The commitments outstanding as of June 30, 2022 have maturities ranging from August 2022 to September 2026. Substantially all fees received from the issuance of such commitments are deferred and amortized on a straight-line basis over the term of the commitment.

Financial instruments with off-balance sheet risk at June 30, 2022 and December 31, 2021 were as follows:

(dollars in thousands)	June 30, 2022	December 31, 2021
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 6,584,364**	$ 6,490,301
Standby letters of credit	**232,024**	182,447
Commercial letters of credit	**3,409**	3,307

Guarantees

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

Foreign Exchange Contracts

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

Reorganization Transactions

On April 1, 2016, a series of reorganization transactions were undertaken to facilitate FHI's initial public offering. In connection with the reorganization transactions, FHI distributed its interest in BancWest Holding Inc. ("BWHI"), including Bank of the West ("BOW") to BNP Paribas ("BNPP") so that BWHI was held directly by BNPP. As a result of the reorganization transactions that occurred on April 1, 2016, various tax or other contingent liabilities could arise related to the business of BOW, or related to the Company's operations prior to the restructuring when it was known as BancWest Corporation, including its then wholly owned subsidiary, BOW. The Company is not able to determine the ultimate outcome or estimate the amounts of these contingent liabilities, if any, at this time.

12. Revenue from Contracts with Customers

Revenue Recognition

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

Disaggregation of Revenue

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

	Three Months Ended June 30, 2022			
(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Net interest income[(1)]	**$ 107,368**	**$ 36,826**	**$ 953**	**$ 145,147**
Service charges on deposit accounts	**6,085**	**413**	**345**	**6,843**
Credit and debit card fees	**—**	**15,243**	**1,206**	**16,449**
Other service charges and fees	**6,306**	**417**	**487**	**7,210**
Trust and investment services income	**8,759**	**—**	**—**	**8,759**
Other	**175**	**2,873**	**287**	**3,335**
Not in scope of Topic 606[(1)]	**1,160**	**1,469**	**(1,088)**	**1,541**
Total noninterest income	**22,485**	**20,415**	**1,237**	**44,137**
Total revenue	**$ 129,853**	**$ 57,241**	**$ 2,190**	**$ 189,284**

	Six Months Ended June 30, 2022			
(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Net interest income[(1)]	**$ 201,416**	**$ 71,914**	**$ 5,689**	**$ 279,019**
Service charges on deposit accounts	**12,734**	**759**	**851**	**14,344**
Credit and debit card fees	**—**	**28,269**	**2,422**	**30,691**
Other service charges and fees	**12,869**	**1,198**	**856**	**14,923**
Trust and investment services income	**17,642**	**—**	**—**	**17,642**
Other	**303**	**5,457**	**545**	**6,305**
Not in scope of Topic 606[(1)]	**2,252**	**3,387**	**(4,027)**	**1,612**
Total noninterest income	**45,800**	**39,070**	**647**	**85,517**
Total revenue	**$ 247,216**	**$ 110,984**	**$ 6,336**	**$ 364,536**

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

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

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

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

For the three and six months ended June 30, 2022 and 2021, substantially all of the Company's revenues under the scope of Topic 606 were related to performance obligations satisfied at a point in time.

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

Service Charges on Deposit Accounts

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

Credit and Debit Card Fees

Credit and debit card fees primarily represent revenues earned from interchange fees, ATM fees and merchant processing fees. Interchange and network revenues are earned on credit and debit card transactions conducted with payment networks. ATM fees are primarily earned as a result of surcharges assessed to non-FHB customers who use an FHB ATM. Merchant processing fees are primarily earned on transactions in which FHB is the acquiring bank. Such fees are generally recognized concurrently with the delivery of services on a daily basis.

Trust and Investment Services Fees

Trust and investment services fees represent revenue earned by directing, holding and managing customers' assets. Fees are generally computed based on a percentage of the previous period's value of assets under management. The transaction price (i.e., percentage of assets under management) is established at the inception of each contract. Trust and investment services fees also include fees collected when the Company acts as agent or personal representative and executes security transactions, performs collection and disbursement of income, and completes investment management and other administrative tasks.

Other Fees

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

Contract Balances

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. The Company received signing bonuses from three vendors in prior years and one vendor in the current year, which are being amortized over the term of the respective contracts. As of June 30, 2022 and December 31, 2021, the Company had contract liabilities of $2.6 million and $3.0 million, respectively, which it expects to recognize over the remaining term of the respective contracts with the vendors. For the three and six months ended June 30, 2022, the Company's recognized revenues increased and contract liabilities decreased by approximately $0.2 million and $0.5 million, respectively, due to the passage of time. For the three and six months ended June 30, 2021, the Company's recognized revenues increased and contract liabilities decreased by approximately $0.2 million and $0.4 million, respectively, due to the passage of time. There were no changes in contract liabilities due to changes in transaction price estimates.

A contract asset is the right to consideration for transferred goods or services when the amount is conditioned on something other than the passage of time. As of June 30, 2022 and December 31, 2021, there were no material receivables from contracts with customers or contract assets recorded on the Company's consolidated balance sheets.

Other

Except for the contract liabilities noted above, the Company did not have any significant performance obligations as of June 30, 2022 and December 31, 2021. The Company also did not have any material contract acquisition costs or use any significant judgments or estimates in recognizing revenue for financial reporting purposes.

13. Earnings per Share

For the three and six months ended June 30, 2022, the Company made no adjustments to net income for the purpose of computing earnings per share and there were 149,000 and 22,000 antidilutive securities, respectively. For the three and six months ended June 30, 2021, the Company made no adjustments to net income for the purpose of computing earnings per share and there were no antidilutive securities. For the three and six months ended June 30, 2022 and 2021, the computations of basic and diluted earnings per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except shares and per share amounts)	2022	2021	2022	2021
Numerator:				
Net income	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434
Denominator:				
Basic: weighted-average shares outstanding	**127,672,244**	129,392,339	**127,614,564**	129,661,228
Add: weighted-average equity-based awards	**342,533**	436,508	**494,066**	503,534
Diluted: weighted-average shares outstanding	**128,014,777**	129,828,847	**128,108,630**	130,164,762
Basic earnings per share	**$ 0.46**	$ 0.67	**$ 0.92**	$ 1.11
Diluted earnings per share	**$ 0.46**	$ 0.67	**$ 0.91**	$ 1.11

14. Noninterest Income and Noninterest Expense

Benefit Plans

The following table sets forth the components of net periodic benefit cost for the Company's pension and postretirement benefit plans for the three and six months ended June 30, 2022 and 2021:

(dollars in thousands)	Income line item where recognized in the consolidated statements of income	Pension Benefits 2022	Pension Benefits 2021	Other Benefits 2022	Other Benefits 2021
Three Months Ended June 30,					
Service cost	Salaries and employee benefits	**$ —**	$ —	**$ 214**	$ 264
Interest cost	Other noninterest expense	**1,361**	1,231	**143**	131
Expected return on plan assets	Other noninterest expense	**(782)**	(766)	**—**	—
Recognized net actuarial loss (gain)	Other noninterest expense	**1,269**	1,720	**(101)**	—
Total net periodic benefit cost		**$ 1,848**	$ 2,185	**$ 256**	$ 395
Six Months Ended June 30,					
Service cost	Salaries and employee benefits	**$ —**	$ —	**$ 429**	$ 528
Interest cost	Other noninterest expense	**2,722**	2,462	**287**	262
Expected return on plan assets	Other noninterest expense	**(1,565)**	(1,532)	**—**	—
Recognized net actuarial loss (gain)	Other noninterest expense	**2,537**	3,440	**(202)**	—
Total net periodic benefit cost		**$ 3,694**	$ 4,370	**$ 514**	$ 790

Leases

The Company recognized operating lease income related to lease payments of $1.6 million for both the three months ended June 30, 2022 and 2021, and $3.1 million and $3.3 million for the six months ended June 30, 2022 and 2021, respectively. In addition, the Company recognized $1.6 million and $1.5 million of lease income related to variable lease payments for the three months ended June 30, 2022 and 2021, respectively, and $3.2 million and $3.0 million for the six months ended June 30, 2022 and 2021, respectively.

15. Fair Value

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

Fair Value Hierarchy

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

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

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

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

Disclosure of fair values is not required for certain items such as lease financing, obligations for pension and other postretirement benefits, premises and equipment, prepaid expenses, deposit liabilities with no defined or contractual maturity, and income tax assets and liabilities.

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

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

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

Available-for-sale securities

Available-for-sale debt securities are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices, including estimates by third-party pricing services, if available. If quoted prices are not available, fair values are measured using proprietary valuation models that utilize market observable parameters from active market makers and inter-dealer brokers whereby securities are valued based upon available market data for securities with similar characteristics. Management reviews the pricing information received from the Company's third-party pricing service to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy and transfers of securities within the fair value hierarchy are made if necessary. On a monthly basis, management reviews the pricing information received from the third-party pricing service which includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the third-party pricing service. Management also identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of June 30, 2022 and December 31, 2021, management did not make adjustments to prices provided by the third-party pricing services as a result of illiquid or inactive markets. The Company's third-party pricing service has also established processes for the Company to submit inquiries regarding quoted prices. Periodically, the Company will challenge the quoted prices provided by the third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by the Company. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis. The Company classifies all available-for-sale securities as Level 2.

Derivatives

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

Concurrent with the sale of the Visa Class B restricted shares, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion rate to unrestricted Class A common shares. During 2018 through 2022, Visa funded its litigation escrow account, thereby reducing each member bank's Class B conversion rate to unrestricted Class A common shares from 1.6483 to the current conversion rate of 1.6059. The Visa derivative of $3.8 million and $5.5 million was included in the unaudited interim consolidated balance sheets at June 30, 2022 and December 31, 2021, respectively, to provide for the fair value of this liability. The potential liability related to this funding swap agreement was determined based on management's estimate of the timing and the amount of Visa's litigation settlement and the resulting payments due to the counterparty under the terms of the contract. As such, the funding swap agreement is classified as Level 3 in the fair value hierarchy. The significant unobservable inputs used in the fair value measurement of the Company's funding swap agreement are the potential future changes in the conversion rate, expected term and growth rate of the market price of Visa Class A common shares. Material increases (or decreases) in any of those inputs may result in a significantly higher (or lower) fair value measurement.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021 are summarized below:

	Fair Value Measurements as of June 30, 2022			
(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
U.S. Treasury and government agency debt securities	$ —	$ 159,165	$ —	$ 159,165
Government-sponsored enterprises debt securities	—	19,963	—	19,963
Mortgage-backed securities:				
Residential - Government agency(1)	—	67,958	—	67,958
Residential - Government-sponsored enterprises(1)	—	1,333,015	—	1,333,015
Commercial - Government agency	—	267,657	—	267,657
Commercial - Government-sponsored enterprises	—	141,836	—	141,836
Commercial - Non-agency	—	21,550	—	21,550
Collateralized mortgage obligations:				
Government agency	—	1,025,339	—	1,025,339
Government-sponsored enterprises	—	684,560	—	684,560
Collateralized loan obligations	—	246,703	—	246,703
Total available-for-sale securities	—	3,967,746	—	3,967,746
Other assets(2)	6,703	10,386	—	17,089
Liabilities				
Other liabilities(3)	—	(27,861)	(3,786)	(31,647)
Total	$ 6,703	$ 3,950,271	$ (3,786)	$ 3,953,188

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

(dollars in thousands)	Fair Value Measurements as of December 31, 2021 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
U.S. Treasury and government agency debt securities	$ —	$ 192,563	$ —	$ 192,563
Mortgage-backed securities:				
Residential - Government agency[1]	—	137,264	—	137,264
Residential - Government-sponsored enterprises[1]	—	1,491,100	—	1,491,100
Commercial - Government agency	—	387,663	—	387,663
Commercial - Government-sponsored enterprises	—	1,369,443	—	1,369,443
Collateralized mortgage obligations:				
Government agency	—	2,079,523	—	2,079,523
Government-sponsored enterprises	—	2,621,044	—	2,621,044
Collateralized loan obligations	—	105,247	—	105,247
Debt securities issued by states and political subdivisions	—	44,185	—	44,185
Total available-for-sale securities	—	8,428,032	—	8,428,032
Other assets[2]	7,382	50,925	—	58,307
Liabilities				
Other liabilities[3]	—	(1,238)	(5,530)	(6,768)
Total	$ 7,382	$ 8,477,719	$ (5,530)	$ 8,479,571

(1) Backed by residential real estate.
(2) Other assets classified as Level 1 include mutual funds and money market funds that have quoted prices in active markets and are related to the Company’s deferred compensation plans. Other assets classified as Level 2 include derivative assets.
(3) Other liabilities include derivative liabilities.

For Level 3 assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021, the significant unobservable inputs used in the fair value measurements were as follows:

Quantitative Information about Level 3 Fair Value Measurements at June 30, 2022

(dollars in thousands)	**Fair value**	**Valuation Technique**	**Significant Unobservable Input**	**Range**
Visa derivative	**$ (3,786)**	**Discounted Cash Flow**	**Expected Conversion Rate - 1.6059[1]**	**1.5885-1.6059**
			Expected Term - 1 year[2]	**0.5 to 1.5 years**
			Growth Rate - 26%[3]	**10% - 38%**

Quantitative Information about Level 3 Fair Value Measurements at December 31, 2021

(dollars in thousands)	**Fair value**	**Valuation Technique**	**Significant Unobservable Input**	**Range**
Visa derivative	$ (5,530)	Discounted Cash Flow	Expected Conversion Rate - 1.6181[1]	1.5885-1.6181
			Expected Term - 1 year[2]	0.5 to 1.5 years
			Growth Rate - 26%[3]	10% - 38%

(1) Due to the uncertainty in the movement of the conversion rate, the current conversion rate was utilized in the fair value calculation.
(2) The expected term of 1 year was based on the median of 0.5 to 1.5 years.
(3) The growth rate was based on the arithmetic average of analyst price targets.

Changes in Fair Value Levels

For the three and six months ended June 30, 2022 and 2021, there were no transfers between fair value hierarchy levels.

The changes in Level 3 liabilities measured at fair value on a recurring basis for the three and six months ended June 30, 2022 and 2021 are summarized below:

(dollars in thousands)	Visa Derivative 2022	Visa Derivative 2021
Three Months Ended June 30,		
Balance as of April 1,	**$ (5,794)**	$ (3,369)
Total net gains (losses) included in other noninterest income	**123**	(23)
Settlements	**1,885**	1,260
Balance as of June 30,	**$ (3,786)**	$ (2,132)
Total net gains (losses) included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of June 30,	**$ 123**	$ (23)
Six Months Ended June 30,		
Balance as of January 1,	**$ (5,530)**	$ (4,554)
Total net (losses) gains included in other noninterest income	**(1,357)**	3
Settlements	**3,101**	2,419
Balance as of June 30,	**$ (3,786)**	$ (2,132)
Total net (losses) gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of June 30,	**$ (1,357)**	$ 3

Assets and Liabilities Carried at Other Than Fair Value

The following tables summarize for the periods indicated the estimated fair value of the Company's financial instruments that are not required to be carried at fair value on a recurring basis, excluding leases and deposit liabilities with no defined or contractual maturity.

	June 30, 2022				
		Fair Value Measurements			
(dollars in thousands)	Book Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	**$ 1,533,676**	**$ 279,629**	**$ 1,254,047**	**$ —**	**$ 1,533,676**
Investment securities held-to-maturity	**4,093,215**	**—**	**3,910,780**	**—**	**3,910,780**
Loans held for sale	**180**	**—**	**182**	**—**	**182**
Loans[1]	**13,018,119**	**—**	**—**	**12,587,779**	**12,587,779**
Financial liabilities:					
Time deposits[2]	**$ 1,667,680**	**$ —**	**$ 1,636,768**	**$ —**	**$ 1,636,768**

(dollars in thousands)	December 31, 2021				
		Fair Value Measurements			
	Book Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	$ 1,258,469	$ 246,716	$ 1,011,753	$ —	$ 1,258,469
Loans held for sale	538	—	542	—	542
Loans(1)	12,730,605	—	—	12,791,811	12,791,811
Financial liabilities:					
Time deposits(2)	$ 1,776,438	$ —	$ 1,773,321	$ —	$ 1,773,321

(1) Excludes financing leases of $244.7 million at June 30, 2022 and $231.4 million at December 31, 2021.
(2) Excludes deposit liabilities with no defined or contractual maturity of $20.9 billion as of June 30, 2022 and $20.0 billion as of December 31, 2021.

Unfunded loan and lease commitments and letters of credit are not included in the tables above. As of June 30, 2022 and December 31, 2021, the Company had $6.8 billion and $6.7 billion, respectively, of unfunded loan and lease commitments and letters of credit. The Company believes that a reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related reserve for unfunded commitments, which totaled $42.4 million and $44.3 million at June 30, 2022 and December 31, 2021, respectively. No active trading market exists for these instruments, and the estimated fair value does not include value associated with the borrower relationship. The Company does not estimate the fair values of certain unfunded loan and lease commitments that can be canceled by providing notice to the borrower. As Company-level data is incorporated into the fair value measurement, unfunded loan and lease commitments and letters of credit are classified as Level 3.

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

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

Mortgage servicing rights

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

Collateral-dependent loans

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

Other real estate owned

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

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

There were no assets with nonrecurring fair value adjustments held as of June 30, 2022 and December 31, 2021. Additionally, there were no nonrecurring fair value adjustments for both the three and six months ended June 30, 2022 and 2021.

16. Reportable Operating Segments

The Company's operations are organized into three business segments – Retail Banking, Commercial Banking, and Treasury and Other. These segments reflect how discrete financial information is currently evaluated by the chief operating decision maker and how performance is assessed and resources allocated. The Company's internal management process measures the performance of these business segments. This process, which is not necessarily comparable with similar information for any other financial institution, uses various techniques to assign balance sheet and income statement amounts to the business segments, including allocations of income, expense, the provision for credit losses, and capital. This process is dynamic and requires certain allocations based on judgment and other subjective factors. Unlike financial accounting, there is no comprehensive authoritative guidance for management accounting that is equivalent to GAAP.

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

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

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

Business Segments

Retail Banking

Retail Banking offers a broad range of financial products and services to consumers and small businesses. Loan and lease products offered include residential and commercial mortgage loans, home equity lines of credit and loans, automobile loans and leases, secured and unsecured lines of credit, installment loans and small business loans and leases. Deposit products offered include checking, savings, and time deposit accounts. Retail Banking also offers wealth management services. Products and services from Retail Banking are delivered to customers through 51 banking locations throughout the State of Hawaii, Guam, and Saipan.

Commercial Banking

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

Treasury and Other

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

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

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

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Three Months Ended June 30, 2022				
Net interest income	**$ 107,368**	**$ 36,826**	**$ 953**	**$ 145,147**
Provision for credit losses	**(386)**	**(614)**	**—**	**(1,000)**
Net interest income after provision for credit losses	**106,982**	**36,212**	**953**	**144,147**
Noninterest income	**22,485**	**20,415**	**1,237**	**44,137**
Noninterest expense	**(73,357)**	**(26,962)**	**(8,856)**	**(109,175)**
Income (loss) before (provision) benefit for income taxes	**56,110**	**29,665**	**(6,666)**	**79,109**
(Provision) benefit for income taxes	**(13,896)**	**(7,251)**	**1,398**	**(19,749)**
Net income (loss)	**$ 42,214**	**$ 22,414**	**$ (5,268)**	**$ 59,360**

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Six Months Ended June 30, 2022				
Net interest income	**$ 201,416**	**$ 71,914**	**$ 5,689**	**$ 279,019**
Benefit for credit losses	**1,455**	**1,928**	**1,364**	**4,747**
Net interest income after benefit for credit losses	**202,871**	**73,842**	**7,053**	**283,766**
Noninterest income	**45,800**	**39,070**	**647**	**85,517**
Noninterest expense	**(143,577)**	**(53,467)**	**(16,173)**	**(213,217)**
Income (loss) before (provision) benefit for income taxes	**105,094**	**59,445**	**(8,473)**	**156,066**
(Provision) benefit for income taxes	**(26,046)**	**(14,504)**	**1,563**	**(38,987)**
Net income (loss)	**$ 79,048**	**$ 44,941**	**$ (6,910)**	**$ 117,079**

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Three Months Ended June 30, 2021				
Net interest income (expense)	$ 97,106	$ 40,234	$ (5,859)	$ 131,481
Benefit for credit losses	12,654	17,465	4,881	35,000
Net interest income (expense) after provision for credit losses	109,760	57,699	(978)	166,481
Noninterest income	22,495	19,528	7,348	49,371
Noninterest expense	(62,115)	(24,993)	(12,280)	(99,388)
Income (loss) before (provision) benefit for income taxes	70,140	52,234	(5,910)	116,464
(Provision) benefit for income taxes	(17,884)	(13,285)	1,446	(29,723)
Net income (loss)	$ 52,256	$ 38,949	$ (4,464)	$ 86,741

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

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

Cautionary Note Regarding Forward-Looking Statements

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

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including the following: conditions in the financial markets and economic conditions generally and in Hawaii, Guam and Saipan in particular; a sustained period of high inflation; our dependence on the real estate markets in which we operate; risk arising from conditions in the commercial real estate market; concentration of exposures to certain asset classes and individual obligors; interest rate risk and fluctuations in interest rates; changes or the discontinuance of the London Interbank Offered Rate ("LIBOR"); the possibility of a decline in the value of the investment securities we own; the possibility of a deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold; the possibility we might underestimate the credit losses inherent in our loan and lease portfolio; our ability to attract and retain customer deposits; our inability to receive dividends from our bank, our ability to raise additional capital in the future; our ability to maintain, attract and retain customer relationships; our ability to attract and retain key personnel and other skilled employees; the effectiveness of our techniques for managing risk and our use of data and modeling both in our management decision-making generally and in meeting regulatory expectations in particular; the effectiveness of the appraisals and other valuation techniques we use; the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents; the possibility of employee misconduct or mistakes; changes in the actual or perceived soundness or condition of other financial institutions; consumer protection initiatives related to the foreclosure process; risks in connection with any sale of loans; the possibility that certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations; issues regarding the accuracy and completeness of information about customers and counterparties; risks associated with our accounting estimates and risk management processes and controls. changes in our accounting policies or in accounting standards; risks relating to the geographic concentration in our existing markets; risks relating to competition in a highly competitive industry and market area; the possibility that new lines of business, products, product enhancements or services may subject us to additional risks; a change in the key role of dealers within the automotive industry or our ability to maintain or build relationships with them; technological change; future legislative or regulatory change; risks relating to our bank in times of stress; capital adequacy requirements; the possibility that we may not pay dividends on our common stock in the future; the possibility of rulemaking changes implemented by the CFPB; the possibility of litigation and regulatory actions; the possibility of increases in FDIC insurance premiums; the risk of non-compliance with the USA PATRIOT Act, the Bank Secrecy Act or other laws and regulations; risks regarding regulations relating to privacy, information security and data protection, and differences in regulation; risks relating to our use of third-party vendors and our other ongoing third-party business relationships; environmental liability risks associated with our bank branches and any real estate collateral we acquire upon foreclosure; the possibility of litigation pertaining to our fiduciary responsibilities; the impact of the ongoing COVID-19 pandemic and any other pandemic, epidemic or health-related crisis; the effects of severe weather, hurricanes, tsunamis, natural disasters, pandemics, acts of war or terrorism or other external events; volatility in our stock price; the possibility of future sales and issuances of our common stock; the possibility of unexpected tax liabilities and unexpected tax liabilities that may be applicable to us as a result of the reorganization transactions to facilitate FHI's initial public offering; and damage to our reputation from any of the factors described above.

The foregoing factors should not be considered an exhaustive list and should be read together with the risk factors and other cautionary statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2022. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Company Overview

FHI is a bank holding company, which owns 100% of the outstanding common stock of FHB, its only direct, wholly owned subsidiary. FHB was founded in 1858 under the name Bishop & Company and was the first successful banking partnership in the Kingdom of Hawaii and the second oldest bank formed west of the Mississippi River. The Bank operates its business through three operating segments: Retail Banking, Commercial Banking and Treasury and Other.

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

Basis of Presentation

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

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

The accompanying unaudited interim consolidated financial statements of the Company should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 and filed with the U.S. Securities and Exchange Commission (the “SEC”).

Hawaii Economy

Hawaii’s economy continues to reflect growth during the six months ended June 30, 2022. The statewide seasonally adjusted unemployment rate was 4.3% in June 2022 compared to 7.7% in June 2021 and 13.9% in June 2020, according to the State of Hawaii Department of Labor and Industrial Relations, while the national seasonally adjusted unemployment rate was 3.6% in June 2022 compared to 5.9% in June 2021 and 11.1% in June 2020.

Domestic visitor arrivals are near pre-pandemic levels, with average daily domestic passenger counts during the first six months of 2022 at approximately 85.4% of the average daily passenger counts during the first six months of 2019. Prior to the pandemic, tourists from Japan represented a significant portion of international visitors to the state. We are beginning to see an increase in Japanese visitors but are still well below the arrival count before the pandemic. Visitor arrivals from Japan during the first six months of 2022 were 34,925 as compared to 7,448 during the first six months of 2021 and 734,235 during the first six months of 2019.

For the six months ended June 30, 2022, the volume of single-family home sales decreased by 8.8%, while condominium sales increased by 7.5%, in each case as compared to the same period in 2021, according to the Honolulu Board of Realtors. The median price of single-family home sales and condominium sales on Oahu was $1,100,000 and $515,000, respectively, or an increase of 17.0% and 13.2%, respectively, for the six months ended June 30, 2022 as compared to the same period in 2021. As of June 30, 2022, months of inventory of single-family homes and condominiums on Oahu remained low at approximately 1.5 and 1.6 months, respectively. Lastly, state general excise and use tax revenues increased by 24.0% for the six months ended June 30, 2022 as compared to the same period in 2021, according to the Hawaii Department of Business, Economic Development & Tourism.

There remains many uncertainties related to COVID-19 including, among other things, the impact of a recent increase in case numbers throughout the United States, the ongoing impact to our customers, employees and vendors; the impact to the financial services and banking industry; and the impact to the economy as a whole, as well as the effect of actions taken, or that may yet be taken, or inaction by governmental authorities to mitigate both the economic and health-related effects of COVID-19. Refer to our Annual Report on Form 10-K for the year ended December 31, 2021, for further information regarding (i) the impact of the COVID-19 pandemic on our operations and our results thereof, as well as the impact on our financial position and (ii) legislative and regulatory actions taken related to the COVID-19 pandemic, particularly as they relate to the banking and financial services industry.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this Form 10-Q have been prepared according to generally accepted accounting principles in the United States, which require the measurement of financial positions and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation.

In recent periods, the increase in inflationary conditions accelerated due to, among other factors, global supply chain disruptions caused by the pandemic. Higher gasoline and other commodity prices or supply chain disruptions resulting from Russia's ongoing invasion of Ukraine are also contributing to higher inflation levels, which could, in turn, adversely affect the U.S. economy, the demand for our products and creditworthiness of our borrowers.

Our operating costs have increased as inflationary conditions put upward pressure on the Company's expenses. As virtually all of our assets and liabilities are monetary in nature, interest rates (which do not necessarily move in the same direction or the same extent as the prices of goods and services) generally have a more significant impact on our performance than do general levels of inflation. Rising interest rates, which are expected to continue to rise, may contribute to increased net interest margins and benefit our net interest income as our assets are expected to reprice faster and to a greater degree than our liabilities. Changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but also our ability to originate loans and deposits. In addition, changes in interest rates also have a significant impact on (i) the carrying value of certain assets, including loans, real estate and investment securities, on our balance sheet and (ii) the level of loan refinancing activity in our portfolio, which impacts the amount of prepayment penalty income we receive on loans we hold. In addition, we may incur debt in the future, and that debt may also be sensitive to interest rates.

In light of volatility in the capital markets and economic disruptions, we continue to carefully monitor our capital and liquidity positions. As of June 30, 2022, the Company was "well-capitalized" and met all applicable regulatory capital requirements, including a Common Equity Tier 1 capital ratio of 11.98%, compared to the minimum requirement of 4.50%. We continue to maintain high levels of liquidity. For additional discussions regarding our capital and liquidity positions and related risks, refer to the sections titled "Liquidity and Capital Resources" and "Capital" in this MD&A.

These and other key factors could impact our profitability in future reporting periods. See Item 1A. Risk Factors, beginning in the section captioned "Summary of Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 25, 2022.

Selected Financial Data

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

Financial Highlights **Table 1**

(dollars in thousands, except per share data)	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Income Statement Data:				
Interest income	**$ 149,744**	$ 136,222	**$ 286,365**	$ 270,798
Interest expense	**4,597**	4,741	**7,346**	10,159
Net interest income	**145,147**	131,481	**279,019**	260,639
Provision for credit losses	**1,000**	(35,000)	**(4,747)**	(35,000)
Net interest income after provision for credit losses	**144,147**	166,481	**283,766**	295,639
Noninterest income	**44,137**	49,371	**85,517**	93,239
Noninterest expense	**109,175**	99,388	**213,217**	195,694
Income before provision for income taxes	**79,109**	116,464	**156,066**	193,184
Provision for income taxes	**19,749**	29,723	**38,987**	48,750
Net income	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434
Basic earnings per share	**$ 0.46**	$ 0.67	**$ 0.92**	$ 1.11
Diluted earnings per share	**$ 0.46**	$ 0.67	**$ 0.91**	$ 1.11
Basic weighted-average outstanding shares	**127,672,244**	129,392,339	**127,614,564**	129,661,228
Diluted weighted-average outstanding shares	**128,014,777**	129,828,847	**128,108,630**	130,164,762
Dividends declared per share	**$ 0.26**	$ 0.26	**$ 0.52**	$ 0.52
Dividend payout ratio	**56.52 %**	38.81 %	**57.14 %**	46.85 %
Other Financial Information / Performance Ratios(1):				
Net interest margin	**2.60 %**	2.46 %	**2.51 %**	2.50 %
Efficiency ratio	**57.33 %**	54.74 %	**58.15 %**	55.12 %
Return on average total assets	**0.94 %**	1.45 %	**0.94 %**	1.24 %
Return on average tangible assets (non-GAAP)(2)	**0.98 %**	1.51 %	**0.98 %**	1.30 %
Return on average total stockholders' equity	**10.52 %**	12.92 %	**9.82 %**	10.75 %
Return on average tangible stockholders' equity (non-GAAP)(2)	**18.79 %**	20.51 %	**16.76 %**	16.99 %
Noninterest expense to average assets	**1.73 %**	1.66 %	**1.71 %**	1.68 %

(continued)

(continued) (dollars in thousands, except per share data)	June 30, 2022	December 31, 2021
Balance Sheet Data:		
Cash and cash equivalents	**$ 1,533,676**	$ 1,258,469
Investment securities available-for-sale	**3,967,746**	8,428,032
Investment securities held-to-maturity	**4,093,215**	—
Loans and leases	**13,262,781**	12,961,999
Allowance for credit losses for loans and leases	**148,942**	157,262
Goodwill	**995,492**	995,492
Total assets	**25,377,533**	24,992,410
Total deposits	**22,601,454**	21,816,146
Total liabilities	**23,124,922**	22,335,498
Total stockholders' equity	**2,252,611**	2,656,912
Book value per share	**$ 17.67**	$ 20.84
Tangible book value per share (non-GAAP)(2)	**$ 9.86**	$ 13.03
Asset Quality Ratios:		
Non-accrual loans and leases / total loans and leases	**0.06 %**	0.05 %
Allowance for credit losses for loans and leases / total loans and leases	**1.12 %**	1.21 %
Net charge-offs / average total loans and leases(3)	**0.08 %**	0.10 %

Capital Ratios:	June 30, 2022	December 31, 2021
Common Equity Tier 1 Capital Ratio	**11.98 %**	12.24 %
Tier 1 Capital Ratio	**11.98 %**	12.24 %
Total Capital Ratio	**13.14 %**	13.49 %
Tier 1 Leverage Ratio	**7.54 %**	7.24 %
Total stockholders' equity to total assets	**8.88 %**	10.63 %
Tangible stockholders' equity to tangible assets (non-GAAP)(2)	**5.16 %**	6.92 %

(1) Except for the efficiency ratio, amounts are annualized for the three and six months ended June 30, 2022 and 2021.

(2) Return on average tangible assets, return on average tangible stockholders’ equity, tangible book value per share and tangible stockholders’ equity to tangible assets are non-GAAP financial measures. We compute our return on average tangible assets as the ratio of net income to average tangible assets. We compute our return on average tangible stockholders’ equity as the ratio of net income to average tangible stockholders’ equity. We compute our tangible book value per share as the ratio of tangible stockholders’ equity to outstanding shares. We compute our tangible stockholders’ equity to tangible assets as the ratio of tangible stockholders’ equity to tangible assets. We believe that these financial measures are useful for investors, regulators, management and others to evaluate financial performance and capital adequacy relative to other financial institutions. Although these non-GAAP financial measures are frequently used by shareholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

(3) Net charge-offs / average total loans and leases is annualized for the six months ended June 30, 2022.

The following table provides a reconciliation of these non-GAAP financial measures with their most closely related GAAP measures for the periods indicated:

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

(dollars in thousands, except per share data)	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Income Statement Data:				
Noninterest expense	**$ 109,175**	$ 99,388	**$ 213,217**	$ 195,694
Net income	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434
Average total stockholders' equity	**$ 2,262,654**	$ 2,691,966	**$ 2,404,471**	$ 2,709,735
Less: average goodwill	**995,492**	995,492	**995,492**	995,492
Average tangible stockholders' equity	**$ 1,267,162**	$ 1,696,474	**$ 1,408,979**	$ 1,714,243
Average total assets	**$ 25,250,176**	$ 24,015,065	**$ 25,165,783**	$ 23,482,839
Less: average goodwill	**995,492**	995,492	**995,492**	995,492
Average tangible assets	**$ 24,254,684**	$ 23,019,573	**$ 24,170,291**	$ 22,487,347
Return on average total stockholders' equity[(a)]	**10.52 %**	12.92 %	**9.82 %**	10.75 %
Return on average tangible stockholders' equity (non-GAAP)[(a)]	**18.79 %**	20.51 %	**16.76 %**	16.99 %
Return on average total assets[(a)]	**0.94 %**	1.45 %	**0.94 %**	1.24 %
Return on average tangible assets (non-GAAP)[(a)]	**0.98 %**	1.51 %	**0.98 %**	1.30 %
Noninterest expense to average assets[(a)]	**1.73 %**	1.66 %	**1.71 %**	1.68 %

(dollars in thousands, except share amount and per share data)	As of June 30, 2022	As of December 31, 2021
Balance Sheet Data:		
Total stockholders' equity	**$ 2,252,611**	$ 2,656,912
Less: goodwill	**995,492**	995,492
Tangible stockholders' equity	**$ 1,257,119**	$ 1,661,420
Total assets	**$ 25,377,533**	$ 24,992,410
Less: goodwill	**995,492**	995,492
Tangible assets	**$ 24,382,041**	$ 23,996,918
Shares outstanding	**127,451,087**	127,502,472
Total stockholders' equity to total assets	**8.88 %**	10.63 %
Tangible stockholders' equity to tangible assets (non-GAAP)	**5.16 %**	6.92 %
Book value per share	**$ 17.67**	$ 20.84
Tangible book value per share (non-GAAP)	**$ 9.86**	$ 13.03

(a) Annualized for the three and six months ended June 30, 2022 and 2021.

Financial Highlights

Net income was $59.4 million for the three months ended June 30, 2022, a decrease of $27.4 million or 32% as compared to the same period in 2021. Basic and diluted earnings per share were both $0.46 per share for the three months ended June 30, 2022, a decrease of $0.21 per share or 31% as compared to the same period in 2021. Net income was impacted by a $13.7 million increase in net interest income driven by the rising interest rate environment and a $10.0 million decrease in the provision for income taxes. The decrease in net income was primarily due to a provision for credit losses (the "Provision") of $1.0 million for the three months ended June 30, 2022, compared to a negative provision of $35.0 million for the three months ended June 30, 2021, in addition to a $9.8 million increase in noninterest expense and a $5.2 million decrease in noninterest income.

Our return on average total assets was 0.94% for the three months ended June 30, 2022, a decrease of 51 basis points from the same period in 2021, and our return on average total stockholders’ equity was 10.52% for the three months ended June 30, 2022, a decrease of 240 basis points from the same period in 2021. Our return on average tangible assets was 0.98% for the three months ended June 30, 2022, a decrease of 53 basis points from the same period in 2021, and our return on average tangible stockholders’ equity was 18.79% for the three months ended June 30, 2022, a decrease of 172 basis points from the same period in 2021. Our efficiency ratio was 57.33% for the three months ended June 30, 2022 compared to 54.74% for the same period in 2021.

Our results for the three months ended June 30, 2022 were highlighted by the following:

- Net interest income was $145.1 million for the three months ended June 30, 2022, an increase of $13.7 million or 10% as compared to the same period in 2021. Our net interest margin was 2.60% for the three months ended June 30, 2022, an increase of 14 basis points as compared to the same period in 2021. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our investment securities portfolio, higher yields on interest-bearing deposits in other banks, higher yields in a few loan categories and lower borrowing costs, partially offset by lower average balances in a few loan categories and higher deposit funding costs compared to the same period in 2021.

- There was a Provision of $1.0 million for the three months ended June 30, 2022, compared to a negative provision of $35.0 million for the same period in 2021. The negative Provision in 2021 was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii’s economy, key industries, businesses and our customers. The Provision is recorded to maintain the ACL and the reserve for unfunded commitments at levels deemed adequate to absorb lifetime expected credit losses in our loan and lease portfolio and unfunded loan and lease commitments as of the balance sheet date.

- Noninterest income was $44.1 million for the three months ended June 30, 2022, a decrease of $5.2 million or 11% as compared to the same period in 2021. The decrease was primarily due to a negative $0.9 million of Bank-owned life insurance (“BOLI”) income as compared to $3.1 million of BOLI income for the same period in 2021, as well as a $1.3 million decrease in other service charges and fees.

- Noninterest expense was $109.2 million for the three months ended June 30, 2022, an increase of $9.8 million or 10% compared to the same period in 2021. The increase in noninterest expense was primarily due to a $3.9 million increase in salaries and employee benefits, a $2.1 million increase in contracted services and professional fees, a $1.4 million increase in equipment expense, a $1.0 million increase in card rewards program expense and a $0.5 million increase in advertising and marketing expense.

Net income was $117.1 million for the six months ended June 30, 2022, a decrease of $27.4 million or 19% as compared to the same period in 2021. Basic earnings per share was $0.92 per share for the six months ended June 30, 2022, a decrease of $0.19 per share as compared to the same period in 2021. Diluted earnings per share was $0.91 per share for the six months ended June 30, 2022, a decrease of $0.20 per share as compared to the same period in 2021. The decrease in net income was primarily due to a negative Provision of $4.7 million for the six months ended June 30, 2022, compared to a negative Provision of $35.0 million for the six months ended June 30, 2021. The decrease in net income was also due to a $17.5 million increase in noninterest expense and a $7.7 million decrease in noninterest income. This was partially offset by an $18.4 million increase in net interest income and a $10.0 million decrease in the provision for income taxes for the six months ended June 30, 2022.

Our return on average total assets was 0.94% for the six months ended June 30, 2022, a decrease of 30 basis points from the same period in 2021, and our return on average total stockholders’ equity was 9.82% for the six months ended June 30, 2022, a decrease of 93 basis points for the same period in 2021. Our return on average tangible assets was 0.98% for the six months ended June 30, 2022, a decrease of 32 basis points from the same period in 2021, and our return on average tangible stockholders’ equity was 16.76% for the six months ended June 30, 2022, a decrease of 23 basis points for the same period in 2021. Our efficiency ratio was 58.15% for the six months ended June 30, 2022 compared to 55.12% for the same period in 2021.

Our results for the six months ended June 30, 2022 were highlighted by the following:

- Net interest income was $279.0 million for the six months ended June 30, 2022, an increase of $18.4 million or 7% as compared to the same period in 2021. Our net interest margin was 2.51% for the six months ended June 30, 2022, an increase of one basis point as compared to the same period in 2021. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our investment securities portfolio, higher yields on interest-bearing deposits in other banks, and lower borrowing costs. This was partially offset by lower average balances in a few loan categories compared to the same period in 2021.

- There was a negative Provision of $4.7 million for the six months ended June 30, 2022, compared to a negative Provision of $35.0 million for the same period in 2021. The negative Provision in 2021 was primarily due to lower expected credit losses as a result of the economic recovery and easing of restrictions related to the COVID-19 pandemic and the impact of the pandemic on Hawaii's economy, key industries, businesses and our customers. The Provision is recorded to maintain the ACL at levels deemed adequate to absorb lifetime expected credit losses in our loan and lease portfolio as of the balance sheet date.

- Noninterest income was $85.5 million for the six months ended June 30, 2022, a decrease of $7.7 million or 8% as compared to the same period in 2021. The decrease was primarily due to a negative $1.3 million of Bank-owned life insurance ("BOLI") income as compared to $5.5 million of BOLI income for the same period in 2021, as well as a $2.4 million decrease in other noninterest income, partially offset by a $1.0 million increase in service charges on deposit accounts and a $0.6 million increase in credit and debit card fees.

- Noninterest expense was $213.2 million for the six months ended June 30, 2022, an increase of $17.5 million or 9% as compared to the same period in 2021. The increase in noninterest expense was primarily due to an $8.2 million increase in salaries and employee benefits expense, a $3.1 million increase in card rewards program expense, a $2.1 million increase in contracted services and professional fees, a $1.9 million increase in equipment expense, a $1.0 million increase in advertising and marketing expense and a $0.7 million increase in regulatory assessment and fees.

Hawaii's economy continues to show improvement through the first six months of 2022 as COVID-19 was less disruptive. Domestic visitor arrivals to Hawaii have reached near pre-pandemic levels, while visitor arrivals from Japan, traditionally Hawaii's largest international market, have started to slowly increase. There remains many uncertainties related to COVID-19, including the impact of a recent increase in case numbers throughout the United States.

We continued to maintain high levels of liquidity and remained well-capitalized as of June 30, 2022. CET1 was 11.98% as of June 30, 2022, a decrease of 26 basis points from December 31, 2021. The decrease in CET1 was primarily due to loan growth as well as the dividends declared and paid to the Company's stockholders, partially offset by earnings for the six months ended June 30, 2022.

- Total loans and leases were $13.3 billion as of June 30, 2022, an increase of $300.8 million or 2% from December 31, 2021. The increase in total loans and leases was primarily due to increases in commercial real estate loans and residential mortgage loans, partially offset by a decrease in PPP loans, which are included in commercial and industrial loans, and decreases in construction loans and consumer loans.

- The ACL was $148.9 million as of June 30, 2022, a decrease of $8.3 million or 5% from December 31, 2021. This decrease was primarily due to the release of certain qualitative overlays, such as the COVID-19 overlay in the residential portfolio, and continued improvement in credit quality and moderate improvement in the economic outlook during the six months ended June 30, 2022. The ratio of our ACL to total loans and leases outstanding was 1.12% as of June 30, 2022, a decrease of nine basis points compared to December 31, 2021.

- We continued to invest in high-grade investment securities, primarily collateralized mortgage obligations issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae and Municipal Housing Authorities. The total carrying value of our investment securities portfolio was $8.1 billion as of June 30, 2022, a decrease of $367.1 million or 4% from December 31, 2021. The decrease was primarily due to a lower valuation resulting from higher market interest rates as of June 30, 2022, relative to December 31, 2021. During the second quarter of 2022, we reclassified at fair value $4.1 billion in available-for-sale investment securities to the held-to-maturity category to enhance our capital management in a rising interest rate environment.

- Total deposits were $22.6 billion as of June 30, 2022, an increase of $785.3 million or 4% from December 31, 2021. The increase in total deposits was primarily due to a $630.4 million increase in savings deposit balances, a $217.0 million increase in demand deposit balances and a $46.6 million increase in money market deposit balances, partially offset by a $108.8 million decrease in time deposit balances.

- Total stockholders' equity was $2.3 billion as of June 30, 2022, a decrease of $404.3 million or 15% from December 31, 2021. The decrease in stockholders' equity was primarily due to net unrealized losses in our investment securities portfolio, net of tax, of $446.9 million and dividends declared and paid to the Company's stockholders of $66.4 million, partially offset by earnings for the period of $117.1 million.

Analysis of Results of Operations

Net Interest Income

For the three months ended June 30, 2022 and 2021, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 3. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 4.

Average Balances and Interest Rates **Table 3**

(dollars in millions)	Three Months Ended June 30, 2022 Average Balance	Income/ Expense	Average Yield/ Rate	Three Months Ended June 30, 2021 Average Balance	Income/ Expense	Average Yield/ Rate
Earning Assets						
Interest-Bearing Deposits in Other Banks	**$ 1,297.3**	**$ 2.8**	**0.85 %**	$ 1,503.0	$ 0.4	0.10 %
Available-for-Sale Investment Securities						
Taxable	**3,946.4**	**16.6**	**1.68**	6,298.3	22.5	1.43
Non-Taxable	**8.4**	**0.1**	**5.26**	468.4	2.7	2.30
Held-to-Maturity Investment Securities						
Taxable	**3,533.6**	**15.0**	**1.70**	—	—	—
Non-Taxable	**607.0**	**4.1**	**2.71**	—	—	—
Total Investment Securities	**8,095.4**	**35.8**	**1.77**	6,766.7	25.2	1.49
Loans Held for Sale	**0.3**	**—**	**5.06**	2.0	—	1.44
Loans and Leases (1)						
Commercial and industrial	**1,951.3**	**15.0**	**3.09**	2,882.1	21.1	2.94
Commercial real estate	**3,808.9**	**30.7**	**3.23**	3,419.7	25.3	2.97
Construction	**711.3**	**6.3**	**3.57**	800.9	6.3	3.15
Residential:						
Residential mortgage	**4,183.0**	**36.7**	**3.51**	3,765.4	34.0	3.62
Home equity line	**945.7**	**5.9**	**2.49**	812.6	5.5	2.72
Consumer	**1,218.0**	**15.5**	**5.09**	1,277.9	16.9	5.32
Lease financing	**240.4**	**2.1**	**3.53**	246.5	1.9	3.06
Total Loans and Leases	**13,058.6**	**112.2**	**3.44**	13,205.1	111.0	3.37
Other Earning Assets	**69.0**	**0.1**	**0.79**	62.5	0.3	1.91
Total Earning Assets (2)	**22,520.6**	**150.9**	**2.68**	21,539.3	136.9	2.55
Cash and Due from Banks	**300.8**			290.7		
Other Assets	**2,428.8**			2,185.1		
Total Assets	**$ 25,250.2**			$ 24,015.1		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Savings	**$ 6,971.3**	**$ 1.7**	**0.10 %**	$ 6,361.8	$ 0.5	0.03 %
Money Market	**4,127.4**	**1.4**	**0.14**	3,783.1	0.5	0.06
Time	**1,671.4**	**1.5**	**0.36**	2,034.5	2.3	0.45
Total Interest-Bearing Deposits	**12,770.1**	**4.6**	**0.14**	12,179.4	3.3	0.11
Long-Term Borrowings	**—**	**—**	**—**	200.0	1.4	2.76
Total Interest-Bearing Liabilities	**12,770.1**	**4.6**	**0.14**	12,379.4	4.7	0.15
Net Interest Income		**$ 146.3**			$ 132.2	
Interest Rate Spread			**2.54 %**			2.40 %
Net Interest Margin			**2.60 %**			2.46 %
Noninterest-Bearing Demand Deposits	**9,631.4**			8,458.6		
Other Liabilities	**586.0**			485.1		
Stockholders' Equity	**2,262.7**			2,692.0		
Total Liabilities and Stockholders' Equity	**$ 25,250.2**			$ 24,015.1		

(1) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

(2) Interest income includes taxable-equivalent basis adjustments of $1.2 million and $0.7 million for the three months ended June 30, 2022 and 2021, respectively.

Analysis of Change in Net Interest Income **Table 4**

(dollars in millions)	Three Months Ended June 30, 2022 Compared to June 30, 2021 Volume	Rate	Total (1)
Change in Interest Income:			
Interest-Bearing Deposits in Other Banks	$ —	$ 2.4	$ 2.4
Available-for-Sale Investment Securities			
Taxable	(9.4)	3.5	(5.9)
Non-Taxable	(4.1)	1.5	(2.6)
Held-to-Maturity Investment Securities			
Taxable	15.0	—	15.0
Non-Taxable	4.1	—	4.1
Total Investment Securities	5.6	5.0	10.6
Loans and Leases			
Commercial and industrial	(7.1)	1.0	(6.1)
Commercial real estate	3.0	2.4	5.4
Construction	(0.8)	0.8	—
Residential:			
Residential mortgage	3.7	(1.0)	2.7
Home equity line	0.9	(0.5)	0.4
Consumer	(0.7)	(0.7)	(1.4)
Lease financing	(0.1)	0.3	0.2
Total Loans and Leases	(1.1)	2.3	1.2
Other Earning Assets	—	(0.2)	(0.2)
Total Change in Interest Income	4.5	9.5	14.0
Change in Interest Expense:			
Interest-Bearing Deposits			
Savings	0.1	1.1	1.2
Money Market	0.1	0.8	0.9
Time	(0.4)	(0.4)	(0.8)
Total Interest-Bearing Deposits	(0.2)	1.5	1.3
Long-term Borrowings	(0.7)	(0.7)	(1.4)
Total Change in Interest Expense	(0.9)	0.8	(0.1)
Change in Net Interest Income	$ 5.4	$ 8.7	$ 14.1

(1) The change in interest income and expense not solely due to changes in volume or rate has been allocated on a pro-rata basis to the volume and rate columns.

Net interest income, on a fully taxable-equivalent basis, was $146.3 million for the three months ended June 30, 2022, an increase of $14.1 million or 11% compared to the same period in 2021. Our net interest margin was 2.60% for the three months ended June 30, 2022, an increase of 14 basis points from the same period in 2021. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our investment securities portfolio, higher yields on interest-earning deposits in other banks, higher loan yields in a few categories and lower borrowing costs, partially offset by lower average balances in a few loan categories and higher deposit funding costs during the three months ended June 30, 2022. Fees are accelerated into net interest income upon the forgiveness of PPP loans. Net interest income for the three months ended June 30, 2022 and 2021 included $1.3 million and $8.1 million, respectively, of fees from PPP loans. As of June 30, 2022, there were approximately $0.9 million of additional fees remaining on our PPP loans that had not yet been recognized into income.

For the three months ended June 30, 2022, the average balance of our investment securities portfolio was $8.1 billion, an increase of $1.3 billion or 20% compared to the same period in 2021. Yields on our investment securities portfolio were 1.77% for the three months ended June 30, 2022, an increase of 28 basis points as compared to the same period in 2021, primarily due to an increase in interest rates. For the three months ended June 30, 2022, the average balance of our loans and leases was $13.1 billion, a decrease of $146.5 million or 1% compared to the same period in 2021. The decrease in the average balance of our loans and leases was primarily due to a decrease in PPP loans in our commercial and industrial loan portfolio, partially offset by an increase in residential mortgage loans and commercial real estate loans. Yields on our loans and leases were 3.44% for the three months ended June 30, 2022, an increase of seven basis points as compared to the same period in 2021. We experienced an increase in our yields from total loans primarily due to increases in our commercial real estate loans. The adjustable rate commercial real estate loans are typically based on the LIBOR. Deposit funding costs were $4.6 million for the three months ended June 30, 2022, an increase of $1.3 million or 39% compared to the same period in 2021 primarily due to an increase in interest rates. Rates paid on our interest-bearing deposits were 14 basis points for the three months ended June 30, 2022, an increase of three basis points compared to the same period in 2021. Borrowing costs were nil for the three months ended June 30, 2022, a decrease of $1.4 billion compared to the same period in 2021 due to the termination of our long-term borrowings in November 2021.

For the six months ended June 30, 2022 and 2021, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 5. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 6.

Average Balances and Interest Rates — **Table 5**

(dollars in millions)	Six Months Ended June 30, 2022 Average Balance	Six Months Ended June 30, 2022 Income/ Expense	Six Months Ended June 30, 2022 Yield/ Rate	Six Months Ended June 30, 2021 Average Balance	Six Months Ended June 30, 2021 Income/ Expense	Six Months Ended June 30, 2021 Yield/ Rate
Earning Assets						
Interest-Bearing Deposits in Other Banks	**$ 1,218.3**	**$ 3.3**	**0.55 %**	$ 1,222.4	$ 0.6	0.10 %
Available-for-Sale Investment Securities						
Taxable	**5,862.7**	**45.7**	**1.56**	6,125.1	44.6	1.46
Non-Taxable	**320.8**	**3.9**	**2.41**	373.7	4.0	2.11
Held-to-Maturity Investment Securities						
Taxable	**1,776.6**	**15.0**	**1.69**	—	—	—
Non-Taxable	**305.2**	**4.1**	**2.71**	—	—	—
Total Investment Securities	**8,265.3**	**68.7**	**1.66**	6,498.8	48.6	1.49
Loans Held for Sale	**0.8**	**—**	**2.60**	5.6	0.1	2.28
Loans and Leases[1]						
Commercial and industrial	**1,962.1**	**29.7**	**3.05**	2,954.0	41.5	2.84
Commercial real estate	**3,721.0**	**56.4**	**3.06**	3,402.6	50.2	2.98
Construction	**738.9**	**12.1**	**3.30**	774.0	12.1	3.16
Residential:						
Residential mortgage	**4,147.2**	**71.5**	**3.45**	3,730.9	68.7	3.68
Home equity line	**918.8**	**11.3**	**2.48**	817.3	11.2	2.76
Consumer	**1,218.3**	**31.1**	**5.14**	1,300.7	34.7	5.37
Lease financing	**233.4**	**4.0**	**3.48**	244.1	3.7	3.04
Total Loans and Leases	**12,939.7**	**216.1**	**3.36**	13,223.6	222.1	3.38
Other Earning Assets	**68.0**	**0.4**	**1.05**	60.2	0.5	1.85
Total Earning Assets[2]	**22,492.1**	**288.5**	**2.58**	21,010.6	271.9	2.60
Cash and Due from Banks	**296.5**			292.3		
Other Assets	**2,377.2**			2,179.9		
Total Assets	**$ 25,165.8**			$ 23,482.8		
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Savings	**$ 6,820.7**	**$ 2.2**	**0.07 %**	$ 6,169.5	$ 1.1	0.04 %
Money Market	**4,088.3**	**2.0**	**0.09**	3,657.3	1.0	0.05
Time	**1,709.8**	**3.2**	**0.38**	2,160.8	5.3	0.49
Total Interest-Bearing Deposits	**12,618.8**	**7.4**	**0.12**	11,987.6	7.4	0.12
Long-Term Borrowings	**—**	**—**	**—**	200.0	2.7	2.76
Total Interest-Bearing Liabilities	**12,618.8**	**7.4**	**0.12**	12,187.6	10.1	0.17
Net Interest Income		**$ 281.1**			$ 261.8	
Interest Rate Spread			**2.46 %**			2.43 %
Net Interest Margin			**2.51 %**			2.50 %
Noninterest-Bearing Demand Deposits	**9,563.6**			8,086.1		
Other Liabilities	**578.9**			499.4		
Stockholders' Equity	**2,404.5**			2,709.7		
Total Liabilities and Stockholders' Equity	**$ 25,165.8**			$ 23,482.8		

(1) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

(2) Interest income includes taxable-equivalent basis adjustments of $2.1 million and $1.1 million for the six months ended June 30, 2022 and 2021, respectively.

Analysis of Change in Net Interest Income — **Table 6**

(dollars in millions)	Six Months Ended June 30, 2022 Compared to June 30, 2021 Volume	Rate	Total(1)
Change in Interest Income:			
Interest-Bearing Deposits in Other Banks	$ —	$ 2.7	$ 2.7
Available-for-Sale Investment Securities			
Taxable	(1.9)	3.0	1.1
Non-Taxable	(0.6)	0.5	(0.1)
Held-to-Maturity Investment Securities			
Taxable	15.0	—	15.0
Non-Taxable	4.1	—	4.1
Total Investment Securities	16.6	3.5	20.1
Loans Held for Sale	(0.1)	—	(0.1)
Loans and Leases			
Commercial and industrial	(14.7)	2.9	(11.8)
Commercial real estate	4.8	1.4	6.2
Construction	(0.5)	0.5	—
Residential:			
Residential mortgage	7.2	(4.4)	2.8
Home equity line	1.3	(1.2)	0.1
Consumer	(2.1)	(1.5)	(3.6)
Lease financing	(0.2)	0.5	0.3
Total Loans and Leases	(4.2)	(1.8)	(6.0)
Other Earning Assets	0.1	(0.2)	(0.1)
Total Change in Interest Income	12.4	4.2	16.6
Change in Interest Expense:			
Interest-Bearing Deposits			
Savings	0.1	1.0	1.1
Money Market	0.2	0.8	1.0
Time	(1.0)	(1.1)	(2.1)
Total Interest-Bearing Deposits	(0.7)	0.7	—
Long-Term Borrowings	(1.4)	(1.3)	(2.7)
Total Change in Interest Expense	(2.1)	(0.6)	(2.7)
Change in Net Interest Income	$ 14.5	$ 4.8	$ 19.3

(1) The change in interest income and expense not solely due to changes in volume or rate has been allocated on a pro-rata basis to the volume and rate columns.

Net interest income, on a fully taxable-equivalent basis, was $281.1 million for the six months ended June 30, 2022, an increase of $19.3 million or 7% compared to the same period in 2021. Our net interest margin was 2.51% for the six months ended June 30, 2022, an increase of one basis point from the same period in 2021. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances and yields in our investment securities portfolio, higher yields on interest-bearing deposits in other banks and lower borrowing costs. This was partially offset by lower average balances in a few loan categories. Fees are accelerated into net interest income upon the forgiveness of PPP loans. Net interest income for the six months ended June 30, 2022 and 2021 included $4.5 million and $14.0 million, respectively, of fees from PPP loans. As of June 30, 2022, there were approximately $0.9 million of additional fees remaining on our PPP loans that had not yet been recognized into income.

For the six months ended June 30, 2022, the average balance of our investment securities portfolio was $8.3 billion, an increase of $1.8 billion or 27% compared to the same period in 2021. For the six months ended June 30, 2022, the yield in our investment securities portfolio was 1.66%, an increase of 17 basis points compared to the same period in 2021, primarily due to an increase in interest rates. For the six months ended June 30, 2022, the average balance of our loans and leases was $12.9 billion, a decrease of $283.9 million or 2% compared to the same period in 2021. The decrease in the average balance of our loans and leases was primarily due to a decrease in PPP loans in our commercial and industrial loan portfolio, partially offset by an increase in residential mortgage loans. Borrowing costs were nil for the six months ended June 30, 2022, a decrease of $2.7 billion compared to the same period in 2021 due to the termination of our long-term borrowings in November 2021.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is affected by changes in the prime interest rate. The prime rate at the start of 2021 was 3.25%. The prime rate increased 25 basis points in March 2022 to 3.50%, 50 basis points in May 2022 to 4.00%, and 75 basis points in June 2022 to 4.75%, where it remained as at the end of the second quarter of 2022. As noted above, our loan portfolio is also impacted by changes in the LIBOR. At June 30, 2022, the one-month and three-month U.S. dollar LIBOR interest rates were 1.79% and 2.29%, respectively, while at June 30, 2021, the one-month and three-month U.S. dollar LIBOR interest rates were 0.10% and 0.15%, respectively. The target range for the federal funds rate, which is the cost of immediately available overnight funds, began 2021 at 0.00% to 0.25%. The target range for the federal funds rate increased 25 basis points in March 2022 to 0.25% to 0.50%, 50 basis points in May 2022 to 0.75% to 1.00%, and 75 basis points in June 2022 to 1.50% to 1.75%, where it remained as at the end of the second quarter of 2022. In June 2022, the Federal Reserve indicated that it expects to increase the targeted federal funds rate through 2022 if inflation pressures remain elevated and released projections whereby the midpoint of the projected range reflected an increase in the targeted federal funds rate in both 2022 and 2023.

Provision for Credit Losses

There was a Provision of $1.0 million for the three months ended June 30, 2022, compared to a negative Provision of $35.0 million for the same period in 2021. The negative Provision in 2021 was primarily due to lower expected credit losses as a result of the economic recovery after COVID-19 and its impact on Hawaii's economy, key industries, businesses and our customers. We recorded net charge-offs of loans and leases of $2.3 million and $1.1 million for the three months ended June 30, 2022 and 2021, respectively. This represented charge-offs of 0.07% and 0.03% of average loans and leases, on an annualized basis, for the three months ended June 30, 2022 and 2021, respectively. There was a negative Provision of $4.7 million for the six months ended June 30, 2022, compared to a negative Provision of $35.0 million for the same period in 2021. We recorded net charge-offs of loans and leases of $4.9 million and $5.7 million for the six months ended June 30, 2022 and 2021, respectively. This represented charge-offs of 0.08% and 0.09% of average loans and leases, on an annualized basis, for the six months ended June 30, 2022 and 2021, respectively. The ACL was $148.9 million as of June 30, 2022, a decrease of $8.3 million or 5% from December 31, 2021 and represented 1.12% of total outstanding loans and leases as of June 30, 2022 compared to 1.21% of total outstanding loans and leases as of December 31, 2021. The reserve for unfunded commitments was $29.0 million as of June 30, 2022, compared to $30.3 million as of December 31, 2021. The Provision is recorded to maintain the ACL and the reserve for unfunded commitments at levels deemed adequate by management based on the factors noted in the "Risk Governance and Quantitative and Qualitative Disclosures About Market Risk — Credit Risk" section of this MD&A.

Noninterest Income

Table 7 presents the major components of noninterest income for the three months ended June 30, 2022 and 2021 and Table 8 presents the major components of noninterest income for the six months ended June 30, 2022 and 2021:

Noninterest Income **Table 7**

(dollars in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Dollar Change	Percent Change
Service charges on deposit accounts	**$ 6,843**	$ 6,632	$ 211	3 %
Credit and debit card fees	**17,056**	16,746	310	2
Other service charges and fees	**9,018**	10,303	(1,285)	(12)
Trust and investment services income	**8,759**	8,707	52	1
Bank-owned life insurance	**(859)**	3,104	(3,963)	(128)
Investment securities gains, net	**—**	102	(102)	n/m
Other	**3,320**	3,777	(457)	(12)
Total noninterest income	**$ 44,137**	$ 49,371	$ (5,234)	(11)%

n/m – Denotes a variance that is not a meaningful metric to inform the change in noninterest income from the three months ended June 30, 2022 to the same period in 2021.

Noninterest Income **Table 8**

(dollars in thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Dollar Change	Percent Change
Service charges on deposit accounts	**$ 14,344**	$ 13,350	$ 994	7 %
Credit and debit card fees	**31,906**	31,297	609	2
Other service charges and fees	**18,672**	19,149	(477)	(2)
Trust and investment services income	**17,642**	17,199	443	3
Bank-owned life insurance	**(1,276)**	5,493	(6,769)	(123)
Investment securities gains, net	**—**	102	(102)	n/m
Other	**4,229**	6,649	(2,420)	(36)
Total noninterest income	**$ 85,517**	$ 93,239	$ (7,722)	(8)%

n/m – Denotes a variance that is not a meaningful metric to inform the change in noninterest income from the six months ended June 30, 2022 to the same period in 2021.

Total noninterest income was $44.1 million for the three months ended June 30, 2022, a decrease of $5.2 million or 11% as compared to the same period in 2021. Total noninterest income was $85.5 million for the six months ended June 30, 2022, a decrease of $7.7 million or 8% as compared to the same period in 2021.

Service charges on deposit accounts were $6.8 million for the three months ended June 30, 2022, an increase of $0.2 million or 3% as compared to the same period in 2021. Service charges on deposit accounts were $14.3 million for the six months ended June 30, 2022, an increase of $1.0 million or 7% as compared to the same period in 2021. This increase was primarily due to a $0.9 million increase in overdraft and checking account fees and a $0.5 million increase in account analysis service charges, partially offset by a $0.4 million decrease in checking account service fees.

Credit and debit card fees were $17.1 million for the three months ended June 30, 2022, an increase of $0.3 million or 2% as compared to the same period in 2021. Credit and debit card fees were $31.9 million for the six months ended June 30, 2022, an increase of $0.6 million or 2% as compared to the same period in 2021. This increase was primarily due to a $1.8 million increase in interchange settlement fees and a $0.8 million increase in merchant service revenues, partially offset by a $1.3 million increase in network association dues and a $0.6 million decrease in ATM interchange and surcharge fees.

Other service charges and fees were $9.0 million for the three months ended June 30, 2022, a decrease of $1.3 million or 12% as compared to the same period in 2021. This decrease was primarily due to a $1.1 million decrease in miscellaneous service fees, a $0.3 million decrease in service fees related to participation loans, a $0.2 million decrease in safe deposit box rental fees and a $0.2 million decrease in insurance income, partially offset by a $0.6 million increase in fees from annuities and securities. Other service charges and fees were $18.7 million for the six months ended June 30, 2022, a decrease of $0.5 million or 2% as compared to the same period in 2021. This decrease was primarily due to a $0.8 million decrease in miscellaneous service fees, a $0.6 million decrease in service fees related to participation loans, a $0.2 million decrease in safe deposit box rental fees and a $0.2 million decrease in insurance income, partially offset by a $1.5 million increase in fees from annuities and securities.

Trust and investment services income was $8.8 million for the three months ended June 30, 2022, an increase of $0.1 million or 1% as compared to the same period in 2021. Trust and investment services income was $17.6 million for the six months ended June 30, 2022, an increase of $0.4 million or 3% as compared to the same period in 2021.

BOLI income was a negative $0.9 million for the three months ended June 30, 2022, a decrease of $4.0 million as compared to the same period in 2021. BOLI income was a negative $1.3 million for the six months ended June 30, 2022, a decrease of $6.8 million as compared to the same period in 2021. The decrease for both periods stems from the volatility of the market, which has led to mark-to-market losses in BOLI earnings.

Net gains on the sale of investment securities were nil and $0.1 million for the three months ended June 30, 2022 and 2021, respectively. Net gains on the sale of investment securities were nil and $0.1 million for the six months ended June 30, 2022 and 2021, respectively.

Other noninterest income was $3.3 million for the three months ended June 30, 2022, a decrease of $0.5 million or 12% as compared to the same period in 2021. This decrease was primarily due to a $1.2 million decrease in market adjustments on mutual funds purchased, a $0.8 million decrease in customer-related interest rate swap fees, a $0.6 million decrease in gains on the sale of bank properties and a $0.5 million decrease in gains on the sale of residential loans to government-sponsored enterprises. This was partially offset by a $1.2 million tax refund received, a $0.9 million increase in volume-based incentives and a $0.4 million increase in net mortgage servicing rights income. Other noninterest income was $4.2 million for six months ended June 30, 2022, a decrease of $2.4 million or 36% as compared to the same period in 2021. This decrease was primarily due to a $1.5 million decrease in gains on the sale of residential loans to government-sponsored enterprises, a $1.4 million increase in net losses recognized on income related to derivative contracts, a $1.0 million decrease in market adjustments on mutual funds purchased, a $0.6 million decrease in gains on the sale of bank properties and a $0.4 million decrease in net mortgage servicing rights income. This was partially offset by a $1.2 million tax refund received and a $0.9 million increase in volume-based incentives.

Noninterest Expense

Table 9 presents the major components of noninterest expense for the three months ended June 30, 2022 and 2021 and Table 10 presents the major components of noninterest expense for the six months ended June 30, 2022 and 2021:

Noninterest Expense **Table 9**

	Three Months Ended June 30,			
(dollars in thousands)	**2022**	**2021**	**Dollar Change**	**Percentage Change**
Salaries and employee benefits	**$ 49,902**	$ 45,982	$ 3,920	9 %
Contracted services and professional fees	**18,617**	16,516	2,101	13
Occupancy	**7,334**	7,314	20	—
Equipment	**7,754**	6,362	1,392	22
Regulatory assessment and fees	**2,301**	1,826	475	26
Advertising and marketing	**1,994**	1,469	525	36
Card rewards program	**7,285**	6,262	1,023	16
Other	**13,988**	13,657	331	2
Total noninterest expense	**$ 109,175**	$ 99,388	$ 9,787	10 %

Noninterest Expense **Table 10**

	Six Months Ended June 30,			
(dollars in thousands)	**2022**	**2021**	**Dollar Change**	**Percentage Change**
Salaries and employee benefits	**$ 98,128**	$ 89,918	$ 8,210	9 %
Contracted services and professional fees	**35,764**	33,704	2,060	6
Occupancy	**14,744**	14,484	260	2
Equipment	**13,731**	11,853	1,878	16
Regulatory assessment and fees	**4,525**	3,860	665	17
Advertising and marketing	**4,022**	3,060	962	31
Card rewards program	**14,168**	11,097	3,071	28
Other	**28,135**	27,718	417	2
Total noninterest expense	**$ 213,217**	$ 195,694	$ 17,523	9 %

Total noninterest expense was $109.2 million for the three months ended June 30, 2022, an increase of $9.8 million or 10% as compared to the same period in 2021. Total noninterest expense was $213.2 million for the six months ended June 30, 2022, an increase of $17.5 million or 9% as compared to the same period in 2021.

Salaries and employee benefits expense was $49.9 million for the three months ended June 30, 2022, an increase of $3.9 million or 9% as compared to the same period in 2021. This increase was primarily due to a $3.6 million decrease in payroll and benefit costs being deferred as loan origination costs, a $2.2 million increase in base salaries and related payroll taxes and a $0.5 million increase in incentive compensation. This was partially offset by a $2.5 million decrease in other compensation, primarily related to an adjustment made to the deferred compensation plan as a result of market conditions, a nonrecurring severance cost of $1.2 million recorded during the three months ended June 30, 2021, and a decrease in commissions. Salaries and employee benefits expense was $98.1 million for the six months ended June 30, 2022, an increase of $8.2 million or 9% as compared to the same period in 2021. This increase was primarily due to a $6.1 million decrease in payroll and benefit costs being deferred as loan origination costs, a $3.5 million increase in base salaries and related payroll taxes and a $2.5 million increase in incentive compensation. This was partially offset by a $4.0 million decrease in other compensation, primarily related to adjustments made to the deferred compensation plan as a result of market conditions, a nonrecurring severance cost of $1.2 million recorded during the six months ended June 30, 2021, and a decrease in commissions.

Contracted services and professional fees were $18.6 million for the three months ended June 30, 2022, an increase of $2.1 million or 13% as compared to the same period in 2021. This increase was primarily due to a $1.8 million increase in audit, legal and consultant fees, a $1.2 million increase in outside services, primarily attributable to marketing and new customer services, partially offset by a $0.8 million decrease in contracted data processing expenses. Contracted services and professional fees were $35.8 million for the six months ended June 30, 2022, an increase of $2.1 million or 6% as compared to the same period in 2021. This increase was primarily due to a $2.4 million increase in audit, legal and consultant fees, a $1.0 million increase in outside services, primarily attributable to marketing and new customer services, partially offset by a $1.3 million decrease in contracted data processing expenses.

Occupancy expense was $7.3 million for the three months ended June 30, 2022, a minimal change as compared to the same period in 2021. Occupancy expense was $14.7 million for the six months ended June 30, 2022, an increase of $0.3 million or 2% as compared to the same period in 2021.

Equipment expense was $7.8 million for the three months ended June 30, 2022, an increase of $1.4 million or 22% as compared to the same period in 2021. This increase was primarily due to a $1.5 million increase in technology-related licensing and maintenance fees. Equipment expense was $13.7 million for the six months ended June 30, 2022, an increase of $1.9 million or 16% as compared to the same period in 2021. This increase was primarily due to a $2.1 million increase in technology-related license and maintenance fees, partially offset by a $0.4 million decrease in furniture and equipment depreciation.

Regulatory assessment and fees were $2.3 million for the three months ended June 30, 2022, an increase of $0.5 million or 26% as compared to the same period in 2021. This increase was primarily due to a $0.5 million increase in the FDIC insurance assessment. Regulatory assessment and fees were $4.5 million for the six months ended June 30, 2022, an increase of $0.7 million or 17% as compared to the same period in 2021. This increase was primarily due to a $0.7 million increase in the FDIC insurance assessment.

Advertising and marketing expense was $2.0 million for the three months ended June 30, 2022, an increase of $0.5 million or 36% as compared to the same period in 2021. This increase was primarily due to a $0.4 million increase in advertising costs. Advertising and marketing expense was $4.0 million for the six months ended June 30, 2022, an increase of $1.0 million or 31% as compared to the same period in 2021. This increase was primarily due to a $0.8 million increase in advertising costs.

Card rewards program expense was $7.3 million for the three months ended June 30, 2022, an increase of $1.0 million or 16% as compared to the same period in 2021. This increase was primarily due to a $1.0 million increase in priority rewards card redemptions and a $0.5 million increase in interchange fees paid to our credit card partners, partially offset by a $0.5 million decrease in credit card cash reward redemptions. Card rewards program expense was $14.2 million for the six months ended June 30, 2022, an increase of $3.1 million or 28% as compared to the same period in 2021. This increase was primarily due to a $2.6 million increase in priority rewards card redemptions and a $0.7 million increase in interchange fees paid to our credit card partners.

Other noninterest expense was $14.0 million for the three months ended June 30, 2022, an increase of $0.3 million or 2% as compared to the same period in 2021. Other noninterest expense was $28.1 million for the six months ended June 30, 2022, an increase of $0.4 million or 2% as compared to the same period in 2021.

Provision for Income Taxes

The provision for income taxes was $19.7 million (an effective tax rate of 24.96%) for the three months ended June 30, 2022, compared with a provision for income taxes of $29.7 million (an effective tax rate of 25.52%) for the same period in 2021. The provision for income taxes was $39.0 million (an effective tax rate of 24.98%) for the six months ended June 30, 2022, compared with a provision for income taxes of $48.8 million (an effective tax rate of 25.24%) for the same period in 2021. The decrease in the effective tax rates is partially due to the significant decrease in pre-tax income for the three and six months ended June 30, 2022, which caused the permanent tax benefits to have a disproportionately greater impact on the effective tax rate than in the previous periods.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking and Treasury and Other. Table 11 summarizes net income from our business segments for the three and six months ended June 30, 2022 and 2021. Additional information about operating segment performance is presented in "Note 16. Reportable Operating Segments" contained in our unaudited interim consolidated financial statements.

Business Segment Net Income **Table 11**

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2022	2021	2022	2021
Retail Banking	**$ 42,214**	$ 52,256	**$ 79,048**	$ 94,740
Commercial Banking	**22,414**	38,949	**44,941**	64,464
Treasury and Other	**(5,268)**	(4,464)	**(6,910)**	(14,770)
Total	**$ 59,360**	$ 86,741	**$ 117,079**	$ 144,434

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

Net income for the Retail Banking segment was $42.2 million for the three months ended June 30, 2022, a decrease of $10.0 million or 19% as compared to the same period in 2021. The decrease in net income for the Retail Banking segment was primarily due to a Provision of $0.4 million for the three months ended June 30, 2022, compared to a negative Provision of $12.7 million for the three months ended June 30, 2021. The decrease in net income for the Retail banking segment was also due to a $11.2 million increase in noninterest expense, partially offset by a $10.3 million increase in net interest income and a $4.0 million decrease in the provision for income taxes. The increase in the Provision was primarily due to higher expected credit losses as a result of the risk of economic recession due to inflation resulting from higher oil prices and the continued impact of the COVID-19 pandemic on Hawaii's economy, key industries, businesses and our customers. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Retail Banking segment and increases in salaries and benefits expense, losses and charge-offs, occupancy expense and equipment expense. The increase in net interest income was primarily due to an increase in transfer pricing credits on interest expenses from deposits as a result of higher yields on our deposit portfolio. The decrease in the provision for income taxes was primarily due to the decrease in pretax income.

Net income for the Retail Banking segment was $79.0 million for the six months ended June 30, 2022, a decrease of $15.7 million or 17% as compared to the same period in 2021. The decrease in net income for the Retail Banking segment was primarily due to an $18.6 million increase in noninterest expense and a negative Provision of $1.5 million for the six months ended June 30, 2022, compared to a negative Provision of $14.1 million for the six months ended June 30, 2021. This was partially offset by a $9.9 million increase in net interest income and a $6.0 million decrease in the provision for income taxes. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Retail Banking segment and increases in salaries and benefits expense, occupancy expense, insurance expense, equipment expense and losses and charge-offs. This was partially offset by a decrease in contracted services and professional fees. The increase in the Provision was primarily due to higher expected credit losses as a result of the risk of economic recession due to inflation resulting from higher oil prices and the continued impact of the COVID-19 pandemic on Hawaii's economy, key industries, businesses and our customers. The increase in net interest income was primarily due to an increase in net transfer pricing credits on interest expenses from deposits as a result of higher yields on our deposit portfolio, partially offset by a decrease in our average balances and yields in our consumer loan portfolio. The decrease in the provision for income taxes was primarily due to the decrease in pretax income.

Commercial Banking. Our Commercial Banking segment includes our corporate banking related products, commercial real estate loans, commercial lease financing, secured and unsecured lines of credit, automobile loans and auto dealer financing, business deposit products and credit cards that we provide primarily to middle market and large companies locally, nationally and internationally.

Net income for the Commercial Banking segment was $22.4 million for the three months ended June 30, 2022, a decrease of $16.5 million or 42% as compared to the same period in 2021. The decrease in net income for the Commercial Banking segment was primarily due to a Provision of $0.6 million for the three months ended June 30, 2022, compared to a negative Provision of $17.5 million for the three months ended June 30, 2021. The decrease in net income for the Commercial Banking segment was also due to a $3.4 million decrease in net interest income and a $2.0 million increase in noninterest expense, partially offset by a $6.0 million decrease in the provision for income taxes. The increase in the Provision was primarily due to higher expected credit losses as a result of the risk of economic recession due to inflation resulting from higher oil prices and the continued impact of the COVID-19 pandemic on Hawaii's economy, key industries, businesses and our customers. The decrease in net interest income was primarily due to a decrease in commercial loan fees, partially offset by an increase in transfer pricing credits on interest expenses from deposits as a result of higher yields on our deposit portfolio. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Commercial Banking segment and an increase in card rewards program expense, partially offset by decreases in salaries and benefits expense, other tax expense and supplies. The decrease in the provision for income taxes was primarily due to the decrease in pretax income.

Net income for the Commercial Banking segment was $44.9 million for the six months ended June 30, 2022, a decrease of $19.5 million or 30% as compared to the same period in 2021. The decrease in net income for the Commercial Banking segment was primarily due to a negative Provision of $1.9 million for the six months ended June 30, 2022, compared to a negative Provision of $19.5 million for the six months ended June 30, 2021. The decrease in net income for the Commercial Banking segment also stemmed from a $6.6 million decrease in net interest income and a $6.0 million increase in noninterest expense, partially offset by a $7.1 million decrease in the provision for income taxes and a $3.5 million increase in noninterest income. The increase in the Provision was primarily due to higher expected credit losses as a result of the risk of economic recession due to inflation resulting from higher oil prices and the continued impact of the COVID-19 pandemic on Hawaii's economy, key industries, businesses and our customers. The decrease in net interest income was primarily due to a decrease in average balances and loan fees in our commercial and industrial portfolio, partially offset by an increase in transfer pricing credits on interest expenses from deposits as a result of higher yields on our deposit portfolio. The increase in noninterest expense was primarily due to higher overall expenses that were allocated to the Commercial Banking segment and an increase in card rewards program expense, partially offset by decreases in salaries and benefits expense, contracted services and professional fees, other tax expense and occupancy expense. The decrease in the provision for income taxes was primarily due to the decrease in pretax income. The increase in noninterest income was primarily due to a tax refund received, an increase in volume-based incentives and an increase in credit and debit card fees, partially offset by a decrease in other service charges and fees.

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

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

Net loss for the Treasury and Other segment was $5.3 million for the three months ended June 30, 2022, an increase in loss of $0.8 million or 18% as compared to the same period in 2021. The increase in net loss for the Treasury and Other segment was primarily due to a $6.1 million decrease in noninterest income and a $4.9 million increase in the Provision, partially offset by a $6.8 million increase in net interest income and a $3.4 million decrease in noninterest expense. The decrease in noninterest income was primarily due to negative BOLI income, a decrease in market adjustments on mutual funds purchased and a decrease in gains on the sale of bank properties. The increase in the Provision was due to higher increases in the Provision related to the reserve for unfunded commitments. The increase in net interest income was primarily due to higher average balances and yields in our investment securities portfolio, higher earnings credits on our loan portfolio, higher yields in our interest-bearing deposits in other banks and a decrease in borrowings. This was partially offset by an increase in net transfer pricing charges on interest expenses from deposits as a result of higher yields on our deposit portfolio. The decrease in noninterest expense was primarily due to higher overall expenses that led to a larger credit allocation to the Treasury and Other segment and a decrease in software amortization. This was partially offset by increases in contracted services and professional fees, salaries and benefits expense, equipment expense, supplies, charitable contributions and advertising and marketing expense.

Net loss for the Treasury and Other segment was $6.9 million for the six months ended June 30, 2022, a decrease in loss of $7.9 million or 53% as compared to the same period in 2021. The decrease in net loss was primarily due to a $15.1 million increase in net interest income and a $7.0 million decrease in noninterest expense. This was partially offset by a $11.0 million decrease in noninterest income and a $3.3 million decrease in the benefit for income taxes. The increase in net interest income was primarily due to higher average balances and yields in our investment securities portfolio, higher earnings credits on our loan portfolio, higher yields in our interest-bearing deposits in other banks and a decrease in borrowings. This was partially offset by an increase in net transfer pricing charges on interest expenses from deposits as a result of higher yields on our deposit portfolio. The decrease in noninterest expense was primarily due to higher overall expenses that led to a larger credit allocation to the Treasury and Other segment and decreases in software amortization and pension-related expenses. This was partially offset by increases in salaries and benefits expense, contracted services and professional fees, equipment expenses, advertising and marketing expense, charitable contributions, supplies and regulatory assessment and fees. The decrease in noninterest income was primarily due to negative BOLI income, an increase in net losses recognized on income related to derivative contracts, a decrease in market adjustments on mutual funds purchased, write-off of a fixed asset and a decrease in gains on the sale of bank properties. The decrease in the benefit for income taxes was primarily due to the decrease in pretax loss.

Analysis of Financial Condition

Liquidity and Capital Resources

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

Liquidity is managed to ensure stable, reliable and cost-effective sources of funds to satisfy demand for credit, deposit withdrawals and investment opportunities. Funding requirements are impacted by loan originations and refinancings, deposit balance changes, liability issuances and settlements and off-balance sheet funding commitments. We consider and comply with various regulatory and internal guidelines regarding required liquidity levels and periodically monitor our liquidity position in light of the changing economic environment and customer activity. Based on periodic liquidity assessments, we may alter our asset, liability and off-balance sheet positions. The Company's Asset Liability Management Committee ("ALCO") monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. This process, combined with our ability to raise funds in money and capital markets and through private placements, provides flexibility in managing the exposure to liquidity risk.

Immediate liquid resources are available in cash, which is primarily on deposit with the Federal Reserve Bank of San Francisco (the "FRB"). As of June 30, 2022 and December 31, 2021, cash and cash equivalents were $1.5 billion and $1.3 billion, respectively. Potential sources of liquidity also include investment securities in our available-for-sale portfolio and held-to-maturity portfolio. The carrying value of our available-for-sale investment securities and held-to maturity investment securities were $4.0 billion and $4.1 billion as of June 30, 2022, respectively. The carrying value of our available-for-sale investment securities were $8.4 billion as of December 31, 2021. We did not hold any held-to-maturity investment securities as of December 31, 2021. As of June 30, 2022 and December 31, 2021, we maintained our excess liquidity primarily in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac and mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae and Municipal Housing Authorities. As of June 30, 2022, our available-for-sale investment securities portfolio was comprised of securities with a weighted average life of approximately 4.5 years and our held-to maturity investment securities portfolio was comprised of securities with a weighted average life of approximately 7.9 years. These funds offer substantial resources to meet either new loan demand or to help offset reductions in our deposit funding base as they provide quick sources of liquidity by pledging to obtain secured borrowings and repurchase agreements or sales of our available-for sale securities portfolio. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the FHLB and the FRB. As of June 30, 2022, we have borrowing capacity of $1.6 billion from the FHLB and $1.3 billion from the FRB based on the amount of collateral pledged.

Our core deposits have historically provided us with a long-term source of stable and relatively lower cost of funding. Our core deposits, defined as all deposits exclusive of time deposits exceeding $250,000, totaled $21.9 billion and $21.0 billion as of June 30, 2022 and December 31, 2021, which represented 97% and 96%, respectively, of our total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company; however, deposit levels could decrease if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances.

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

Our material cash requirements from our current and long-term contractual obligations have not changed materially since previously reported as of December 31, 2021. We believe that our existing cash, cash equivalents, investments, and cash expected to be generated from operations, are still sufficient to meet our cash requirements within the next twelve months and beyond.

Potential Demands on Liquidity from Off-Balance Sheet Arrangements

We have off-balance sheet arrangements, such as variable interest entities, guarantees, and certain financial instruments with off-balance sheet risk, that may affect the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Variable Interest Entities

We hold interests in several unconsolidated variable interest entities ("VIEs"). These unconsolidated VIEs are primarily low-income housing tax credit investments in partnerships and limited liability companies. Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in an entity's net asset value. The primary beneficiary consolidates the VIE. Based on our analysis, we have determined that the Company is not the primary beneficiary of these entities. As a result, we do not consolidate these VIEs. Unfunded commitments to fund these low-income housing tax credit investments were $46.3 million and $62.6 million as of June 30, 2022 and December 31, 2021, respectively.

Guarantees

We sell residential mortgage loans on the secondary market, primarily to Fannie Mae or Freddie Mac. The agreements under which we sell residential mortgage loans to Fannie Mae or Freddie Mac contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state and local laws and other matters. As of June 30, 2022 and December 31, 2021, the unpaid principal balance of our portfolio of residential mortgage loans sold was $1.5 billion and $1.7 billion, respectively. The agreements under which we sell residential mortgage loans require delivery of various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred if a loan review reveals that underwriting and documentation standards were potentially not met in the origination of those loans. Upon receipt of a repurchase request, we work with investors to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor to determine if a contractually required repurchase event has occurred. We manage the risk associated with potential repurchases or other forms of settlement through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. For the six months ended June 30, 2022, there was a $0.5 million pending repurchase request of a residential mortgage loan, however there were no completed repurchases.

In addition to servicing loans in our portfolio, substantially all of the loans we sell to investors are sold with servicing rights retained. We also service loans originated by other mortgage loan originators. As servicer, our primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans, or loan modifications or short sales. Each agreement under which we act as servicer generally specifies a standard of responsibility for actions taken by the Company in such capacity and provides protection against expenses and liabilities incurred by the Company when acting in compliance with the respective servicing agreements. However, if we commit a material breach of obligations as servicer, we may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards vary by investor. These standards and remedies are determined by servicing guides issued by the investors as well as the contract provisions established between the investors and the Company. Remedies could include repurchase of an affected loan. For the six months ended June 30, 2022, we had no repurchase requests related to loan servicing activities, nor were there any pending repurchase requests as of June 30, 2022.

Although to-date repurchase requests related to representation and warranty provisions and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of June 30, 2022, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of June 30, 2022, 99% of our residential mortgage loans serviced for investors were current. We maintain ongoing communications with investors and continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in loans sold to investors.

Financial Instruments with Off-Balance Sheet Risk

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

See "Note 11. Commitments and Contingent Liabilities" contained in our unaudited interim consolidated financial statements for more information on our financial instruments with off-balance sheet risk.

Investment Securities

Table 12 presents the estimated fair value of our available-for-sale investment securities portfolio and amortized cost of our held-to-maturity investment securities portfolio as of June 30, 2022 and December 31, 2021:

Investment Securities **Table 12**

(dollars in thousands)	**June 30, 2022**	**December 31, 2021**
U.S. Treasury and government agency debt securities	**$ 159,165**	$ 192,563
Government-sponsored enterprises debt securities	**19,963**	—
Mortgage-backed securities:		
Residential - Government agency	**67,958**	137,264
Residential - Government-sponsored enterprises	**1,333,015**	1,491,100
Commercial - Government agency	**267,657**	387,663
Commercial - Government-sponsored enterprises	**141,836**	1,369,443
Commercial - Non-agency	**21,550**	—
Collateralized mortgage obligations:		
Government agency	**1,025,339**	2,079,523
Government-sponsored enterprises	**684,560**	2,621,044
Collateralized loan obligations	**246,703**	105,247
Debt securities issued by states and political subdivisions	**—**	44,185
Total available-for-sale securities	**$ 3,967,746**	$ 8,428,032
Government agency debt securities	**$ 55,148**	$ —
Mortgage-backed securities:		
Residential - Government agency	**47,309**	—
Residential - Government-sponsored enterprises	**93,458**	—
Commercial - Government agency	**30,497**	—
Commercial - Government-sponsored enterprises	**1,173,398**	—
Collateralized mortgage obligations:		
Government agency	**879,010**	—
Government-sponsored enterprises	**1,760,755**	—
Debt securities issued by states and political subdivisions	**53,640**	—
Total held-to-maturity securities	**$ 4,093,215**	$ —

Table 13 presents the maturity distribution at amortized cost and weighted-average yield to maturity of our investment securities portfolio as of June 30, 2022:

Maturities and Weighted-Average Yield on Securities(1) **Table 13**

	1 Year or Less		After 1 Year - 5 Years		After 5 Years - 10 Years		Over 10 Years		Total		
(dollars in millions)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Fair Value
As of June 30, 2022											
Available-for-sale securities											
U.S. Treasury and government agency debt securities	$ 30.1	0.81 %	$ 59.9	1.83 %	$ 78.1	1.03 %	$ —	— %	$ 168.1	1.28 %	$ 159.2
Government-sponsored enterprises debt securities	—	—	20.0	3.33	—	—	—	—	20.0	3.33	20.0
Mortgage-backed securities:											
Residential - Government agency(2)	—	—	—	—	72.0	2.30	—	—	72.0	2.30	67.9
Residential - Government-sponsored enterprises(2)	—	—	596.7	2.10	847.8	1.31	—	—	1,444.5	1.64	1,333.0
Commercial - Government agency(2)	7.3	3.31	254.8	1.87	35.1	1.73	—	—	297.2	1.89	267.7
Commercial - Government-sponsored enterprises(2)	—	—	147.2	2.86	—	—	—	—	147.2	2.86	141.8
Commercial - Non-agency	—	—	—	—	—	—	22.0	2.65	22.0	2.65	21.5
Collateralized mortgage obligations(2):											
Government agency	4.6	1.70	654.4	1.85	443.3	1.67	—	—	1,102.3	1.78	1,025.3
Government-sponsored enterprises	4.3	2.13	391.1	1.40	349.2	1.67	—	—	744.6	1.53	684.6
Collateralized loan obligations	—	—	—	—	99.5	3.82	150.4	3.68	249.9	3.74	246.7
Total available-for-sale securities as of June 30, 2022	$ 46.3	1.41 %	$ 2,124.1	1.92 %	$ 1,925.0	1.62 %	$ 172.4	3.55 %	$ 4,267.8	1.85 %	$ 3,967.7
Held-to-maturity securities											
Government agency debt securities	$ —	— %	$ —	— %	$ —	— %	$ 55.1	1.57 %	$ 55.1	1.57 %	$ 52.7
Mortgage-backed securities(2):											
Residential - Government agency	—	—	—	—	47.3	2.11	—	—	47.3	2.11	44.3
Residential - Government-sponsored enterprises	—	—	—	—	93.5	1.48	—	—	93.5	1.48	87.3
Commercial - Government agency	—	—	6.2	1.57	24.3	1.97	—	—	30.5	1.89	27.8
Commercial - Government-sponsored enterprises	—	—	42.7	0.98	518.7	1.77	612.0	2.24	1,173.4	1.98	1,109.8
Collateralized mortgage obligations(2):											
Government agency	—	—	—	—	779.7	1.31	99.3	1.32	879.0	1.31	847.8
Government-sponsored enterprises	—	—	274.6	1.45	1,392.2	1.43	94.0	1.42	1,760.8	1.43	1,691.3
Debt securities issued by state and political subdivisions	—	—	—	—	—	—	53.6	2.27	53.6	2.27	49.8
Total held-to-maturity securities as of June 30, 2022	$ —	— %	$ 323.5	1.39 %	$ 2,855.7	1.48 %	$ 914.0	2.02 %	$ 4,093.2	1.59 %	$ 3,910.8

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

The carrying value of our investment securities portfolio was $8.1 billion as of June 30, 2022, a decrease of $367.1 million or 4% compared to December 31, 2021. Our available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income or through the Provision. Our held-to-maturity investment securities are carried at amortized cost.

During the three and six months ended June 30, 2022, we reclassified at fair value $4.1 billion in available-for-sale investment securities to the held-to-maturity category to enhance our capital management in a rising interest rate environment. The related unrealized after-tax losses of approximately $338.8 million remained in accumulated other comprehensive income to be amortized over the estimated remaining life of the securities as an adjustment of yield, offsetting the related accretion of the discount on the transferred securities. No gains or losses were recognized at the time of reclassification. In addition, we consider the held-to-maturity classification of these investment securities to be appropriate as there is both the positive intent and ability to hold these securities to maturity. As of June 30, 2022, the weighted average life of the transferred securities was approximately 8.0 years. Material changes in prepayment speeds may result in a significant impact to the estimated remaining life of these securities.

As of June 30, 2022, we maintained all of our investment securities in either the available-for-sale category (recorded at fair value) or the held-to-maturity category (recorded at amortized cost) in the unaudited interim consolidated balance sheets, with $4.3 billion invested in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. Our investment securities portfolio also included $3.2 billion in mortgage-backed securities issued by Ginnie Mae, Freddie Mac, Fannie Mae, Municipal Housing Authorities and non-agency entities, $246.7 million in collateralized loan obligations, $234.3 million in debt securities issued by the U.S. Treasury, government agencies (US International Development Finance Corporation bonds) and government-sponsored enterprises and $53.6 million in debt securities issued by states and political subdivisions.

We continually evaluate our investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities and change the composition of our investment securities portfolio.

Gross unrealized gains in our investment securities portfolio were $1.0 million and $24.6 million as of June 30, 2022 and December 31, 2021, respectively. Gross unrealized losses in our investment securities portfolio were $483.5 million and $157.3 million as of June 30, 2022 and December 31, 2021, respectively. The decrease in unrealized gains and increase in unrealized loss in our investment securities portfolio was primarily due to higher market interest rates as of June 30, 2022, relative to December 31, 2021, resulting in a lower valuation.

For our available-for-sale investment securities, we conduct a regular assessment of our investment securities portfolio to determine whether any securities are impaired. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through the allowance for credit losses is recognized in other comprehensive income. For the three and six months ended June 30, 2022, we did not record any credit losses related to our available-for-sale investment securities portfolio.

For our held-to-maturity investment securities, we utilize the Current Expected Credit Loss (“CECL”) approach to estimate lifetime expected credit losses. Substantially all of our held-to-maturity securities are issued by the U.S. Government, its agencies and government-sponsored enterprises. These securities have a long history of no credit losses and carry the explicit or implicit guarantee of the U.S. government. Therefore, as of June 30, 2022, we did not record an allowance for credit losses related to our held-to-maturity investment securities portfolio.

We are required to hold non-marketable equity securities, comprised of FHLB stock, as a condition of our membership in the FHLB system. Our FHLB stock is accounted for at cost, which equals par or redemption value. As of both June 30, 2022 and December 31, 2021, we held $10.1 million in FHLB stock, which is recorded as a component of other assets in our unaudited interim consolidated balance sheets.

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

Loans and Leases

Table 14 presents the composition of our loan and lease portfolio by major categories as of June 30, 2022 and December 31, 2021:

Loans and Leases **Table 14**

(dollars in thousands)	**June 30, 2022**	**December 31, 2021**
Commercial and industrial:		
Commercial and industrial excluding Paycheck Protection Program loans	**$ 1,898,899**	$ 1,870,657
Paycheck Protection Program loans	**43,233**	216,442
Total commercial and industrial	**1,942,132**	2,087,099
Commercial real estate	**3,956,828**	3,639,623
Construction	**727,771**	813,969
Residential:		
Residential mortgage	**4,212,768**	4,083,367
Home equity line	**971,569**	876,608
Total residential	**5,184,337**	4,959,975
Consumer	**1,207,051**	1,229,939
Lease financing	**244,662**	231,394
Total loans and leases	**$ 13,262,781**	$ 12,961,999

Total loans and leases were $13.3 billion as of June 30, 2022, an increase of $300.8 million or 2% from December 31, 2021. The increase in total loans and leases was primarily due to increases in commercial real estate loans and residential mortgage loans, partially offset by a decrease in PPP loans, which are included in commercial and industrial loans, and decreases in construction loans and consumer loans.

Commercial and industrial loans are made primarily to corporations, middle market and small businesses for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. We also offer a variety of automobile dealer flooring lines to our customers in Hawaii and California to assist with the financing of their inventory. Commercial and industrial loans were $1.9 billion as of June 30, 2022, a decrease of $145.0 million or 7% from December 31, 2021. This decrease was primarily due to a decrease in PPP loans of $173.2 million during the six months ended June 30, 2022.

Commercial real estate loans are secured by first mortgages on commercial real estate at loan to value ("LTV") ratios generally not exceeding 75% and a minimum debt service coverage ratio of 1.20 to 1. The commercial properties are predominantly apartments, neighborhood and grocery anchored retail, industrial, office, and to a lesser extent, specialized properties such as hotels. The primary source of repayment for investor property and owner-occupied property is cash flow from the property and operating cash flow from the business, respectively. Commercial real estate loans were $4.0 billion as of June 30, 2022, an increase of $317.2 million or 9% from December 31, 2021. This increase was primarily due to an increase in U.S. Mainland commercial real estate loans during the six months ended June 30, 2022.

Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. Loans in this portfolio are primarily for the purchase of land, as well as for the development of commercial properties, single family homes and condominiums. We classify loans as construction until the completion of the construction phase. Following completion of the construction phase, if a loan is retained by the Bank, the loan is reclassified to the commercial real estate or residential real estate classes of loans. Construction loans were $727.8 million as of June 30, 2022, a decrease of $86.2 million or 11% from December 31, 2021. The decrease in construction loans was primarily due to payoffs of several large projects during the six months ended June 30, 2022.

Residential real estate loans are generally secured by 1-4 unit residential properties and are underwritten using traditional underwriting systems to assess the credit risks and financial capacity and repayment ability of the consumer. Decisions are primarily based on LTV ratios, debt-to-income ("DTI") ratios, liquidity and credit scores. LTV ratios generally do not exceed 80%, although higher levels are permitted with mortgage insurance. We offer fixed rate mortgage products and variable rate mortgage products. Since our transition from LIBOR in late 2021, we now offer variable rate mortgage products based on SOFR with interest rates that are subject to change every six months, after the third, fifth, seventh or tenth year, depending on the product. Prior to this, we offered variable rate mortgage products based on LIBOR with interest rates that were subject to change every year after the first, third, fifth or tenth year, depending on the product. Variable rate residential mortgage loans are underwritten at fully-indexed interest rates. We generally do not offer interest-only, payment-option facilities, Alt-A loans or any product with negative amortization. Residential real estate loans were $5.2 billion as of June 30, 2022, an increase of $224.4 million or 5% from December 31, 2021.

Consumer loans consist primarily of open- and closed-end direct and indirect credit facilities for personal, automobile and household purchases as well as credit card loans. We seek to maintain reasonable levels of risk in consumer lending by following prudent underwriting guidelines, which include an evaluation of personal credit history, cash flow and collateral values based on existing market conditions. Consumer loans were $1.2 billion as of June 30, 2022, a decrease of $22.9 million or 2% from December 31, 2021.

Lease financing consists of commercial single investor leases and leveraged leases. Underwriting of new lease transactions is based on our lending policy, including but not limited to an analysis of customer cash flows and secondary sources of repayment, including the value of leased equipment, the guarantors' cash flows and/or other credit enhancements. No new leveraged leases are being added to the portfolio and all remaining leveraged leases are running off. Lease financing was $244.7 million as of June 30, 2022, an increase of $13.3 million or 6% from December 31, 2021. The increase was primarily due to the closing of several large lease transactions during the six months ended June 30, 2022.

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

The Company's loan and lease portfolio includes adjustable-rate loans, primarily tied to Prime and LIBOR, hybrid-rate loans, for which the initial rate is fixed for a period from one year to as much as ten years, and fixed rate loans, for which the interest rate does not change through the life of the loan or the remaining life of the loan. Table 15 presents the recorded investment in our loan and lease portfolio as of June 30, 2022 by rate type:

Loans and Leases by Rate Type **Table 15**

	June 30, 2022									
	Adjustable Rate							Hybrid	Fixed	
(dollars in thousands)	Prime	LIBOR	Treasury	SOFR	BSBY	Other	Total	Rate	Rate	Total
Commercial and industrial	$ 296,599	$ 765,047	$ —	$ 165,605	$ 64,813	$ 241,794	$ 1,533,858	$ 53,813	$ 354,461	$ 1,942,132
Commercial real estate	422,397	1,650,736	—	525,128	35,923	804,726	3,438,910	147,120	370,798	3,956,828
Construction	118,674	426,585	20	33,251	—	27,898	606,428	7,541	113,802	727,771
Residential:										
Residential mortgage	25,902	141,906	58,377	90,435	—	70,077	386,697	255,130	3,570,941	4,212,768
Home equity line	1,354	—	96	—	—	—	1,450	724,994	245,125	971,569
Total residential	27,256	141,906	58,473	90,435	—	70,077	388,147	980,124	3,816,066	5,184,337
Consumer	302,129	—	1,029	—	1,007	1,767	305,932	—	901,119	1,207,051
Lease financing	—	—	—	—	—	—	—	—	244,662	244,662
Total loans and leases	**$ 1,167,055**	**$ 2,984,274**	**$ 59,522**	**$ 814,419**	**$ 101,743**	**$ 1,146,262**	**$ 6,273,275**	**$ 1,188,598**	**$ 5,800,908**	**$ 13,262,781**
% by rate type at June 30, 2022	9 %	22 %	1 %	6 %	1 %	8 %	47 %	9 %	44 %	100 %

Tables 16 and 17 present the geographic distribution of our loan and lease portfolio as of June 30, 2022 and December 31, 2021:

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

	June 30, 2022				
(dollars in thousands)	Hawaii	U.S. Mainland[(1)]	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	$ 936,952	$ 887,387	$ 90,223	$ 27,570	$ 1,942,132
Commercial real estate	2,219,625	1,341,248	395,955	—	3,956,828
Construction	345,462	375,181	7,128	—	727,771
Residential:					
Residential mortgage	4,062,727	814	149,227	—	4,212,768
Home equity line	938,183	—	33,374	12	971,569
Total residential	5,000,910	814	182,601	12	5,184,337
Consumer	884,172	37,904	281,967	3,008	1,207,051
Lease financing	62,607	167,805	14,250	—	244,662
Total Loans and Leases	**$ 9,449,728**	**$ 2,810,339**	**$ 972,124**	**$ 30,590**	**$ 13,262,781**
Percentage of Total Loans and Leases	**71%**	**21%**	**7%**	**1%**	**100%**

(1) For secured loans and leases, classification as U.S. Mainland is made based on where the collateral is located. For unsecured loans and leases, classification as U.S. Mainland is made based on the location where the majority of the borrower's business operations are conducted.

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

	December 31, 2021				
(dollars in thousands)	Hawaii	U.S. Mainland[(1)]	Guam & Saipan	Foreign & Other	Total
Commercial and industrial	$ 1,070,206	$ 871,699	$ 112,739	$ 32,455	$ 2,087,099
Commercial real estate	2,226,487	1,023,018	389,922	196	3,639,623
Construction	340,290	467,331	6,348	—	813,969
Residential:					
Residential mortgage	3,949,550	1,054	132,763	—	4,083,367
Home equity line	845,517	—	31,091	—	876,608
Total residential	4,795,067	1,054	163,854	—	4,959,975
Consumer	920,154	17,278	290,839	1,668	1,229,939
Lease financing	68,246	148,950	14,198	—	231,394
Total Loans and Leases	$ 9,420,450	$ 2,529,330	$ 977,900	$ 34,319	$ 12,961,999
Percentage of Total Loans and Leases	73%	19%	7%	1%	100%

(1) For secured loans and leases, classification as U.S. Mainland is made based on where the collateral is located. For unsecured loans and leases, classification as U.S. Mainland is made based on the location where the majority of the borrower's business operations are conducted.

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

Table 18 presents the contractual maturities of our loan and lease portfolio by major categories and the sensitivities to changes in interest rates as of June 30, 2022:

Maturities for Loan and Lease Portfolio[(1)] **Table 18**

	June 30, 2022				
(dollars in thousands)	Due in One Year or Less	Due After One to Five Years	Due After Five to Fifteen Years	Due After Fifteen Years	Total
Commercial and industrial	**$ 471,980**	**$ 1,030,612**	**$ 359,903**	**$ 79,637**	**$ 1,942,132**
Commercial real estate	**381,174**	**1,836,282**	**1,718,431**	**20,941**	**3,956,828**
Construction	**292,771**	**299,809**	**107,330**	**27,861**	**727,771**
Residential:					
Residential mortgage	**27,927**	**43,374**	**476,325**	**3,665,142**	**4,212,768**
Home equity line	**16,835**	**118,937**	**190,182**	**645,615**	**971,569**
Total residential	**44,762**	**162,311**	**666,507**	**4,310,757**	**5,184,337**
Consumer	**140,046**	**830,525**	**236,480**	**—**	**1,207,051**
Lease financing	**4,048**	**124,761**	**115,853**	**—**	**244,662**
Total Loans and Leases	**$ 1,334,781**	**$ 4,284,300**	**$ 3,204,504**	**$ 4,439,196**	**$ 13,262,781**
Total of loans and leases with:					
Adjustable interest rates	**$ 1,135,676**	**$ 2,911,863**	**$ 1,927,418**	**$ 298,318**	**$ 6,273,275**
Hybrid interest rates	**66,622**	**190,100**	**163,140**	**768,736**	**1,188,598**
Fixed interest rates	**132,483**	**1,182,337**	**1,113,946**	**3,372,142**	**5,800,908**
Total Loans and Leases	**$ 1,334,781**	**$ 4,284,300**	**$ 3,204,504**	**$ 4,439,196**	**$ 13,262,781**

(1) Based on contractual maturities, including extension and renewal options that are not unconditionally cancellable by the Company.

Credit Quality

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

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

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

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

Table 19 presents information on our non-performing assets and accruing loans and leases past due 90 days or more as of June 30, 2022 and December 31, 2021:

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

(dollars in thousands)	**June 30, 2022**	December 31, 2021
Non-Performing Assets		
Non-Accrual Loans and Leases		
Commercial Loans:		
Commercial and industrial	**$ 682**	$ 718
Commercial real estate	**727**	727
Total Commercial Loans	**1,409**	1,445
Residential Loans:		
Residential mortgage	**6,450**	5,637
Total Residential Loans	**6,450**	5,637
Total Non-Accrual Loans and Leases	**7,859**	7,082
Other Real Estate Owned ("OREO")	**—**	175
Total Non-Performing Assets	**$ 7,859**	$ 7,257
Accruing Loans and Leases Past Due 90 Days or More		
Commercial Loans:		
Commercial and industrial	**$ 2,230**	$ 740
Commercial real estate	**176**	—
Construction	**352**	—
Total Commercial Loans	**2,758**	740
Residential Loans:		
Residential mortgage	**750**	987
Home equity line	**1,039**	3,681
Total Residential Loans	**1,789**	4,668
Consumer	**1,218**	1,800
Total Accruing Loans and Leases Past Due 90 Days or More	**$ 5,765**	$ 7,208
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	**$ 29,440**	$ 34,893
Total Loans and Leases	**$ 13,262,781**	$ 12,961,999
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	**0.06 %**	0.05 %
Ratio of Non-Performing Assets to Total Loans and Leases and OREO	**0.06 %**	0.06 %
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and OREO	**0.10 %**	0.11 %

Table 20 presents the activity in Non-Performing Assets ("NPAs") for the six months ended June 30, 2022 and 2021:

Non-Performing Assets **Table 20**

(dollars in thousands)	Six Months Ended June 30, 2022	2021
Balance at beginning of period	**$ 7,257**	$ 9,082
Additions	**2,461**	4,180
Reductions		
Payments	**(619)**	(1,253)
Return to accrual status	**(760)**	(1,146)
Sales of other real estate owned	**(175)**	—
Transfers to loans held for sale	**—**	(1,840)
Charge-offs/write-downs	**(305)**	(118)
Total Reductions	**(1,859)**	(4,357)
Balance at end of period	**$ 7,859**	$ 8,905

The level of NPAs represents an indicator of the potential for future credit losses. NPAs consist of non-accrual loans and leases and other real estate owned ("OREO"). Changes in the level of non-accrual loans and leases typically represent increases for loans and leases that reach a specified past due status, offset by reductions for loans and leases that are charged-off, paid down, sold, transferred to held for sale classification, transferred to OREO or are no longer classified as non-accrual because they have returned to accrual status as a result of continued performance and an improvement in the borrower's financial condition and loan repayment capabilities.

Total NPAs were $7.9 million as of June 30, 2022, an increase of $0.6 million or 8% from December 31, 2021. The ratio of our NPAs to total loans and leases and OREO was 0.06% as of both June 30, 2022 and December 31, 2021. The increase in NPAs during the six months ended June 30, 2022, was due to an increase in residential mortgage non-accrual loans of $0.8 million, partially offset by a decrease in OREO of $0.2 million.

The largest component of our NPAs continues to be residential mortgage loans. The level of these NPAs can remain elevated due to a lengthy judicial foreclosure process in Hawaii. As of June 30, 2022, residential mortgage non-accrual loans were $6.5 million, an increase of $0.8 million or 14% from December 31, 2021. This increase was due to additions of residential mortgage non-accrual loans totaling $2.4 million, partially offset by payments of $0.6 million, returns to accrual status of $0.8 million and charge-offs of $0.2 million. As of June 30, 2022, our residential mortgage non-accrual loans were comprised of 34 loans with a weighted average current LTV ratio of 41%.

OREO represents property acquired as the result of borrower defaults on loans. OREO is recorded at fair value, less estimated selling costs, at the time of foreclosure. On an ongoing basis, properties are appraised as required by market conditions and applicable regulations. As of June 30, 2022, we did not hold any OREO. As of December 31, 2021, OREO was $0.2 million which comprised of one residential property.

Loans and Leases Past Due 90 Days or More and Still Accruing Interest. Loans and leases in this category are 90 days or more past due, as to principal or interest, and are still accruing interest because they are well secured and in the process of collection.

Loans and leases past due 90 days or more and still accruing interest were $5.8 million as of June 30, 2022, a decrease of $1.4 million or 20%, as compared to December 31, 2021. This decrease was primarily due to decreases in home equity lines of $2.6 million and consumer loans of $0.6 million, partially offset by an increases in commercial and industrial loans of $1.5 million and construction loans of $0.4 million, that were past due 90 days or more and still accruing interest.

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

Total impaired loans were $37.6 million and $42.2 million as of June 30, 2022 and December 31, 2021, respectively. These impaired loans had a related ACL of $3.7 million and $4.2 million as of June 30, 2022 and December 31, 2021, respectively. The decrease in impaired loans during the six months ended June 30, 2022 was primarily due to decreases in consumer loans of $2.2 million, commercial real estate loans of $1.2 million, residential mortgages of $0.7 million and commercial and industrial loans of $0.6 million. For the three and six months ended June 30, 2022, we recorded charge-offs of $0.5 million and $1.4 million, respectively, and $0.4 million and $0.8 million, respectively, during the three and six months ended June 30, 2021, related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the ACL.

If interest due on the balances of all non-accrual loans as of June 30, 2022 and 2021 had been accrued under the original terms, approximately $0.1 million and $0.2 million in additional interest income would have been recorded during the three and six months ended June 30, 2022, respectively, and $0.1 million and $0.2 million during the three and six months ended June 30, 2021, respectively. Actual interest income recorded on these loans was $0.1 million for both the three and six months ended June 30, 2022, compared to $0.1 million and $0.2 million for the three and six months ended June 30, 2021, respectively.

Paycheck Protection Program

We participated in the PPP offered by the Small Business Administration ("SBA"). The PPP was intended to help small businesses impacted by the COVID-19 pandemic by providing "fully forgivable" loans to cover payroll expenses, including employee benefits, and can also be used for various other eligible expenses. PPP loans have a fixed interest rate of one percent per annum and a maturity date of up to five years, with the ability to prepay the loan in full without penalty. The first payment is deferred until the date the SBA remits the borrower's loan forgiveness amount to the Bank, or if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. Interest will continue to accrue during the initial deferment period. The borrower may apply with the Bank for loan forgiveness of the amount due on the loan in an amount equal to payroll, employee benefits, and other eligible expenses incurred, subject to limitations, in accordance with the PPP and the CARES Act, as amended by the Paycheck Protection Program Flexibility Act of 2020 (the "PPPF Act") and the Consolidated Appropriations Act – 2021 (the "CAA"). Because the purpose of the PPP is to help small businesses keep their workers employed and paid, if the business spends less than 60% of loan proceeds on payroll costs, uses the loan proceeds for non-payroll costs that are not eligible expenses, or significantly reduces its employee count or compensation levels without qualifying for other exceptions, a portion of the loan will not be forgiven, and the business will be required to repay that portion of the loan to the Bank over the remaining term of the loan.

Table 21 presents information on our PPP loans outstanding as of June 30, 2022 and December 31, 2021 to borrowers operating in industries we consider to be the most impacted by the COVID-19 pandemic ("high impact industries") and all other industries:

PPP Loans Outstanding to Borrowers by Industry **Table 21**

(dollars in thousands)	June 30, 2022 Number of Loans	June 30, 2022 Amortized Cost Basis	December 31, 2021 Number of Loans	December 31, 2021 Amortized Cost Basis
PPP Loans Outstanding to Borrowers by Industry				
High Impact Industries:				
Food service	**63**	**$ 16,070**	207	$ 61,025
Automobile dealers	**1**	**337**	9	7,544
Retail	**24**	**4,801**	98	13,961
Hospitality/Hotel	**10**	**3,858**	38	31,979
Transportation	**8**	**479**	28	3,408
Total PPP Loans Outstanding to Borrowers Operating in High Impact Industries	**106**	**25,545**	380	117,917
All other industries [1]	**164**	**17,688**	605	98,525
Total PPP Loans Outstanding [2]	**270**	**$ 43,233**	985	$ 216,442
Total Loans and Leases		**$ 13,262,781**		$ 12,961,999
Ratio of PPP Loans Outstanding to Borrowers Operating in High Impact Industries to Total Loans and Leases		**0.2** %		0.9 %
Ratio of PPP Loans Outstanding to Total Loans and Leases		**0.3** %		1.7 %

(1) "All other industries" represent borrowers that received PPP loans that did not operate in the five high impact industries listed above. At June 30, 2022, this was primarily comprised of the administrative and support services, construction, and real estate industries. At December 31, 2021, this was primarily comprised of the construction, health care, administrative and support services, and arts and entertainment industries.

(2) At June 30, 2022, outstanding loan balances are reported net of deferred loan costs and fees of nil and $0.9 million, respectively. At December 31, 2021, outstanding loan balances are reported net of deferred loan costs and fees of $0.2 million and $5.4 million, respectively.

Loans Modified in a Troubled Debt Restructuring

Table 22 presents information on loans whose terms have been modified in a TDR as of June 30, 2022 and December 31, 2021:

Loans Modified in a Troubled Debt Restructuring **Table 22**

(dollars in thousands)	June 30, 2022	December 31, 2021
Commercial and industrial	**$ 1,362**	$ 1,956
Commercial real estate	**5,969**	7,121
Construction	**667**	689
Total commercial	**7,998**	9,766
Residential mortgage	**9,285**	10,828
Total residential	**9,285**	10,828
Consumer	**13,547**	15,710
Total	**$ 30,830**	$ 36,304

Loans modified in a TDR were $30.8 million as of June 30, 2022, a decrease of $5.5 million or 15% from December 31, 2021. This decrease was primarily due to decreases in consumer loans of $2.2 million, residential mortgage loans of $1.5 million, commercial real estate loans of $1.2 million and commercial and industrial loans of $0.6 million. As of June 30, 2022, $29.4 million or 95% of our loans modified in a TDR were performing in accordance with their modified contractual terms and were on accrual status.

Generally, loans modified in a TDR are returned to accrual status after the borrower has demonstrated performance under the modified terms by making six consecutive timely payments. See "Note 4. Allowance for Credit Losses" contained in our unaudited interim consolidated financial statements for more information.

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

Table 23 presents an analysis of our ACL for the periods indicated:

Allowance for Credit Losses and Reserve for Unfunded Commitments **Table 23**

(dollars in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Balance at Beginning of Period	**$ 179,238**	$ 234,469	**$ 187,584**	$ 239,057
Loans and Leases Charged-Off				
Commercial Loans:				
Commercial and industrial	**(243)**	(330)	**(949)**	(1,293)
Commercial real estate	**—**	—	**—**	(66)
Total Commercial Loans	**(243)**	(330)	**(949)**	(1,359)
Residential Loans:				
Residential mortgage	**—**	—	**—**	(98)
Home equity line	**(1,120)**	—	**(1,163)**	—
Total Residential Loans	**(1,120)**	—	**(1,163)**	(98)
Consumer	**(3,659)**	(3,917)	**(7,768)**	(10,458)
Total Loans and Leases Charged-Off	**(5,022)**	(4,247)	**(9,880)**	(11,915)
Recoveries on Loans and Leases Previously Charged-Off				
Commercial Loans:				
Commercial and industrial	**301**	287	**354**	502
Commercial real estate	**—**	12	**14**	15
Construction	**—**	—	**—**	166
Lease financing	**60**	—	**60**	—
Total Commercial Loans	**361**	299	**428**	683
Residential Loans:				
Residential mortgage	**192**	14	**208**	31
Home equity line	**191**	38	**219**	62
Total Residential Loans	**383**	52	**427**	93
Consumer	**1,940**	2,797	**4,088**	5,452
Total Recoveries on Loans and Leases Previously Charged-Off	**2,684**	3,148	**4,943**	6,228
Net Loans and Leases Charged-Off	**(2,338)**	(1,099)	**(4,937)**	(5,687)
Provision for Credit Losses	**1,000**	(35,000)	**(4,747)**	(35,000)
Balance at End of Period	**$ 177,900**	$ 198,370	**$ 177,900**	$ 198,370
Components:				
Allowance for Credit Losses	**$ 148,942**	$ 169,148	**$ 148,942**	$ 169,148
Reserve for Unfunded Commitments	**28,958**	29,222	**28,958**	29,222
Total Allowance for Credit Losses and Reserve for Unfunded Commitments	**$ 177,900**	$ 198,370	**$ 177,900**	$ 198,370
Average Loans and Leases Outstanding	**$ 13,058,558**	$ 13,205,086	**$ 12,939,745**	$ 13,223,575
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding(1)	**0.07 %**	0.03 %	**0.08 %**	0.09 %
Ratio of Allowance for Credit Losses for Loans and Leases to Loans and Leases Outstanding	**1.12 %**	1.29 %	**1.12 %**	1.29 %
Ratio of Allowance for Credit Losses for Loans and Leases to Non-accrual Loans and Leases	**18.95x**	18.99x	**18.95x**	18.99x

(1) Annualized for the three and six months ended June 30, 2022 and 2021.

Tables 24 and 25 present the allocation of the ACL by loan and lease category, in both dollars and as a percentage of total loans and leases outstanding as of June 30, 2022 and December 31, 2021:

Allocation of the Allowance for Credit Losses by Loan and Lease Category **Table 24**

	June 30, 2022		
(dollars in thousands)	Amount	Allocated ACL as % of loan or lease category	Loan category as % of total loans and leases
Commercial and industrial	**$ 15,924**	**0.82 %**	**14.64 %**
Commercial real estate	**44,726**	**1.13**	**29.83**
Construction	**5,367**	**0.74**	**5.49**
Lease financing	**1,398**	**0.57**	**1.85**
Total commercial	**67,415**	**0.98**	**51.81**
Residential mortgage	**33,635**	**0.80**	**31.76**
Home equity line	**4,734**	**0.49**	**7.33**
Total residential	**38,369**	**0.74**	**39.09**
Consumer	**43,158**	**3.58**	**9.10**
Total	**$ 148,942**	**1.12 %**	**100.00 %**

Allocation of the Allowance for Credit Losses by Loan and Lease Category **Table 25**

	December 31, 2021		
(dollars in thousands)	Amount	Allocated ACL as % of loan or lease category	Loan category as % of total loans and leases
Commercial and industrial	$ 20,080	0.96 %	16.10 %
Commercial real estate	42,951	1.18	28.08
Construction	9,773	1.20	6.28
Lease financing	1,659	0.72	1.79
Total commercial	74,463	1.10	52.25
Residential mortgage	34,364	0.84	31.50
Home equity line	5,642	0.64	6.76
Total residential	40,006	0.81	38.26
Consumer	42,793	3.48	9.49
Total	$ 157,262	1.21 %	100.00 %

Table 26 presents the net charge-offs (recoveries) to average loans and leases by category during the three and six months ended June 30, 2022 and 2021:

Net Charge-Offs (Recoveries) to Average Loans and Leases By Category[(1)] **Table 26**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Commercial and industrial	**(0.01)%**	0.01 %	**0.06 %**	0.05 %
Commercial real estate	**—**	—	**—**	—
Construction	**—**	—	**—**	(0.04)
Lease financing	**(0.10)**	—	**(0.05)**	—
Total commercial	**(0.01)**	—	**0.02**	0.02
Residential mortgage	**(0.02)**	—	**(0.01)**	—
Home equity line	**0.39**	(0.02)	**0.21**	(0.02)
Total residential	**0.06**	—	**0.03**	—
Consumer	**0.57**	0.35	**0.61**	0.78
Total loans and leases	**0.07 %**	0.03 %	**0.08 %**	0.09 %

(1) Annualized for the three and six months ended June 30, 2022 and 2021.

As of June 30, 2022, the ACL was $148.9 million or 1.12% of total loans and leases outstanding, compared with an ACL of $157.3 million or 1.21% of total loans and leases outstanding as of December 31, 2021. The reserve for unfunded commitments was $29.0 million as of June 30, 2022, compared to $30.3 million as of December 31, 2021.

Net charge-offs of loans and leases were $2.3 million or 0.07% of total average loans and leases, on an annualized basis, for the three months ended June 30, 2022, compared to net charge-offs of $1.1 million or 0.03% for the three months ended June 30, 2021. Net recoveries in our commercial lending portfolio were $0.1 million for the three months ended June 30, 2022, compared to net charge-offs of nil for the three months ended June 30, 2021. Net charge-offs in our residential lending portfolio were $0.7 million for the three months ended June 30, 2022, compared to net recoveries of $0.1 million for the three months ended June 30, 2021. Net charge-offs in our consumer lending portfolio were $1.7 million and $1.1 million for the three months ended June 30, 2022 and 2021, respectively. Net charge-offs in our consumer portfolio segment include those related to credit cards, automobile loans, installment loans and small business lines of credit and reflect the inherent risk associated with these loans.

Net charge-offs of loans and leases were $4.9 million or 0.08% of total average loans and leases on an annualized basis, for the six months ended June 30, 2022, compared to $5.7 million or 0.09% of total average loans and leases, on an annualized basis, for the six months ended June 30, 2021. Net charge-offs in our commercial lending portfolio were $0.5 million and $0.7 million for the six months ended June 30, 2022 and 2021, respectively. Net charge-offs in our residential lending portfolio were $0.7 million and nil for the six months ended June 30, 2022 and 2021, respectively. Net charge-offs in our consumer lending portfolio were $3.7 million and $5.0 million for the six months ended June 30, 2022 and 2021, respectively. Net charge-offs in our consumer portfolio segment include those related to credit card, automobile loans, installment loans and small business lines of credit and reflect the inherent risk associated with these loans.

The decrease in the ACL was primarily due to the release of certain qualitative overlays, such as the COVID-19 overlay in the residential portfolio, and continued improvement in credit quality during the six months ended June 30, 2022. Additionally, the economic outlook moderately improved with downside risks due to inflation and geo-political instability that could impact credit losses. We will continue to closely monitor the uncertainty of the economy as it is recovering from the pandemic.

Although we determine the amount of each component of the ACL separately, the ACL as a whole was considered appropriate by management as of June 30, 2022 and December 31, 2021. Furthermore, as of June 30, 2022, while the allocation of our ACL to all of our portfolio segments was lower as compared to December 31, 2021, the ACL was considered adequate based on our ongoing analysis of estimated expected credit losses, credit risk profiles, current economic outlook, coverage ratios and other relevant factors. We will continue to monitor factors that drive expected credit losses including the uncertainty of the economy as it is recovering from the pandemic and the impact on local businesses and our customers, inflation and geo-political instability. See “Note 4. Allowance for Credit Losses” contained in our unaudited interim consolidated financial statements for more information on the ACL.

Goodwill

Goodwill was $995.5 million as of both June 30, 2022 and December 31, 2021. Our goodwill originated from the acquisition of the Company by BNP Paribas in December of 2001. Goodwill generated in that acquisition was recorded on the balance sheet of the Bank as a result of push down accounting treatment, and remains on our consolidated balance sheets.

The Company’s policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of a reporting unit exceeds its fair value. There was no impairment in our goodwill for the three and six months ended June 30, 2022. Future events, including the ongoing impacts of the COVID-19 pandemic, that could cause a significant decline in our expected future cash flows or a significant adverse change in our business or the business climate may necessitate taking charges in future reporting periods related to the impairment of our goodwill.

Other Assets

Other assets were $822.4 million as of June 30, 2022, an increase of $179.2 million or 28% from December 31, 2021. This increase was primarily due to a $142.7 million increase in current tax receivables and deferred tax assets, a $34.7 million increase in prepaid assets, a $27.1 million increase in accounts receivables and a $15.4 million increase in municipal advances. This was partially offset by a $45.5 million decrease in interest rate swap agreements.

Deposits

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

Table 27 presents the composition of our deposits as of June 30, 2022 and December 31, 2021:

Deposits **Table 27**

(dollars in thousands)	June 30, 2022	December 31, 2021
U.S.:		
Demand	**$ 8,667,755**	$ 8,498,187
Savings	**6,834,744**	6,214,566
Money Market	**3,812,152**	3,751,054
Time	**1,469,039**	1,587,678
Foreign[1]:		
Demand	**943,127**	895,676
Savings	**408,441**	398,209
Money Market	**267,554**	282,016
Time	**198,642**	188,760
Total Deposits[2]	**$ 22,601,454**	$ 21,816,146

(1) Foreign deposits were comprised of Guam and Saipan deposit accounts.
(2) Public deposits were $1.6 billion as of June 30, 2022, an increase of $473.0 million or 42% compared to December 31, 2021.

Total deposits were $22.6 billion as of June 30, 2022, an increase of $785.3 million or 4% from December 31, 2021. The increase in deposit balances stemmed primarily from a $541.8 million increase in public savings deposit balances and a $230.9 million increase in non-public demand deposit balances. These increases were partially offset by a $108.8 million decrease in total time deposit balances.

As of June 30, 2022 and December 31, 2021, the Company had $15.6 billion and $14.7 billion, respectively, in uninsured deposits.

Table 28 presents the amount of time deposits that were in excess of the FDIC insurance limit, further segregated by time remaining until maturity, as of June 30, 2022:

Uninsured Time Deposits **Table 28**

(dollars in thousands)	June 30, 2022
Three months or less	**$ 239,586**
Over three through six months	**272,135**
Over six through twelve months	**476,170**
Over twelve months	**122,020**
Total	**$ 1,109,911**

Pension and Postretirement Plan Obligations

We have a noncontributory qualified defined benefit pension plan, an unfunded supplemental executive retirement plan ("SERP"), a directors' retirement plan (a non-qualified pension plan for eligible directors) and a postretirement benefit plan providing life insurance and healthcare benefits that we offer to our directors and employees, as applicable. The noncontributory qualified defined benefit pension plan, the unfunded supplemental executive retirement plan and the directors' retirement plan are all frozen to new participants. On March 11, 2019, the Company's board of directors approved an amendment to the SERP to freeze the SERP. As a result of such amendment, effective July 1, 2019, there are no new accruals of benefits, including service accruals. To calculate annual pension costs, we use the following key variables: (1) size of the employee population, length of service and estimated compensation increases; (2) actuarial assumptions and estimates; (3) expected long-term rate of return on plan assets; and (4) discount rate.

Pension and postretirement benefit plan obligations, net of pension plan assets, were $119.2 million as of June 30, 2022, a nominal increase from December 31, 2021. This increase was primarily due to net periodic benefit costs for the six months ended June 30, 2022 of $4.2 million, offset by payments of $4.1 million.

See "Note 14. Noninterest Income and Noninterest Expense" contained in our unaudited interim consolidated financial statements for more information on our pension and postretirement benefit plans.

Capital

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

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

Under the Capital Rules, the minimum capital ratios are as follows:

- 4.5% CET1 capital to risk-weighted assets,
- 6.0% Tier 1 capital (that is, CET1 capital plus Additional Tier 1 capital) to risk-weighted assets,
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets, and
- 4.0% Tier 1 capital to average quarterly assets.

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

As of June 30, 2022, the Company's capital levels remained characterized as "well capitalized" under the Capital Rules. Our regulatory capital ratios, calculated in accordance with the Capital Rules, are presented in Table 29 below. There have been no conditions or events since June 30, 2022 that management believes have changed either the Company's or the Bank's capital classifications. CET1 was 11.98% as of June 30, 2022, a decrease of 26 basis points from December 31, 2021. The decrease in CET1 was primarily due to loan growth and the dividends declared and paid to the Company's stockholders, partially offset by earnings for the six months ended June 30, 2022.

Regulatory Capital — Table 29

(dollars in thousands)	June 30, 2022	December 31, 2021
Stockholders' Equity	**$ 2,252,611**	$ 2,656,912
Less:		
Goodwill	**995,492**	995,492
Accumulated other comprehensive loss, net	**(571,457)**	(121,693)
Common Equity Tier 1 Capital and Tier 1 Capital	**$ 1,828,576**	$ 1,783,113
Add:		
Qualifying allowance for credit losses and reserve for unfunded commitments	**177,900**	182,167
Total Capital	**$ 2,006,476**	$ 1,965,280
Risk-Weighted Assets	**$ 15,267,627**	$ 14,567,961
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	**11.98 %**	12.24 %
Tier 1 Capital Ratio	**11.98 %**	12.24 %
Total Capital Ratio	**13.14 %**	13.49 %
Tier 1 Leverage Ratio	**7.54 %**	7.24 %

Total stockholders' equity was $2.3 billion as of June 30, 2022, a decrease of $404.3 million or 15% from December 31, 2021. The decrease in stockholders' equity was primarily due to net unrealized losses in our investment securities portfolio, net of tax, of $446.9 million and dividends declared and paid to the Company's stockholders of $66.4 million, partially offset by earnings for the period of $117.1 million during the six months ended June 30, 2022.

In January 2022, the Company announced a stock repurchase program for up to $75.0 million of its outstanding common stock during 2022. As of June 30, 2022, $68.0 million remained of the $75.0 million total repurchase amount authorized under the stock repurchase program for 2022. The timing and amount of stock repurchases are influenced by various internal and external factors.

In July 2022, the Company's Board of Directors declared a quarterly cash dividend of $0.26 per share on our outstanding shares. The dividend will be paid on September 2, 2022 to shareholders of record at the close of business on August 22, 2022.

Future Application of Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of June 30, 2022, see "Note 1. Organization and Basis of Presentation — Recent Accounting Pronouncements" to the unaudited interim consolidated financial statements for more information.

Risk Governance and Quantitative and Qualitative Disclosures About Market Risk

Managing risk is an essential part of successfully operating our business. Management believes that the most prominent risk exposures for the Company are credit risk, market risk, liquidity risk management, capital management and operational risk. See "Analysis of Financial Condition — Liquidity and Capital Resources" and "—Capital" sections of this MD&A for further discussions of liquidity risk management and capital management, respectively.

Credit Risk

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

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

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

Residential lending is further categorized into the following classes: residential mortgages (loans secured by 1-4 family residential properties and home equity loans) and home equity lines of credit. Our Bank's underwriting standards typically require LTV ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk, with an average loan size of approximately $368,000. Residential mortgage loan production is added to our loan portfolio or is sold in the secondary market, based on management's evaluation of our liquidity, capital and loan portfolio mix as well as market conditions. Changes in interest rates, the economic environment and other market factors have impacted, and will likely continue to impact, the marketability and value of collateral and the financial condition of our borrowers which impacts the level of credit risk inherent in this portfolio, although we remain in a supply constrained housing environment in Hawaii. Geographic concentrations exist for this portfolio as nearly all residential mortgage loans and home equity lines of credit are for residences located in Hawaii, Guam or Saipan. These island locales are susceptible to a wide array of potential natural disasters including, but not limited to, hurricanes, floods, tsunamis and earthquakes. We offer home equity lines of credit with variable rates; fixed rate lock options may be available post-closing. All lines are underwritten at 2% over the fully indexed rate. Our procedures for underwriting home equity lines of credit include an assessment of an applicant's overall financial capacity and repayment ability. Decisions are primarily based on repayment ability via debt-to-income ratios, LTV ratios and an evaluation of credit history.

Consumer lending is further categorized into the following classes of loans: credit cards, automobile loans and other consumer-related installment loans. Consumer loans are either unsecured or secured by the borrower's personal assets. The average loan size is generally small and risk is diversified among many borrowers. We offer a wide array of credit cards for business and personal use. In general, our customers are attracted to our credit card offerings on the basis of price, credit limit, reward programs and other product features. Credit card underwriting decisions are generally based on repayment ability of our borrower via DTI ratios, credit bureau information, including payment history, debt burden and credit scores, such as FICO, and analysis of financial capacity. Automobile lending activities include loans and leases secured by new or used automobiles. We originate the majority of our automobile loans and leases on an indirect basis through selected dealerships. Our procedures for underwriting automobile loans include an assessment of an applicant's overall financial capacity and repayment ability, credit history and the ability to meet existing obligations and payments on the proposed loan or lease. Although an applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount. We require borrowers to maintain full coverage automobile insurance on automobile loans and leases, with the Bank listed as either the loss payee or additional insured.

Installment loans consist of open and closed end facilities for personal and household purchases. We seek to maintain reasonable levels of risk in installment lending by following prudent underwriting guidelines which include an evaluation of personal credit history and cash flow.

In addition to geographic concentration risk, we also monitor our exposure to industry risk. While the Bank, our customers and our results of operations could be adversely impacted by events affecting the tourism industry, we also monitor our other industry exposures, including, but not limited to, our exposures in the oil, gas and energy industries. As of June 30, 2022 and December 31, 2021, we did not have material exposures to customers in the oil, gas and energy industries.

Market Risk

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

The potential cash flows, sales or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. In the banking industry, changes in interest rates can significantly impact earnings and the safety and soundness of an entity.

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

Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships and repricing characteristics of financial instruments. Our earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The monetary policies of the Federal Reserve can influence the overall growth of loans, investment securities and deposits and the level of interest rates earned on assets and paid for liabilities.

Market Risk Measurement

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

Table 30 presents, for the twelve months subsequent to June 30, 2022 and December 31, 2021, an estimate of the changes in net interest income that would result from ramps (gradual changes) and shocks (immediate changes) in market interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. Ramp scenarios assume interest rates move gradually in parallel across the yield curve relative to the base case scenario. Shock scenarios assume an immediate and sustained parallel shift in interest rates across the entire yield curve, relative to the base case scenario. The base case scenario assumes that the balance sheet and interest rates are generally unchanged. We evaluate the sensitivity by using a static forecast, where the balance sheets as of June 30, 2022 and December 31, 2021 are held constant.

Net Interest Income Sensitivity Profile - Estimated Percentage Change Over 12 Months	Table 30	
	Static Forecast June 30, 2022	Static Forecast December 31, 2021
Ramp Change in Interest Rates (basis points)		
+100	**4.0 %**	6.1 %
+50	**2.0**	3.1
(50)	**(2.0)**	(1.4)
(100)	**(4.0)**	(2.4)
Immediate Change in Interest Rates (basis points)		
+100	**7.8 %**	11.8 %
+50	**3.9**	6.0
(50)	**(4.0)**	(2.9)
(100)	**(8.3)**	(5.7)

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

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

Under the static balance sheet forecast as of June 30, 2022 our net interest income sensitivity profile is lower in higher interest rate scenarios compared to similar forecasts as of December 31, 2021. The sensitivity outcomes described above are primarily due to the higher rate environment and lower forecasted prepayments of mortgage assets as of June 30, 2022 as compared with December 31, 2021.

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

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

Limitations of Market Risk Measures

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

Market Risk Governance

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

To manage the impact on net interest income, we manage our exposure to changes in interest rates through our asset and liability management activities within guidelines established by our ALCO and approved by our board of directors. The ALCO has the responsibility for approving and ensuring compliance with the ALCO management policies, including interest rate risk exposures. The objective of our interest rate risk management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Through review and oversight by the ALCO, we attempt to engage in strategies that neutralize interest rate risk as much as possible. Our use of derivative financial instruments, as detailed in "Note 10. Derivative Financial Instruments" to the unaudited interim consolidated financial statements, has generally been limited. This is due to natural on balance sheet hedges arising out of offsetting interest rate exposures from loans and investment securities with deposits and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by the ALCO. We utilize natural and offsetting economic hedges in an effort to reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

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

In addition, our business relies upon a large volume of loans, derivative contracts and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR to establish their interest rate and/or value. The United Kingdom's Financial Conduct Authority, which regulates LIBOR, has announced that publication of the most commonly used U.S. Dollar LIBOR settings will cease to be provided or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be provided or ceased to be representative as of December 31, 2021. The U.S. federal banking agencies issued guidance strongly encouraging banking organizations to cease using the U.S. Dollar LIBOR as a reference rate in "new" contracts by December 31, 2021 at the latest. As such, effective December 31, 2021, we have ceased the use of U.S Dollar LIBOR as a reference rate on all new contracts. Although the full impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known, we have established a working group, consisting of key stakeholders from throughout the Company, to spearhead the continued transition from LIBOR to alternative reference rates. In the United States, LIBOR-priced transactions and products will transfer to the Secured Overnight Financing Rate ("SOFR"), Prime Rate or other similar indices (collectively, "Alternative Rates"). There are risks inherent with the transition to any Alternative Rate as the rate may behave differently than LIBOR in reaction to monetary, market and economic events.

Our LIBOR transition plan is organized around key work streams, including work to ensure that our technology systems are prepared for the transition, our loan documents that reference LIBOR-based rates have been appropriately amended to reference other methods of interest rate determinations and internal and external stakeholders are apprised of the transition. We have implemented certain SOFR and BSBY conventions and are in the process of developing other products and transaction agreements that are based on reference rates other than LIBOR. To see the recorded investment in our loan and lease portfolio by rate type, refer to Table 15 in the section titled "Loans and Leases" in this MD&A.

For a further discussion of the various risks the Company faces in connection with the expected replacement of LIBOR on its operations, see "Risk Factors—Market Risks—Certain of our businesses, our funding and financial products may be adversely affected by changes or the discontinuance of LIBOR" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 25, 2022.

Operational Risk

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Governance and Quantitative and Qualitative Disclosures About Market Risk."

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Interim Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2022. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Interim Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2022.

Changes in Internal Control over Financial Reporting

On May 31, 2022, the Company successfully converted to its new core systems, including a new digital banking platform, new deposits and loans applications and a new general ledger accounting system. These new system implementations have resulted in certain changes to the Company's business processes and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in the quarter ended June 30, 2022.

Except as set forth above, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company operates in a highly regulated environment. From time to time, the Company is party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

ITEM 1A. RISK FACTORS

Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 25, 2022 contain a discussion of our risk factors. Except to the extent that additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors, there are no material changes from the risk factors as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

The following table provides certain information with respect to our purchases of shares of the Company's common stock during the three months ended June 30, 2022:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2]
April 1, 2022 through April 30, 2022	-	$ -	-	$ 75,000,000
May 1, 2022 through May 31, 2022	35,817	25.31	25,500	74,357,864
June 1, 2022 through June 30, 2022	267,716	23.99	265,058	68,000,019
Total	303,533	$ 24.15	290,558	

(1) Includes 12,975 shares acquired from employees to satisfy income tax withholding requirements in connection with vested share awards during the three months ended June 30, 2022.

(2) In January 2022, the Company announced a stock repurchase program for up to $75 million of its outstanding common stock during 2022. As of June 30, 2022, $68.0 million remained of the $75 million total repurchase amount authorized under the stock repurchase program for 2022. The timing and amount of stock repurchases are influenced by various internal and external factors.

ITEM 6. EXHIBITS

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

Exhibit Index

Exhibit Number	
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 8, 2022		First Hawaiian, Inc.
	By:	/s/ Robert S. Harrison
		Robert S. Harrison Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Ralph M. Mesick
		Ralph M. Mesick Vice Chairman, Chief Risk Officer and Interim Chief Financial Officer

**Certification of Chief Executive Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert S. Harrison, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2022

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

Certification of Chief Financial Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Ralph M. Mesick, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2022

/s/ Ralph M. Mesick
Ralph M. Mesick
Vice Chairman, Chief Risk Officer and Interim Chief Financial Officer

Exhibit 32.1

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

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

- The Quarterly Report on Form 10-Q of First Hawaiian, Inc. (the "Company") for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2022	/s/ Robert S. Harrison
	Robert S. Harrison Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

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

- The Quarterly Report on Form 10-Q of First Hawaiian, Inc. (the “Company”) for the quarter ended June 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2022	/s/ Ralph M. Mesick
	Ralph M. Mesick
	Vice Chairman, Chief Risk Officer and Interim Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.