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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2017

OR

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

For the transition period from ______ to ______

Commission File Number 001-14585

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

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

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

Securities Registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.01 per share
(Title of Each Class)
NASDAQ Global Select Market
(Name of exchange on which registered)

Securities Registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Act. YES ☐ NO ☒

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

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

☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

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

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

As of June 30, 2017, the aggregate market value of the registrant's voting shares held by non-affiliates was approximately $1.6 billion, based on the closing sale price of $30.62 as reported on the NASDAQ Global Select Market.

As of February 21, 2018, there were 139,601,123 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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FIRST HAWAIIAN, INC.
FORM 10-K ANNUAL REPORT

PART I

ITEM 1. BUSINESS

General

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”). References to “we,” “our,” “us,” or the “Company” refer to the Parent and its wholly-owned subsidiary, FHB, for purposes of discussion in this Annual Report on Form 10-K.

We are a bank holding company incorporated in the state of Delaware and headquartered in Honolulu, Hawaii. Our wholly-owned bank 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. Today, FHB is the largest full service bank headquartered in Hawaii as measured by assets, loans, deposits and core net income. As of December 31, 2017, we had $20.5 billion of assets, $12.3 billion of gross loans and leases, $17.6 billion of deposits and $2.5 billion of stockholders’ equity. We generated $183.7 million of net income or diluted earnings per share of $1.32 per share for the year ended December 31, 2017.

We have a highly diversified and balanced loan portfolio that has exhibited steady organic loan growth through various economic cycles. Gross loans have grown at a 6.5% compounded annual growth rate from December 31, 2007 to December 31, 2017, and loan balances have increased every year since 2007 despite the Great Recession (which we define as January 1, 2008 through December 31, 2009) and strong competition. We believe the strength and credit quality of our loan portfolio reflects our conservative credit-driven underwriting approach. We also have the leading deposit market share position across our branch footprint. As of June 30, 2017, we had a 36.52% deposit market share in Hawaii, a 35.42% deposit market share in Guam and a 36.64% deposit market share in Saipan according to the Federal Deposit Insurance Corporation (the “FDIC”).

Hawaii has been, and will continue to be, our primary market. As of December 31, 2017, 83% of our deposits and 70% of our loans were based in Hawaii. Hawaii is an attractive market that we believe will continue to provide steady organic growth opportunities. We pride ourselves on our deep rooted and extensive relationships within the Hawaii community. We believe these community ties coupled with the strength of our brand and market share provide an excellent long-term opportunity to continue to deliver steady growth, stable operating efficiency and consistently strong performance.

Through the Bank, we operate a network of 62 branches in Hawaii (57 branches), Guam (3 branches) and Saipan (2 branches). We provide a diversified range of banking services to consumer and commercial customers, including deposit products, lending services and wealth management and trust services. Through our distribution channels, we offer a variety of deposit products to our customers, including checking and savings accounts and other types of deposit accounts. We offer comprehensive commercial banking services to middle market and large Hawaii-based businesses with over $10 million of revenue, strong balance sheets and high quality collateral. We provide commercial and industrial lending, including auto dealer flooring, commercial real estate and construction lending. We also offer comprehensive consumer lending services focused on residential real estate lending, indirect auto financing and other consumer loans to individuals and small businesses through our branch, online and mobile distribution channels. Our wealth management business provides an array of trust services, private banking and investment management services. We also offer consumer and commercial credit cards and merchant processing.

We seek to develop comprehensive, long-term banking relationships by offering a diverse array of products and services, cross-selling those products and services and delivering high quality customer service. Our service culture and emphasis on repeat positive customer experiences are integral to our banking strategy and exemplified by our longstanding customer relationships.

We operate our business through three operating segments: Retail Banking, Commercial Banking and Treasury and Other. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) – Analysis of Business Segments” and “Note 22. Reportable Operating Segments” in our consolidated financial statements for more information.

As of December 31, 2017, we had approximately 2,300 employees, which included full time employees, part time employees and temporary employees. None of our employees are parties to a collective bargaining agreement and we do not expect a significant change in the number of our employees in the near future.

Securities Exchange Act Reports and Additional Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports can be found free of charge on our website at www.fhb.com, under Investor Relations, as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”). These reports are also available free of charge on the SEC’s website at www.sec.gov.

Information on our Investor Relations website, our main website and other websites referred to in this report is not incorporated by reference into this report or any other report filed with or furnished to the SEC. We have included such website addresses only as inactive textual references and do not intend them to be active links.

Our Products and Services

The Bank is a full service community bank focused on building relationships with our customers. We provide a variety of deposit accounts and lending services to commercial and consumer customers, as well as credit card products, wealth management services and merchant processing services. For over ten years, the Bank has maintained the largest deposit market share in Hawaii and currently has the leading market position in deposits in Hawaii, Guam and Saipan. We offer a comprehensive range of commercial lending services including commercial and industrial lending, auto dealer flooring, commercial real estate lending and construction lending. Our primary consumer lending services are mortgage lending, auto finance, small business loans, personal installment and credit cards. Our wealth management business offers individuals investment and financial planning services, insurance protection, trust and estate services and private banking.

Reorganization Transactions

On April 1, 2016, BNP Paribas, our majority shareholder (“BNPP”), effected a series of transactions (“Reorganization Transactions”) pursuant to which FHI, which was then known as BancWest Corporation (“BancWest”), contributed Bank of the West (“BOW”), its subsidiary at the time, to BancWest Holding Inc. (“BWHI”), a newly formed bank holding company and a wholly-owned subsidiary of BancWest. Following the contribution of BOW to BWHI, BancWest distributed its interest in BWHI to BNPP, and BWHI became a wholly-owned subsidiary of BNPP. As part of these transactions, we amended our certificate of incorporation to change our name to First Hawaiian, Inc., with First Hawaiian Bank remaining our only direct wholly-owned subsidiary.

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

Initial Public Offering and Separation from BNPP

Shares of FHI’s common stock began trading on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “FHB” on August 4, 2016. In August 2016, FHI completed its initial public offering (“IPO”) of 24,250,000 shares of common stock sold by BWC. In February 2017, BWC sold an additional 28,750,000 shares of FHI common stock in a secondary offering. FHI did not receive any of the proceeds from the two sales of shares of its common stock by BWC. BNPP is the beneficial owner of approximately 62% of FHI’s common stock as of December 31, 2017.

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

Competition

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve. Additionally, certain large banks headquartered on the U.S. mainland and large community banking institutions target the same customers we do. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the Internet and for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Our Strategic Initiatives

Our business strategy is focused on providing full service banking across our branch footprint, and we strive to be Hawaii's bank of choice for consumer and commercial customers. We believe the combination of our brand, service quality, prudent approach to risk management and ties to the communities we serve provides us with steady growth opportunities and has allowed us to consistently deliver top tier operating performance. Our ongoing strategic focus and business initiatives include continuing to grow organically by leveraging our existing core competencies and positioning our business for the evolving bank landscape. We have a deep understanding of our customers and local market conditions which has been, and will continue to be, a primary factor in the success of our franchise.

Supervision and Regulation

We are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. This regulatory framework may materially impact our growth potential and financial performance and is intended primarily for the protection of depositors, customers, the federal deposit insurance fund and the banking system as a whole, not for the protection of our stockholders or other investors.

Significant elements of the statutes, regulations and policies applicable to the Company are described below. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies described. These statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. Recent political developments, including the change in administration in the United States, have added additional uncertainty to the implementation, scope and timing of regulatory reforms.

On February 3, 2017, the President of the United States issued an executive order identifying "core principles" for the administration's financial services regulatory policy and directing the Secretary of the Treasury, in consultation with the heads of other financial regulatory agencies, to evaluate how the current regulatory framework promotes or inhibits the principles and what actions have been, and are being, taken to promote the principles. In response to the executive order, on June 12, 2017, October 6, 2017 and October 26, 2017, respectively, the U.S. Department of the Treasury issued the first three of four reports recommending a number of comprehensive changes in the current regulatory system for U.S. depository institutions, the U.S. capital markets and the U.S. asset management and insurance industries.

Regulatory Agencies

FHI is a bank holding company under the U.S. Bank Holding Company Act of 1956 ("BHC Act") and has elected to be treated as a financial holding company under the BHC Act. Consequently, FHI and its subsidiary are subject to the supervision, regulation, examination and reporting requirements of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The BHC Act provides generally for "umbrella" regulation of bank holding companies by the Federal Reserve and functional regulation of holding company subsidiaries by applicable regulatory agencies. The BHC Act, however, authorizes the Federal Reserve to examine any subsidiary of a bank holding company, other than a depository institution, engaged in activities permissible for a depository institution. The Federal Reserve is also granted the authority, in certain circumstances, to require reports of, examine and adopt rules applicable to any holding company subsidiary.

In general, the BHC Act limits the activities permissible for bank holding companies. Bank holding companies electing to be treated as financial holding companies, however, may engage in additional activities under the BHC Act as described below under "— Permissible Activities under the BHC Act". For a bank holding company to be eligible to elect financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed as described below under "— Prompt Corrective Action Framework" and must have received at least a "satisfactory rating" on such institution's most recent examination under the Community Reinvestment Act (the "CRA"). The bank holding company itself must also be well-capitalized and well-managed in order to be eligible to elect financial holding company status. If a financial holding company fails to continue to meet any of the well-capitalized and well-managed prerequisites for financial holding company status after engaging in activities not permissible for bank holding companies that have not elected to be treated as financial holding companies, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may be required to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company. In addition, if any insured depository institution subsidiary of a financial holding company fails to maintain a CRA rating of at least "Satisfactory," the financial holding company will be subject to restrictions on certain new activities and acquisitions.

FHB is an FDIC-insured bank chartered under the laws of the state of Hawaii. FHB is not a member of the Federal Reserve System. Consequently, the FDIC and the Hawaii Department of Financial Institutions (the "DFI") are the primary regulators of FHB and also regulate its subsidiaries. FHB's branch operations in Guam are also subject to regulation by the Banking and Insurance Commissioner of the Government of Guam Department of Revenue and Taxation (the "Guam Banking and Insurance Commissioner"). FHB's branch operation in Saipan, which is one of the principal islands of the Commonwealth of the Northern Mariana Islands ("CNMI"), is subject to the regulatory jurisdiction of the Division of Banking of the CNMI Department of Commerce. In addition, as the owner of a Hawaii-chartered bank, FHI is registered as a financial institution holding company under the Hawaii Code of Financial Institutions (the "Hawaii Code") and is subject to the registration, reporting and examination requirements of the Hawaii Code, as well as supervision and examination by the Hawaii DFI.

The Company offers certain insurance, investment and trust products through FHB and its subsidiary, Bishop Street Capital Management Corporation, a registered investment advisor with the SEC. Bishop Street Capital Management Corporation is subject to the disclosure and regulatory requirements of the Investment Advisors Act of 1940, as administered by the SEC. FHB is also registered as a municipal securities advisor with the Municipal Securities Rulemaking Board ("MSRB") and the SEC and is subject to the disclosure and regulatory requirements of the MSRB and the SEC. FHB's insurance brokerage activities in Hawaii are conducted under its insurance producer license by appointed agents (licensed insurance producers) and those licensees are subject to regulation by the Insurance Division of the State of Hawaii Department of Commerce and Consumer Affairs (the "DCCA Insurance Division"). FHB's trust services in Hawaii are subject to regulation by the FDIC and the Hawaii DFI. FHB's insurance activities in Guam are conducted under a general agent's license issued by the Guam Banking and Insurance Commissioner and FHB is therefore subject to regulation by the insurance branch of the regulatory division of the Guam Department of Revenue and Taxation.

FHB and its affiliates are also subject to supervision, regulation, examination and enforcement by the Consumer Financial Protection Bureau (the "CFPB"), with respect to consumer protection laws and regulations. In addition, FHI is subject to the disclosure and regulatory requirements of the U.S. Securities and Exchange Act of 1934 ("Exchange Act") administered by the SEC and the rules adopted by NASDAQ applicable to listed companies. The Company is subject to numerous other statutes and regulations that affect its business activities and operations.

Regulatory Impact of Control by BNPP

As long as we are controlled by BNPP for purposes of the BHC Act, BNPP's regulatory status may impact our regulatory status as well as our regulatory burden and hence our ability to expand by acquisition or engage in new activities. For example, unsatisfactory examination ratings or enforcement actions regarding BNPP could impact our ability to obtain or preclude us from obtaining any necessary approvals or informal clearance to make an acquisition or engage in new activities. Furthermore, to the extent that we are required to obtain regulatory approvals under the BHC Act to make acquisitions or expand our activities, as long as BNPP controls the Company, BNPP would also be required to obtain BHC Act approvals for such acquisitions or activities. The Federal Reserve may determine that BNPP controls us for U.S. bank regulatory purposes until its ownership and control falls to 4.9% or below of any class of our voting securities, or even to zero percent.

In addition, U.S. regulatory restrictions and requirements on non-U.S. banks such as BNPP that have a certain amount of assets may result in additional restrictions and burdens on the Company that would not otherwise be applicable. In particular, BNPP is required to hold its interest in the Company through its U.S. intermediate holding company, BNP Paribas USA, as required by the Federal Reserve's Regulation YY, and certain enhanced supervision and prudential standards that apply to BNPP's U.S. intermediate holding company will apply to the Company until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which such standards no longer apply to us.

In August 2017, the Federal Reserve proposed a new rating system for certain large financial institutions, including bank holding companies with total consolidated assets of $50 billion or more and U.S. intermediate holding companies, such as BNP Paribas USA, which is intended to align with the Federal Reserve's existing supervisory program for large financial institutions. In August 2017, the Federal Reserve proposed related guidance on board effectiveness for large bank holding companies and stated that it anticipates proposing guidance on board effectiveness for U.S. intermediate holding companies. In January 2018, the Federal Reserve proposed related guidance on risk management, which would apply to BNPP's combined U.S. operations, including BNP Paribas USA, BWC and the Company.

As a banking organization headquartered in France, BNPP is also subject to oversight by the European Union (the "EU") financial services regulators and, for limited matters, by the French Autorité de Contrôle Prudentiel et de Résolution. BNPP is subject to a revised capital framework for EU-regulated financial institutions, the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation (collectively, "CRD IV"). These regulations are largely based on the Basel Committee on Banking Supervision's (the "Basel Committee's") final capital framework for strengthening international capital standards ("Basel III"). These rules have been transposed under French law, and are therefore applicable to BNPP and its controlled affiliates, and include the following:

- *Compliance with minimum solvency and other ratios and minimum equity requirements.* As long as the Company is a controlled subsidiary of BNPP, its activities may be limited by the structures of the capital adequacy regimes that BNPP is subject to as a French and EU-regulated entity.

- *Compensation provisions with the objective of, among other things, limiting the ratio of variable to fixed compensation of employees identified as material risk takers.* The CRD IV compensation standards apply to the Company's Chief Executive Officer and to certain other of its officers for as long as the Company is a controlled subsidiary of BNPP.

- *A requirement to annually submit a Group Recovery and Resolution Plan.* This obligation has been further detailed by Directive 2014/59 establishing a framework for the recovery and resolution of credit institutions and investment firms.

Permissible Activities under the BHC Act

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto.

Bank holding companies that qualify and elect to be treated as "financial holding companies," like us, may engage in, or acquire and retain the shares of a company engaged in, a broad range of additional activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance underwriting and brokerage and making merchant banking investments.

The BHC Act does not place territorial restrictions on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Permissible Activities for Banks

As a Hawaii-chartered bank, FHB's business is generally limited to activities permitted by Hawaii law and any applicable federal laws. Under the Hawaii Code, the Bank may generally engage in all usual banking activities, including accepting deposits; extending loans and lines of credit; borrowing money; issuing, confirming and advising letters of credit; entering into repurchase agreements; buying and selling foreign currency and, subject to certain limitations, making investments. Subject to prior approval by the Commissioner of the Hawaii DFI and by the DCCA Insurance Division, the Bank may also permissibly engage in activities related to a trust business, activities relating to insurance and annuities and any activity permissible for a national banking association.

Hawaii law also imposes restrictions on the Bank's activities and corporate governance requirements intended to ensure the safety and soundness of the bank. For example, the Hawaii Code requires that at least one of the directors of the Bank, as well as the Chief Executive Officer of the bank, be residents of the State of Hawaii. FHB is also restricted under the Hawaii Code to investing in certain types of investments and is generally limited in the amount of money it can lend to a single borrower or invest in securities issued by a single issuer (in each case, 20% of FHB's common stock and additional paid-in capital).

Enhanced Prudential Standards

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and the Federal Reserve's implementing regulations provide for enhanced supervision and prudential standards for, among other things, bank holding companies that have total consolidated assets of $50 billion or more as an average over the four most recent consecutive fiscal quarters. The Federal Reserve adopted similar enhanced prudential standards for the U.S. operations of large foreign banking organizations such as BNPP, including BNPP's intermediate holding company and the subsidiaries thereof. As a subsidiary of BNPP and BNP Paribas USA, these enhanced supervision and prudential standards apply indirectly to FHI. These standards will continue to apply indirectly to FHI until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which such standards no longer apply to us, irrespective of whether such standards would otherwise apply to FHI on a standalone basis. It is possible that BNPP's ownership and control of us may need to fall to 4.9% or below of any class of our voting securities, or even to zero, before such standards will cease to apply to us.

Capital Planning (Comprehensive Capital Analysis and Review) and Stress Testing. As part of the enhanced prudential requirements applicable to systemically important financial institutions, the Federal Reserve conducts annual analyses of bank holding companies with at least $50 billion in average total consolidated assets and the U.S. intermediate holding companies of foreign banking organizations to determine whether the companies have sufficient capital on a consolidated basis necessary to absorb losses in three economic and financial scenarios generated by the Federal Reserve: baseline, adverse and severely adverse scenarios. The Federal Reserve may also use, and require companies to use, additional stress factors in the adverse and severely adverse scenarios or additional or more complex scenarios designed to capture salient risks to specific business groups. These stress test requirements are applicable to the Company indirectly as a subsidiary of BNP Paribas USA. A summary of results of the Federal Reserve analysis under the adverse and severely adverse stress scenarios, and a summary of the company-run severely adverse stress test results, are each publicly disclosed on an annual and semi-annual basis, respectively. These stress test requirements will remain applicable to us until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer required to be included in the stress tests applicable to the other U.S. entities of BNPP.

Additionally, the Federal Reserve's and the FDIC's DFAST rules require bank holding companies and banks with average total consolidated assets greater than $10 billion, such as the Company and the Bank, to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two hypothetical, stressful macroeconomic and financial market scenarios provided by the federal bank regulators, as well as certain mandated assumptions about capital distributions prescribed in the DFAST rules. The Company and the Bank will remain subject to the DFAST company-run stress test requirements after they are no longer subject to the stress tests applicable to the U.S. entities of BNPP.

The Federal Reserve, the FDIC and the Hawaii DFI will consider the results of the company-run stress tests as an important factor in evaluating the capital adequacy of each of the Company and the Bank, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by the Company or the Bank may be an unsafe or unsound practice.

Covered bank holding companies and U.S. intermediate holding companies, such as BNP Paribas USA, may make capital distributions — which include payments of dividends or stock repurchases not only by the covered company but also its subsidiaries — only in accordance with a capital plan submitted as part of the CCAR process that has been reviewed and not objected to by the Federal Reserve. The CCAR process is intended to help ensure that these companies have robust, forward-looking capital planning processes that account for each company's unique risks and that permit continued operation during times of economic and financial stress. Each of the companies participating in the CCAR process is also required to collect and report certain related data to the Federal Reserve on a monthly and quarterly basis to allow the Federal Reserve to monitor progress against the approved capital plans. Each capital plan must include a view of capital adequacy under the stress test scenarios described above.

BWC submitted its second annual capital plan in April 2017 (which we refer to as the "2017 capital plan") as part of the CCAR process that relates to BWC and its consolidated subsidiaries as of December 31, 2016, including FHB and BOW. In June 2017, the Federal Reserve publicly released BWC's supervisory stress test results and announced that it did not object to the 2017 capital plan, which included non-objection to the payment of quarterly dividends to be paid by us through the second quarter of 2018. Our payment of dividends will continue to be subject to a capital plan that has been reviewed and not objected to by the Federal Reserve for so long as we are a subsidiary of a company filing a capital plan. The Federal Reserve's CCAR guidance, consistent with prior Federal Reserve guidance, also provides that capital plans contemplating dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny. In addition, companies face limitations on capital distributions to the extent that actual capital issuances are less than the amounts indicated in the capital plan.

BNP Paribas USA will submit a capital plan on or about April 5, 2018, and dividends and any share repurchases proposed and/or intended to be made by the Company after the second quarter of 2018 must be included therein if the capital plan requirements applicable to BNPP's other U.S. entities are applicable to us at that time. We expect to remain subject to the Federal Reserve's CCAR review, including capital plan requirements, until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer required to be included in the CCAR review, including the capital plan requirements, applicable to the other U.S. entities of BNPP.

Total Loss-Absorbing Capacity. In December 2016, the Federal Reserve issued a final rule that establishes loss-absorbency and related requirements for any U.S. intermediate holding company that is required to be formed pursuant to the Federal Reserve's Regulation YY and is controlled by a global systemically important foreign banking organization (a "foreign G-SIB"). BNPP has been identified by the Financial Stability Board as a foreign G-SIB and is a foreign G-SIB for purposes of the final rule, which becomes effective on January 1, 2019. Accordingly, BNPP's U.S. intermediate holding company will be subject to these requirements. The final rule addresses U.S. implementation of the Financial Stability Board's total loss-absorbing capacity ("TLAC") principles and term sheet.

Although the rule will only apply to a foreign G-SIB's U.S. intermediate holding company and not to that intermediate holding company's subsidiary holding companies, such as the Company, or depository institutions, such as the Bank, the rule will impact aspects of the operations of holding companies and depository institutions that are subsidiaries of covered U.S. intermediate holding companies. For example, the final rule prohibits BNPP's U.S. intermediate holding company from (i) guaranteeing obligations of the Company and the Bank if an insolvency or receivership of the intermediate holding company could give the counterparty the right to exercise a default right (for example, early termination) against us or the Bank, (ii) incurring liabilities guaranteed by the Company or the Bank and (iii) entering into qualified financial contracts with any person that is not an affiliate of the intermediate holding company (potentially increasing the number of such contracts that intermediate holding company enters into with its subsidiaries, which may include the Company or the Bank, which could then enter into offsetting contracts with third parties).

Additional Requirements under the Enhanced Prudential Standards. The Federal Reserve's rules establishing enhanced prudential standards for large bank holding companies also include the following:

- *Enhanced Liquidity Management Standards:* The Federal Reserve's rule focuses on prudential steps to manage liquidity risk, which comprehensively details liquidity risk management responsibilities for boards of directors and senior management, and requires, among other things, maintenance of a liquidity buffer, consisting of assets meeting certain standards, that is sufficient to meet projected net cash outflows and projected loss or impairment of existing funding sources for 30 days over a range of liquidity stress scenarios. To complement these liquidity standards, the Federal Reserve and the other federal banking regulators have implemented the liquidity coverage ratio standard derived from the international liquidity standards incorporated into the Basel III framework. See "— Regulatory Capital Requirements" and "— Liquidity Requirements".

- *Enhanced Risk Management Requirements:* Bank holding companies with $50 billion or more in total consolidated assets and publicly traded bank holding companies with $10 billion or more in total consolidated assets are required to establish a dedicated risk committee reporting directly to the company's board of directors, comprised of members of the bank holding company's board of directors, which reviews and approves the enterprise-wide risk management policies of the company. The risk committee is required to have an independent director as chair, at least one risk management expert who has experience in identifying, assessing, and managing risk exposure of large, complex financial firms, commensurate with the company's capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and is subject to certain governance provisions set forth in the rule. In addition, bank holding companies with $50 billion or more in total consolidated assets are required to appoint a Chief Risk Officer.

The Federal Reserve has also proposed rules to establish single-counterparty credit limits as part of the enhanced prudential standards for large bank holding companies. The proposed limits would impose more stringent requirements for credit exposure among major financial institutions. As proposed, the limits would apply to BNPP's U.S. intermediate holding company and its subsidiaries, including the Company, as well as BNPP. Although the proposed limits may not be applicable to the Company on a standalone basis, they could have the effect of constraining the management of our credit exposures because of the consolidated application of the limits, including with respect to hedges. In addition, the Federal Reserve has proposed early remediation requirements, which are modeled on the prompt corrective action regime described in "— Prompt Corrective Action Framework" but are designed to require action to begin in earlier stages of a company's financial distress, based on a range of triggers, including capital and leverage, stress test results, liquidity and risk management.

Acquisitions by Bank Holding Companies

The BHC Act, the Bank Merger Act, the Hawaii Code and other federal and state statutes regulate acquisitions of banks and other FDIC-insured depository institutions. The Company must obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of any voting shares of any bank or bank holding company, if after such acquisition, it will directly or indirectly own or control 5% or more of any class of voting shares of the institution, (ii) acquiring all or substantially all of the assets of any bank (other than directly through the Bank) or (iii) merging or consolidating with any other bank holding company. Under the Bank Merger Act, the prior approval of the FDIC is required for the Bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the CRA, the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required. In addition, pursuant to the Dodd-Frank Act, the BHC Act was amended to require the Federal Reserve to, when evaluating a proposed transaction, consider the extent to which the transaction would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. Under applicable laws, the Company may not be permitted to acquire any bank in Hawaii because it controls more than 30% of the total amount of deposits in the Hawaii market. As a result, any further growth in the Hawaii market will most likely have to occur organically rather than by acquisition.

Dividends

FHI is a legal entity separate and distinct from the Bank and its subsidiaries. Virtually all of FHI's income comes from dividends from the Bank, which is also the primary source of FHI's liquidity and funds to pay dividends on its equity and, if FHI were to incur debt in the future, interest and principal on its debt. There are statutory and regulatory limitations on the payment of dividends by the Bank to FHI, as well as by FHI to its stockholders.

Federal bank regulators are authorized to determine, under certain circumstances relating to the financial condition of a bank holding company or a bank, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, the ability of banks and bank holding companies to pay dividends, and the contents of their respective dividend policies, could be impacted by a range of regulatory changes made pursuant to the Dodd-Frank Act.

Payment of Dividends by the Bank. In addition to the restrictions discussed above, the Bank is subject to limitations under Hawaii law regarding the amount of dividends that it may pay to the Parent. In general, under Hawaii law, dividends from the Bank may not exceed the bank's retained earnings provided that the bank will, after the dividend, have the minimum paid-in common stock and additional paid-in capital required under Hawaii law, which, for a bank which has trust operations, is $6.5 million. Hawaii law also effectively restricts a bank from paying a dividend, or the amount of the dividend, unless that bank's common stock and additional paid-in capital is $6.5 million multiplied by 133%, or $8.6 million. This amount is not necessarily indicative of amounts that may be paid or available to be paid in future periods. Under Hawaii banking law, for example, paying "excessive dividends" in relation to a bank's capital position, earnings capacity and asset quality could be deemed to be an unsafe and unsound banking practice. Under the Hawaii Business Corporation Act, a dividend or other distribution may not be made if a bank would not be able to pay its debts as they become due in the ordinary course of business or if its total assets would be less than the sum of its total liabilities and the amounts that would be needed to satisfy shareholders with preferential rights of distribution. In addition, under the Federal Deposit Insurance Act of 1950 ("FDIA"), an insured institution may not pay a dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See "— Prompt Corrective Action Framework" below.

Payment of Dividends by the Parent. As a bank holding company, the Parent is subject to oversight by the Federal Reserve. In particular, the dividend policies and share repurchases of the Parent are reviewed by the Federal Reserve based on the 2017 capital plan and any future capital plan to which the Parent may be subject, and will be assessed against, among other things, the Company's and/or one or more of its parent bank holding companies' ability to achieve the required capital ratios under applicable capital rules (including the applicable capital conservation buffer) as they are phased in by U.S. regulators. See "— Enhanced Prudential Standards" above and "— Regulatory Capital Requirements" below.

Transactions with Affiliates and Insiders

Transactions between the Bank and its subsidiaries, on the one hand, and the Company or any other affiliate of the Company, on the other hand, are regulated under federal banking law. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on "covered transactions" by the Bank with, or for the benefit of, its affiliates, and generally requires those transactions to be on terms at least as favorable to the Bank as if the transaction were conducted with an unaffiliated third party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, any such transaction by the Bank or its subsidiaries must be limited to certain thresholds on an individual and aggregate basis and, for credit transactions with any affiliate, must be secured by designated amounts of specified collateral.

Federal law also limits a bank's authority to extend credit to its directors, executive officers, principal shareholders (and persons that beneficially own or control more than 10% of any class of the bank's voting stock), as well as to entities owned or controlled by such persons. Among other things, extensions of credit to such insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with non-insiders. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate. Certain extensions of credit also require the approval of the Bank's board of directors.

Source of Strength

Federal law requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, the Parent is expected to commit resources to support the Bank, including at times when the Parent may not be in a financial position to provide such resources, and it may not be in its, or its stockholders' or creditors', best interests to do so. In addition, any capital loans the Parent makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of the Parent's bankruptcy, any commitment by the Parent to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Liability of Commonly Controlled Institutions

Under the FDIA, FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with the default of another insured depository institution controlled by the same bank holding company and for any assistance provided by the FDIC to another FDIC-insured depository institution that is in danger of default and that is controlled by the same bank holding company. "Default" means generally the appointment of a conservator or receiver for the institution. "In danger of default" means generally the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. This cross-guarantee liability for a loss at a commonly controlled insured institution is subordinated in right of payment to deposit liabilities, secured obligations, any other general or senior liability and any obligation subordinated to depositors or other general creditors, other than obligations owed to any affiliate of the depository institution (with certain exceptions). Under this cross-guarantee liability requirement, while FHB is under common control with BOW (which we expect to continue until such time as we are no longer controlled by BNPP), FHB could be held liable for any FDIC losses that occur in the event of a default or threat of default of BOW.

Regulatory Capital Requirements

Capital Requirements Applicable to Top-Tier Holding Companies in an Organizational Structure. The Federal Reserve monitors the capital adequacy of the Company, and the FDIC and the Hawaii DFI monitor the capital adequacy of the Bank. The bank regulators currently use a combination of risk-based ratios and a leverage ratio to evaluate capital adequacy. In July 2013, the federal bank regulators approved final rules implementing Basel III and various provisions of the Dodd-Frank Act (the "Capital Rules"). The Capital Rules became effective on January 1, 2015 (subject to a phase-in period for certain provisions).

The Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

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

- 4.5% CET1 to risk-weighted assets,
- 6.0% Tier 1 capital (that is, CET1 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 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.

In addition, the Capital Rules provide for a countercyclical capital buffer that is applicable only to advanced approaches banking organizations, which does not include the Company or the Bank.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and is being phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When fully phased-in, the Capital Rules will require an additional capital conservation buffer of 2.5% of CET1, 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.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) face constraints on dividends, equity repurchases and certain discretionary compensation based on the amount of the shortfall. In addition, as described above, the Company currently is also subject to the Federal Reserve's capital plan rule and supervisory CCAR program, pursuant to which its ability to make capital distributions and repurchase or redeem capital securities may be limited unless BNP Paribas USA is able to demonstrate its ability to meet applicable minimum capital ratios (calculated under the general risk-based capital rules), as well as other requirements, over a nine quarter planning horizon under a "severely adverse" macroeconomic scenario generated yearly by the federal bank regulators. See "— Enhanced Prudential Standards — Stress Testing and Capital Planning (Comprehensive Capital Analysis and Review)" for more information on these topics.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights ("MSRs"), certain deferred tax assets ("DTAs") and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and is being phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). In September 2017, the federal bank regulators proposed rules to revise and simplify the capital treatment for MSRs, certain DTAs, investments in non-consolidated financial entities and minority interests for banking organizations, such as the Company and the Bank, that are not subject to the advanced approaches. In November 2017, the federal bank regulators revised the Capital Rules to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized. The September 2017 proposal would also change the capital treatment of certain commercial real estate loans under the standardized approach, which we and the Bank use to calculate our and the Bank's capital ratios.

The Capital Rules also prescribe a standardized approach for risk weightings that expanded the risk-weighting categories from the Basel I risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0%, for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. These requirements provide for a minimum ratio of Tier 1 capital to total consolidated quarterly average assets (as defined for regulatory purposes), net of the loan loss reserve, goodwill and certain other intangible assets (which we refer to as the "leverage ratio") of 4.0% for all bank holding companies.

With respect to the Bank, the Capital Rules also revise the prompt corrective action regulations pursuant to Section 38 of the FDIA. See "— Prompt Corrective Action Framework."

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card and home equity lines of credit) and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. Capital Rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company or the Bank. The impact of Basel IV on the Company and the Bank will depend on the manner in which it is implemented by the federal bank regulators.

Regulatory Capital Requirements Applicable While First Hawaiian Is Not a Top-Tier Holding Company. The Company is an indirect subsidiary of BNPP's U.S. intermediate holding company. Regulatory capital requirements apply to BNPP's U.S. intermediate holding company on a consolidated basis, including the Company as part of that consolidated group (as BNPP's top-tier U.S. bank holding company in its organizational structure), and may not apply to the Company on a stand-alone basis as a lower-tier bank holding company subsidiary of BNPP. However, failure by the intermediate holding company to meet its regulatory capital requirements could impact the Company's activities and operations. See "— Acquisitions by Bank Holding Companies" above and "— Prompt Corrective Action Framework" below. Nonetheless, the Company intends to monitor and manage its capital adequacy in a manner that would result in the Company satisfying the capital requirements described herein and as applicable to a top-tier U.S. bank holding company on a stand-alone basis. Management expects that the capital requirements described herein will apply directly to the Company on a stand-alone basis following the time at which BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are considered a top-tier bank holding company by the Federal Reserve for capital and regulatory reporting purposes.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio (the "LCR"), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario.

The Basel III framework included a second test referred to as the net stable funding ratio (the "NSFR"), which is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. The U.S. federal banking agencies have issued a notice of proposed rulemaking to implement the NSFR for banking organizations with more than $250 billion in total assets or $10 billion or more in on-balance sheet foreign exposures and for consolidated depository institution subsidiaries of such banking organizations with more than $10 billion in assets. A modified NSFR would apply to certain bank holding companies with more than $50 billion but less than $250 billion in assets and with less than $10 billion in on-balance sheet foreign exposures (but not the consolidated depository institutions of such companies). Accordingly, the applicability of the NSFR, as proposed, to the Company will depend on the total assets and on-balance sheet foreign exposures of its parent bank holding companies. The NSFR, as proposed, would not apply to the Company following the time at which BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer subject to any NSFR requirement as applied to BNPP's other U.S. entities.

The Federal Reserve's heightened prudential requirements for bank holding companies with $50 billion or more of consolidated total assets also include enhanced liquidity standards, as discussed above under "— Enhanced Prudential Standards."

Prompt Corrective Action Framework

The FDIA requires the federal bank regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDIA establishes five capital categories ("well-capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized"), and the federal bank regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed.

Currently, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

"Well capitalized"
- Total capital ratio of at least 10.0%,
- CET1 capital ratio of at least 6.5%,
- Tier 1 capital ratio of at least 8.0%,
- Tier 1 leverage ratio of at least 5.0%, and
- Not subject to any order or written directive requiring a specific capital level.

"Adequately capitalized"
- Total capital ratio of at least 8.0%,
- CET1 capital ratio of at least 4.5%,
- Tier 1 capital ratio of at least 6.0%, and
- Tier 1 leverage ratio of at least 4.0%.

"Undercapitalized"
- Total capital ratio of less than 8.0%,
- CET1 capital ratio of less than 4.5%,
- Tier 1 capital ratio of less than 6.0%, or
- Tier 1 leverage ratio of less than 4.0%.

"Significantly undercapitalized"
- Total capital ratio of less than 6.0%,
- CET1 capital ratio of less than 3.0%,
- Tier 1 capital ratio of less than 4.0%, or
- Tier 1 leverage ratio of less than 3.0%.

"Critically undercapitalized"
- Tangible equity to average quarterly tangible assets of 2.0% or less.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

As of December 31, 2017, the Bank was well-capitalized with a Tier 1 capital ratio of 12.37%, total capital ratio of 13.42% and Tier 1 leverage ratio of 8.47%, in each case calculated under the Capital Rules. Although the prompt corrective action provisions apply only to depository institutions and not to bank holding companies, if the provisions applied to bank holding companies, the Company would be well-capitalized. As of December 31, 2017, the Company's Tier 1 capital ratio was 12.45%, its total capital ratio was 13.50%, and its Tier 1 leverage ratio was 8.52%, in each case calculated under the Capital Rules.

As of December 31, 2017, the Company and the Bank would have reported the same capital ratios, as noted above, had the Capital Rules been fully phased in as of the calculation date. The CET1 ratios and Tier 1 capital ratios calculated in accordance with the Capital Rules is not presented in accordance with U.S. generally accepted accounting principles ("GAAP"). These ratios are calculated based on our estimates of the required adjustments under the Capital Rules to the current regulatory-required calculation of risk-weighted assets and estimates of the application of provisions of the Capital Rules to be phased in over time. Management believes these estimates are reasonable, but they may ultimately be incorrect as the Company finalizes its calculations under the Capital Rules. For more information on these financial measures, including reconciliations to the Company and the Bank's Tier 1 capital ratio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital" and "Note 13. Regulatory Capital Requirements" in the notes to the consolidated financial statements.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal bank regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions are also generally prohibited from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the institution is or would thereafter become undercapitalized. Institutions that are undercapitalized or significantly undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, orders to elect new boards of directors, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are generally subject to appointment of a receiver or conservator.

In addition, the FDIA prohibits insured depository institutions from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. The FDIA imposes no such restrictions on a bank that is well capitalized.

Safety and Soundness Standards

The FDIA requires the federal bank regulators to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the bank regulator must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution may be subject under the FDIA. See "— Prompt Corrective Action Framework". If an institution fails to comply with such an order, the bank regulator may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Deposit Insurance

FDIC Insurance Assessments. As an FDIC-insured bank, FHB must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. For institutions with $10 billion or more in assets, such as FHB, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

The FDIA establishes a minimum ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio, of 1.15% prior to September 2020 and 1.35% thereafter. In October 2010, the FDIC adopted a restoration plan to ensure that the fund reserve ratio reaches 1.35% and, in March 2016, the FDIC issued a final rule to implement this restoration plan. Under the final rule, the assessment schedule for all banks will decrease by 0.02% or more beginning in the quarter after the fund reserve ratio reaches 1.15%. Thereafter, banks with more than $10 billion in total assets will be required to pay "surcharge assessments" at an annual rate of 0.045% to bring the fund's reserve ratio to 1.35% by the end of 2018. If the fund's reserve ratio does not reach 1.35% by the end of 2018, the FDIC will impose a one-time special assessment in the first quarter of 2019. The FDIC will, at least semi-annually, update its income and loss projections for the Deposit Insurance Fund and, if necessary, propose rules to further increase assessment rates. In the FDIC's second semiannual update for 2017, it reported that the reserve ratio is projected to reach the minimum 1.35% target in 2018 and that it expects surcharges to cease at that time.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Other Assessments. In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation to impose assessments on deposit insurance fund applicable deposits in order to service the interest on the Financing Corporation's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. Assessment rates may be adjusted quarterly to reflect changes in the assessment base.

The Volcker Rule

The Dodd-Frank Act and the implementing regulations of the federal regulators generally prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds (the "Volcker Rule"). The Volcker Rule has not had a material effect on the Company's operations, as the Company does not have any significant engagement in the businesses prohibited by the Volcker Rule. The Company has incurred costs to adopt additional policies and systems to ensure compliance with the Volcker Rule, but such costs have not been material.

Depositor Preference

Under federal law, depositors (including the FDIC with respect to the subrogated claims of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution in the "liquidation or other resolution" of such an institution by any receiver.

Consumer Financial Protection

The Company is subject to a number of federal and state consumer protection laws that extensively govern the Company's relationship with its customers. These laws include, but are not limited to, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Service Members Civil Relief Act and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal and state laws require, among other things, disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices and subject the Company to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which the Company operates and civil money penalties. Failure to comply with consumer protection requirements may also result in the failure to obtain any required bank regulatory approval for merger or acquisition transactions the Company may wish to pursue or the Company's prohibition from engaging in such transactions even if approval is not required.

The CFPB is a federal agency with broad rulemaking, supervisory and enforcement powers under federal consumer financial protection laws. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. The CFPB has examination and enforcement authority over banks with assets of $10 billion or more, as well as their affiliates.

The CFPB has finalized a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage loan. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. Among other things, the rules adopted by the CFPB require banks to: (i) develop and implement procedures to ensure compliance with a "reasonable ability to repay" test and identify whether a loan meets a new definition for a "qualified mortgage", in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the reasonable ability to repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, integrated loans estimate and closing disclosures, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time. The Company is continuing to analyze the impact that such rules may have on its business.

The CFPB has broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the Company's business, financial condition or results of operations.

Community Reinvestment Act of 1977

Under the CRA, the Bank has an obligation, consistent with safe and sound operations, to help meet the credit needs of the market areas where it operates, which include low- and moderate-income individuals and communities. In connection with its examination of the Bank, the FDIC is required to assess the Bank's CRA performance in the areas of lending, investments and services. FHB's CRA performance could, among other things, result in the denial or delay in certain corporate applications filed by the Parent or the Bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. FHB received a rating of "Outstanding" in its most recently completed CRA examination.

Financial Privacy

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Anti-Money Laundering and the USA PATRIOT ACT

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Office of Foreign Assets Control ("OFAC") Regulation

The U.S. Treasury Department's OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. The Company and the Bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these sanctions.

Incentive Compensation

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Dodd-Frank Act requires the U.S. financial regulators, including the Federal Reserve and the FDIC, to adopt rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (including the Company and the Bank). The U.S. financial regulators proposed revised rules in 2016, which have not been finalized.

Future Legislation and Regulation

Congress may enact, modify or repeal legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact, modify or repeal legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of proposed legislation, or modification or repeal of existing legislation, could impact the regulatory structure under which the Company operates and may significantly increase its costs, impede the efficiency of its internal business processes, require the Company to increase its regulatory capital and modify its business strategy, and limit its ability to pursue business opportunities in an efficient manner. The Company’s business, financial condition, results of operations or prospects may be adversely affected, perhaps materially, as a result.

ITEM 1A. RISK FACTORS

Ownership of our common stock involves a significant degree of risk and uncertainty. The material risks and uncertainties that management believes affect us are described below. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition or results of operations. To the extent that any of the information in this Form 10-K constitutes forward-looking statements, the risk factors below are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See “Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements."

Risks Related to Our Business

Geographic concentration in our existing markets may unfavorably impact our operations.

A substantial majority of our business is with customers located within Hawaii. Our operations are heavily concentrated in Hawaii, Guam and Saipan with the exception of our auto dealer flooring and certain other limited lending services outside Hawaii, Guam and Saipan, which services represent 21% of our total loan and lease portfolio as of December 31, 2017. As a result of this geographic concentration, our results depend largely on economic conditions in these and surrounding areas. As discussed below, deterioration in economic conditions in Hawaii, Guam and Saipan would have a material adverse effect on our business, financial condition or results of operations.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally and in Hawaii, Guam and Saipan in particular.

We provide banking and financial services to customers primarily in Hawaii, Guam and Saipan. Our financial performance generally, and the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans in particular, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets in which we operate. Economic conditions in our markets depend mainly on tourism, U.S. military and defense products and services, real estate, government and other service-based industries. Declines in tourism, fluctuations in the strength of currencies such as the U.S. dollar and the Japanese yen, the inability of the Hawaii economy to absorb continuing construction expansion, continued higher levels of underemployment compared to pre-recession levels, increases in energy costs, the availability of affordable air transportation, real or threatened acts of war or terrorism, adverse weather, pandemics, natural disasters and local budget issues, among other factors, may impact consumer and corporate spending. As a result, these events may contribute to a deterioration in Hawaii's general economic condition, which, as a result of our geographic concentration, could adversely impact us and our borrowers.

Commercial lending represents approximately 54% of our total loan and lease portfolio as of December 31, 2017, and we generally make loans to small to mid-sized businesses whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and may expose us to greater credit risks. We also engage in mortgage lending and automobile financing, as well as other forms of consumer lending. Adverse economic and business conditions in our market areas could reduce our growth rate, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance.

The U.S. military has a major presence in Hawaii and Guam and, as a result, is an important aspect of the economies in which we operate. The funding of the U.S. military occurs as part of the overall U.S. government budget and appropriation process which is driven by numerous factors, including geo-political events, macroeconomic conditions and the ability of the U.S. government to enact legislation such as appropriations bills. There have been lower levels of federal government expenditures in Hawaii since the budget sequestration took effect in March 2013. Further cuts in defense and other security spending could have an adverse impact on the economy in our markets. While the new U.S. administration appears to favor an increase in military spending, it remains unclear whether any increase would match or exceed pre-sequester funding levels.

Other economic conditions that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels (particularly for real estate), monetary policy, unemployment and the strength of the domestic economy as a whole. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, high unemployment, natural disasters or a combination of these or other factors.

Our business is significantly dependent on the real estate markets in which we operate, as a significant percentage of our loan portfolio is secured by real estate.

As of December 31, 2017, our real estate loans represented approximately $7.4 billion, or 60% of our total loan and lease portfolio. Our real estate loans consist primarily of commercial and construction loans (representing 27% of our total loan and lease portfolio) and residential loans including home equity loans (representing 33% of our total loan and lease portfolio), with the significant majority of these loans concentrated in Hawaii. Real property values in Hawaii may be affected by a variety of factors outside of our control and the control of our borrowers, including national and local economic conditions generally. Declines in real property prices, including prices for homes and commercial properties, in Hawaii, Guam or Saipan could result in a deterioration of the credit quality of our borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, and reduced demand for our products and services generally. Our commercial real estate loans may have a greater risk of loss than residential mortgage loans, in part because these loans are generally larger or more complex to underwrite and 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. In addition, nearly all residential mortgage loans and home equity lines of credit and loans outstanding are for residences located in Hawaii, Guam or Saipan. These island locales are susceptible to a wide array of potential natural disasters including, but not limited to, hurricanes, floods, tsunamis and earthquakes. Finally, declines in real property values in Hawaii could reduce the value of any collateral we realize following a default on these loans and could adversely affect our ability to continue to grow our loan portfolio consistent with our underwriting standards. Our failure to mitigate these risks effectively could have a material adverse effect on our business, financial condition or results of operations.

Concentrated exposures to certain asset classes and individual obligors may unfavorably impact our operations.

We have naturally developed concentrated exposures to those asset classes and industries in which we have specific knowledge or competency, such as commercial real estate lending and dealer financing, which represented 22% and 7% of our total lending commitments, respectively, as of December 31, 2017. In management’s judgment, our extensive experience within these concentration areas, and our strategic relationships within such areas, allows us to better evaluate the associated risks and price credit accordingly. However, the presence of similar exposures concentrated in certain asset classes leaves us exposed to the risk of a focused downturn within a concentration area. Additionally, we have cultivated relationships with market leaders that result in relatively larger exposures to select single obligors than would be typical for an institution of our size in a larger operating market. For example, our top five dealer relationships represented approximately 36% of our outstanding dealer flooring commitments as of December 31, 2017. The failure to properly anticipate and address risks associated with these concentrated exposures could have a material adverse effect on our business, financial condition or results of operations.

Our business is subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.

Fluctuations in interest rates may negatively impact our banking business and may weaken demand for some of our products. Our earnings and cash flows are largely dependent on net interest income, which is the difference between the interest income we receive from interest-earning assets (e.g., loans and investment securities) and the interest expense we pay on interest-bearing liabilities (e.g., deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities. Interest rates are volatile and highly sensitive to many factors that are beyond our control, such as economic conditions and policies of various governmental and regulatory agencies, and, in particular the monetary policy of the Federal Open Market Committee of the Federal Reserve System (the “FOMC”). In recent years, it has been the policy of the FOMC and the U.S. Treasury Department to maintain interest rates at historically low levels through a targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest-earning assets has decreased during the current low interest rate environment. If a low interest rate environment persists, our net interest income may further decrease. This would be the case because our ability to lower our interest expense has been limited at these interest rate levels, while the average yield on our interest-earning assets has continued to decrease.

During 2017, the FOMC raised short-term interest rates by 25 basis points three times and, in December 2017, indicated that it expects to raise interest rates further in 2018. In the event that interest rates continue to increase, if our variable rate interest-earning assets do not reprice faster than our interest-bearing liabilities in a rising rate environment, our net interest income could be adversely affected. If our net interest income decreases, this could have an adverse effect on our profitability, including the value of our investments.

Changes in monetary policy, including 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. Changes in interest rates also have a significant impact on the carrying value of certain assets, including loans, real estate and investment securities, on our balance sheet. We may incur debt in the future and that debt may also be sensitive to interest rates.

The cost of our deposits is largely based on short-term interest rates, the level of which is driven primarily by the FOMC's actions. However, the yields generated by our loans and securities are often difficult to re-price and are typically driven by longer-term interest rates, which are set by the market or, at times, the FOMC's actions, and vary over time. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. If the interest rates paid on our deposits and other borrowings increase at a faster pace than the interest rates on our loans and other investments, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and earnings would be similarly affected if the interest rates on our interest-earning assets declined at a faster pace than the interest rates on our deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition or results of operations.

Changes in interest rates can also affect the level of loan refinancing activity, which impacts the amount of prepayment penalty income we receive on loans we hold. Because prepayment penalties are recorded as interest income when received, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time. A decrease in our prepayment penalty income resulting from any change in interest rates or as a result of regulatory limitations on our ability to charge prepayment penalties could therefore adversely affect our net interest income, net income or results of operations.

Changes in interest rates can also affect the slope of the yield curve. A decline in the current yield curve or a flatter or inverted yield curve could cause our net interest income and net interest margin to contract, which could have a material adverse effect on our net income and cash flows, as well as the value of our assets. An inverted yield curve may also adversely affect the yield on investment securities by increasing the prepayment risk of any securities purchased at a premium.

As of December 31, 2017, we had $6.1 billion of noninterest-bearing demand deposits and $11.5 billion of interest-bearing deposits. Since 2011, depository institutions have not been prohibited from paying interest on demand deposits, such as checking accounts. The impact of the change on us has not been significant because of current market conditions, which have resulted in very low interest rates for checking accounts. If market conditions were to change, including as a result of monetary policy or the competitive environment, and we need to offer higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense will increase, perhaps materially. Furthermore, if we fail to offer interest in a sufficient amount to keep these demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or risk slowing our future asset growth.

Our business, profitability and liquidity may be adversely affected by 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.

A number of our products expose us to credit risk. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold, including a deterioration in the value of collateral posted by third parties to secure their obligations to us under derivatives contracts and loan agreements, could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes.

We might underestimate the credit losses inherent in our loan and lease portfolio and have credit losses in excess of the amount we reserve for loan and lease losses.

Because the credit quality of our loan and lease portfolio can have a significant impact on our earnings, the operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of the loans we extend, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to us about its business in a timely manner and/or may present inaccurate or incomplete information to us, and risks relating to the value of collateral.

We maintain an allowance for loan and lease losses (the “Allowance”), which is a reserve established through a provision for loan and lease losses (the “Provision”) charged to expense representing management’s best estimate of probable losses that have been incurred within our existing portfolio of loans and leases. The Allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in our loan and lease portfolio. The level of the Allowance reflects management’s continuing evaluation of specific credit risks, the quality of the loan and lease portfolio, the value of the underlying collateral, the level of non-accruing loans and leases, incurred losses inherent in the current loan and lease portfolio, and economic, political and regulatory conditions.

For our commercial loans, we perform an internal loan review and grade loans on an ongoing basis, and we estimate and establish reserves for credit risks and credit losses inherent in our credit exposure (including unfunded lending commitments). The objective of our loan review and grading procedures is to identify existing or emerging credit quality problems so that appropriate steps can be initiated to avoid or minimize future losses. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments of loan collectability. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we do identify.

Although our management has established an Allowance it believes is adequate to absorb probable and reasonably estimable losses in our loan and lease portfolio, it may not be adequate. We could sustain credit losses that are significantly higher than the amount of our Allowance. Higher credit losses could arise for a variety of reasons, such as growth in our loan and lease portfolio, changes in economic conditions affecting borrowers, new information regarding our loans and leases and other factors within and outside our control. If real estate values were to decline or if economic conditions in our markets were to deteriorate unexpectedly, additional loan and lease losses not incorporated in the existing Allowance might occur. Losses in excess of the existing Allowance will reduce our net income and could have a material adverse effect on our business, financial condition or results of operations. A severe downturn in the economy generally, in our markets specifically or affecting the business and assets of individual customers would generate increased charge-offs and a need for higher reserves. While we believe that our Allowance for credit losses was adequate as of December 31, 2017, there is no assurance that it will be sufficient to cover all incurred credit losses. In the event of significant deterioration in economic conditions, we may be required to increase reserves in future periods, which would reduce our earnings.

In addition, bank regulatory agencies will periodically review our Allowance and the value attributed to non-accrual loans and leases or to real estate we acquire through foreclosure. Such regulatory agencies may require us to adjust our determination of the value for these items, increase our Allowance or reduce the carrying value of owned real estate, reducing our net income. Further, if charge-offs in future periods exceed the Allowance, we may need additional adjustments to increase the Allowance. These adjustments could have a material adverse effect on our business, financial condition or results of operations.

Our ability to maintain, attract and retain customer relationships is highly dependent on our reputation.

As the parent company of Hawaii’s oldest and largest bank, we rely in part on the reputation of our bank for superior financial services to retain our customer relationships. Damage to our reputation could undermine the confidence of our current and potential customers in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described in this Form 10-K, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, customer personal information and privacy issues, customer and other third party fraud, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the “First Hawaiian Bank” brand and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition or results of operations.

The value of the investment securities we own may decline in the future.

As of December 31, 2017, we owned investment securities with a fair market value of $5.2 billion, which largely consisted of our positions in obligations of the U.S. government and government-sponsored enterprises. We evaluate our investment securities on at least a quarterly basis, and more frequently when economic and market conditions warrant such an evaluation, to determine whether any decline in fair value below amortized cost is the result of an other-than-temporary impairment. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could adversely affect our business, results of operations or financial condition.

Loss of deposits could increase our funding costs.

Like many banking companies, we rely on customer deposits to meet a considerable portion of our funding, and we continue to seek customer deposits to maintain this funding base. We accept deposits directly from consumer and commercial customers and, as of December 31, 2017, we had $17.6 billion in deposits. Although we hold the largest share of the deposit market in Hawaii, these deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside our control, such as a loss of confidence by customers in us or the banking sector generally, customer perceptions of our financial health and general reputation, increasing competitive pressures from other financial services firms for consumer or corporate customer deposits, changes in interest rates and returns on other investment classes, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits.

Our liquidity is dependent on dividends from First Hawaiian Bank.

We are a legal entity separate and distinct from our banking and other subsidiaries. Dividends from the Bank provide virtually all of our cash flow, including cash flow to pay dividends on our common stock and principal and interest on any debt we may incur. Various federal and state laws and regulations limit the amount of dividends that our bank may pay to us. For example, Hawaii law only permits our bank to pay dividends out of retained earnings as defined under Hawaii banking law, which differs from retained earnings calculated under GAAP. Also, our right to participate in a distribution of assets upon a subsidiary’s liquidation or reorganization is subject to the prior claims of the subsidiary’s creditors. In the event our bank is unable to pay dividends to us, we may not be able to service any debt we may incur, pay obligations or pay dividends on our common stock. The inability to receive dividends from our bank could have a material adverse effect on our business, financial condition, liquidity or results of operations.

Severe weather, hurricanes, tsunamis, natural disasters, pandemics, acts of war or terrorism or other external events could significantly impact our business.

Severe weather, hurricanes, tsunamis, natural disasters, widespread disease or pandemics, acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. Because Hawaii’s economy is heavily dependent on the tourism industry, which is in turn heavily influenced by the affordability and desirability of air travel and the prevailing weather patterns in the region, we could be disproportionally affected relative to others in the case of external events such as acts of war or terrorism, severe weather, natural disasters or pandemics. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition or results of operations.

We own the building in Honolulu in which our principal office and headquarters are located. The building is the tallest building in downtown Honolulu and a prominent architectural landmark. We lease space in the building to a number of other businesses and, for the years ended December 31, 2017 and 2016, respectively, the leases in our headquarters generated $2.7 million, or approximately 1.5%, and $3.3 million, or approximately 1.5%, of our net income, respectively. In addition, as of December 31, 2017, over 600, or a quarter of our employees work in our principal office. Given that we derive a portion of our income from leasing space in our principal office building and that the largest concentration of our employees is located in our principal office building, depending on the intensity and longevity of the event, a catastrophic event impacting our Honolulu office building, including a terrorist attack, extreme weather event or other hostile or catastrophic event, could negatively affect our business and reputation. In addition to the impact this would have on our ability to service and interact with our clients, we may also lose the rental income we derive from tenants that occupy our Honolulu office building. Further, the value of our Honolulu office building, which accounted for approximately 44.2% of the net book value of our total premises and equipment, or $127.8 million, as of December 31, 2017, could significantly depreciate if such a catastrophic event were to occur. A significant event impacting our principal office building could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to maintain consistent growth, earnings or profitability.

Although the Bank has experienced five consecutive years of economic expansion, there can be no assurance that we will be able to continue to grow and to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent or increase in the future. Sustainable growth requires that we manage our risks by following prudent loan underwriting standards, balancing loan and deposit growth without increasing interest rate risk or compressing our net interest margin, maintaining more than adequate capital at all times, hiring and retaining qualified employees and successfully implementing strategic projects and initiatives. Our earnings may also be reduced by increased expenses associated with increased assets, such as additional employee compensation expense, and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets.

Continued, long-term growth may be unsustainable, given the concentration of our operations and customer base in Hawaii, Guam and Saipan. Moreover, under applicable laws, we may not be permitted to acquire any bank in Hawaii because we control more than 30% of the total amount of deposits in the Hawaii market. As a result, any further growth in the Hawaii market will most likely have to occur organically rather than by acquisition. Our inability to manage our growth successfully or to continue to expand into new markets could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to attract and retain key personnel and other skilled employees.

Our success depends, in large part, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the regional banking industry, especially in the communities served by our branch network. A substantial number of our employees have considerable tenure with the Bank and some will be nearing retirement in the next few years, which makes succession planning important to the continued operation of our business. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. Leadership changes will occur from time to time, and we cannot predict whether significant retirements or resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase, which could have a material adverse effect on our business, financial condition or results of operations. In addition, our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations, including compensation restrictions applicable to us while we are a controlled subsidiary of BNPP and any restrictions that may in the future be adopted by U.S. regulatory agencies, including the Federal Reserve and FDIC. The loss of the services of any senior executive or other key personnel, the inability to recruit and retain qualified personnel in the future or the failure to develop and implement a viable succession plan, could have a material adverse effect on our business, financial condition or results of operations.

We operate in a highly competitive industry and market area.

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with commercial banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve. Additionally, certain large banks headquartered on the U.S. mainland and large community banking institutions target the same customers we do. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the Internet and for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. The banking industry is experiencing rapid changes in technology, and, as a result, our future success will depend in part on our ability to address our customers' needs by using technology. Customer loyalty can be influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the customer. Increased lending activity of competing banks following the Great Recession (which we define as January 1, 2008 through December 31, 2009) has also led to increased competitive pressures on loan rates and terms for high-quality credits. We may not be able to compete successfully with other financial institutions in our markets, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in lower net interest margins and reduced profitability.

Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we may be able to accommodate. Our inability to compete successfully in the markets in which we operate could have a material adverse effect on our business, financial condition or results of operations.

New lines of business, products, product enhancements or services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In implementing, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although we may not assign the appropriate level of resources or expertise necessary to make these new lines of business, products, product enhancements or services successful or to realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. Additionally, until BNPP ceases to directly or indirectly beneficially own at least 25% of our outstanding common stock, any material change to the scope of our business must also be approved by a majority of our directors designated for nomination and election by BNPP pursuant to the Stockholder Agreement we entered into with BNPP in connection with our IPO, and BNPP-designated directors may not approve changes to the scope of our business even though other directors believe such changes may be beneficial to us or our other stockholders. See "— Risks Related to Our Controlling Stockholder." Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition or results of operations.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design, their implementation or the degree to which we adhere to them, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our business, financial condition or results of operations. In addition, we could be subject to litigation, particularly from our customers, and sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

We are dependent on the use of data and modeling both in our management decision-making generally and in meeting regulatory expectations in particular.

The use of statistical and quantitative models and other quantitatively-based analyses is endemic to bank decision-making and regulatory compliance processes, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, the automated extension of credit based on defined criteria and the identification of possible violations of anti-money laundering regulations are all examples of areas in which we are dependent on models and the data that underlies them. Our DFAST and BNP Paribas USA's CCAR submissions also create significate dependencies on data and modeling. We anticipate that model-derived insights will penetrate further into bank decision-making, and particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely. While these quantitative techniques and approaches improve our decision-making, they also create the possibility that faulty data or flawed quantitative approaches could yield adverse outcomes or regulatory scrutiny. Secondarily, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

We entered into a License Agreement with BWHI, BancWest and BOW in connection with our IPO with respect to (1) models, data and related documentation for CCAR and DFAST purposes (the "Models"), (2) processes and coding for use in connection with the implementation of, and compliance with, the reporting requirements of BNP Paribas USA and BWC (the "Reporting Processes"), and (3) technology relating to core banking, payment processing and the wire transfer platform in connection with the provision of services covered by the Transitional Services Agreement ("Services Technology") that has been developed and will continue to be developed up to the applicable dates specified in the License Agreement. Under the License Agreement, each party has granted each other party a perpetual, non-exclusive license to its rights in the Models, Reporting Processes and Services Technology, subject to obtaining any necessary third-party rights to intellectual property, data, models, materials and information included or incorporated in or with any Model, Reporting Process or Services Technology.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition or results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

We also face risks related to cyber-attacks and other security breaches in connection with credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and our processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them.

Information pertaining to us and our customers is maintained, and transactions are executed, on networks and systems maintained by us, our customers and certain of our third party partners, such as our online banking or reporting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our customers against fraud and security breaches and to maintain our customers' confidence. Breaches of information security also may occur, and in infrequent cases have occurred, through intentional or unintentional acts by those having access to our systems or our customers' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions, as well as the technology used by our customers to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our customers; our loss of business and/or customers; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on our business, financial condition or results of operations. Additionally, we may not be able to ensure that our third party vendors have appropriate controls in place to protect the confidentiality of the information they receive from us and our business, financial condition or results of operations could be adversely affected by a material breach of, or disruption to, the security of any of our or our vendors' systems.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition or results of operations could be adversely affected.

Employee misconduct or mistakes could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage in fraudulent, illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation (as a consequence of the negative perception resulting from such activities), financial position, customer relationships and ability to attract new customers. Our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, even if inadvertently, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our business, financial condition or results of operations. In addition, employee errors, such as inadvertent use or disclosure of confidential information, calculation errors, mistakes in addressing communications or data inputs, errors in developing, implementing or applying information technology systems or simple errors in judgment, could also have similar adverse effects.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Certain of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or implement them as quickly as our competitors do or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and failure to avoid interruptions, errors and delays could cause us to lose customers or have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Within the financial services industry, loss of public confidence, including through default by any one institution, could lead to liquidity challenges or to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, banks and exchanges with which we interact on a daily basis or key funding providers such as the Federal Home Loan Banks, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve System. We may not be able to obtain capital on acceptable terms — or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations.

We may rely on the mortgage secondary market for some of our liquidity.

We may originate and sell mortgage loans. Loans sold on the secondary market represented $2.0 million and $0.3 million of mortgage loans for the years ended December 31, 2017 and 2016, respectively. We rely on Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to Fannie Mae and Freddie Mac, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U.S. residential mortgage finance market, including the role of Fannie Mae and Freddie Mac. The exact effects of any such reforms are not yet known, but may limit our ability to sell conforming loans to Fannie Mae or Freddie Mac. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market, our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations.

Consumer protection initiatives related to the foreclosure process could materially affect our ability as a creditor to obtain remedies.

In 2011, Hawaii revised its rules for nonjudicial, or out-of-court, foreclosures. Prior to the revision, most lenders used the nonjudicial foreclosure method to handle foreclosures in Hawaii, as the process was less expensive and quicker than going through the court foreclosure process. After the revised rules went into effect, many lenders ended up forgoing nonjudicial foreclosures entirely and filing all foreclosures in court, which has created a backlog and slowed the judicial foreclosure process. Many lenders continue to exclusively use the judicial foreclosure process, making the foreclosure process very lengthy. Additionally, the joint federal-state settlement with several mortgage servicers over abuse of foreclosure practices creates further uncertainty for us and the mortgage servicing industry in general with respect to implementation of mortgage loan modifications and loss mitigation practices going forward. The manner in which these issues are ultimately resolved could impact our foreclosure procedures, which in turn could adversely affect our business, financial condition or results of operation.

We are subject to a variety of risks in connection with any sale of loans we may conduct.

When we sell mortgage loans we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated and serviced. If any of these representations and warranties are incorrect, we may be required to indemnify the purchaser for any related losses, or we may be required to repurchase or provide substitute mortgage loans for part or all of the affected loans. We may also be required to repurchase loans as a result of borrower fraud or in the event of early payment default by the borrower on a loan we have sold. If the level of repurchase and indemnity activity becomes material, it could have a material adverse effect on our liquidity, business, financial condition or results of operations. Mortgage lending is highly regulated. Our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may impact our ability to sell mortgage loans in the future.

In addition, we must report as held for sale any loans which we have undertaken to sell, whether or not a purchase agreement for the loans has been executed. We may therefore be unable to ultimately complete a sale for part or all of the loans we classify as held for sale. We must exercise our judgment in determining when loans must be reclassified from held for investment status to held for sale status under applicable accounting guidelines. Any failure to accurately report loans as held for sale could result in regulatory investigations and monetary penalties. Any of these actions could have a material adverse effect on our business, financial condition or results of operations. Our policy is to carry loans held for sale at the lower of cost or fair value. As a result, prior to being sold, any loans classified as held for sale may be adversely affected by market conditions, including changes in interest rates, and by changes in the borrower's creditworthiness, and the value associated with these loans, including any loans originated for sale in the secondary market, may decline prior to being sold. We may be required to reduce the value of any loans we mark held for sale as a result, which could have a material adverse effect on our business, financial condition or results of operations.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned ("OREO") and repossessed personal property may not accurately describe the net value of the asset.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in value in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our OREO, and our Allowance for loan losses may not reflect accurate loan impairments. This could have a material adverse effect on our business, financial condition or results of operations.

Our operations could be interrupted if certain external vendors on which we rely experience difficulty, terminate their services or fail to comply with banking laws and regulations.

We depend to a significant extent on relationships with third party service providers that provide services, primarily information technology services, that are critical to our operations. We utilize third party core banking services and receive credit card and debit card services, Internet banking services, various information services and services complementary to our banking products from various third party service providers. We are also exposed to the risk that a cyber-attack, security breach or other information technology incident at a common vendor to our third-party service providers could impede their ability to provide services to us. We may not be able to effectively monitor or mitigate operational risks relating to the use of common vendors by third-party service providers. If any of our third party service providers experience difficulties or terminate their services and we are unable to replace our service providers with other service providers, our operations could be interrupted. It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking, credit card and debit card services and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason. If an interruption were to continue for a significant period of time, it could have a material adverse effect on our business, financial condition or results of operations. Even if we are able to replace them, it may be at higher cost to us, which could have a material adverse effect on our business, financial condition or results of operations. In addition, if a third party provider fails to provide the services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, or suffers a cyber-attack or other security breach, our business could suffer economic and reputational harm that could have a material adverse effect on our business, financial condition or results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan portfolio on an ongoing basis, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in loan losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations.

Downgrades to the credit rating of the U.S. government or of its securities or any of its agencies by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our business.

Downgrades of the U.S. federal government’s sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could impact our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, government-sponsored enterprises or related institutions, agencies or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

Our accounting estimates and risk management processes and controls rely on analytical and forecasting techniques and models and assumptions, and actual results may differ from these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management’s judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the allowance for loan and lease losses, fair value measurements, pension and postretirement benefit obligations and income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for more information.

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable (not absolute) assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management's attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have a material adverse effect on our business, financial condition or results of operations.

We are subject to environmental liability risk associated with our bank branches and any real estate collateral we acquire upon foreclosure.

During the ordinary course of business, we may foreclose on and take title to properties securing certain loans that we have originated or acquired. We also have an extensive branch network, owning separate branch locations throughout the areas we serve. For any real property that we may possess, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage and costs of complying with applicable environmental regulatory requirements. Failure to comply with such requirements can result in penalties. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use, sell or lease the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations.

We may be subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a material adverse effect on our business, financial condition or results of operations.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the Financial Accounting Standards Board (the "FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. As a result of changes to financial accounting or reporting standards, whether required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we have previously used in preparing our financial statements, which could negatively impact how we record and report our results of operations and financial condition generally. For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of December 31, 2017, see "Note 1. Organization and Basis of Presentation – Recent Accounting Pronouncements" to the consolidated financial statements for more information.

Risks Related to the Regulatory Oversight of Our Business

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our operations.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve and our bank is subject to regulation and supervision by the FDIC, the CFPB and the Hawaii DFI. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we may make, the maximum interest rate that may be charged, the amount of reserves we must hold against deposits we take, the types of deposits we may accept, maintenance of adequate capital and liquidity, changes in the control of us and our bank, restrictions on dividends and establishment of new offices. We must obtain approval from our regulators before engaging in certain activities, and there is the risk that such approvals may not be obtained, either in a timely manner or at all. Our regulators also have the ability to compel us to take, or restrict us from taking, certain actions entirely, such as actions that our regulators deem to constitute an unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could have a material adverse effect our business, financial condition or results of operations.

Since the Great Recession, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. These changes and increased scrutiny have resulted and may continue to result in increased costs of doing business and may in the future result in decreased revenues and net income, reduce our ability to effectively compete to attract and retain customers, or make it less attractive for us to continue providing certain products and services. Recent political developments, including the new presidential administration in the United States, have added additional uncertainty to the implementation, scope and timing of changes in regulatory policy. Any future changes in federal and state law and regulations, as well as the interpretations and implementations, or modifications or repeals, of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition or results of operations.

We are required to act as a source of financial and managerial strength for our bank in times of stress.

Under federal law, we are required to act as a source of financial and managerial strength to our bank, and to commit resources to support our bank if necessary. We may be required to commit additional resources to our bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our stockholders' or our creditors' best interests to do so. Providing such support is more likely during times of financial stress for us and our bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to our bank are subordinate in right of payment to depositors and to certain other indebtedness of our bank. In the event of our bankruptcy, any commitment by us to a federal banking regulator to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment. See "Item 1. Business - Supervision and Regulation – Liability of Commonly Controlled Institutions" for more information on our cross-guarantee liability.

We are subject to capital adequacy requirements and may be subject to more stringent capital requirements.

We are subject to regulatory requirements relating to capital and liquidity, which are subject to change from time to time. If we fail to meet applicable requirements, we may be restricted in the types of activities we may conduct, and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing capital securities. See "Item 1. Business — Supervision and Regulation - Regulatory Capital Requirements" for more information.

We are an indirect subsidiary of BNP Paribas USA, BNPP's U.S. intermediate holding company established pursuant to the Federal Reserve's Regulation YY. Until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are considered a top-tier U.S. bank holding company (i.e., the U.S. bank holding company that is the highest bank holding company in any organizational structure) by the Federal Reserve for capital and regulatory reporting purposes, the Basel III capital rules may not directly apply to us on a stand-alone basis but rather apply to BNPP's U.S. intermediate holding company on a consolidated basis, including the Company as part of that consolidated group, as BNPP's top-tier U.S. bank holding company. Nonetheless, we intend to monitor and manage the capital adequacy of the Company in a manner that would result in the Company satisfying the capital requirements described herein and as applicable to a top-tier U.S. bank holding company on a stand-alone basis. We expect to become directly subject to these regulatory capital requirements on a stand-alone basis in the future following the time at which BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are considered a top-tier bank holding company by the Federal Reserve for capital and regulatory reporting purposes.

As an indirect subsidiary of BNPP, we will remain subject to the Federal Reserve's CCAR and capital plan requirements until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer required to be included in the CCAR review and any capital plan of the other U.S. entities of BNPP. See "— Risks Related to Our Controlling Stockholder — We continue to be subject to regulation and supervision as a subsidiary of BNPP". The stress testing requirements may have the effect of requiring us to comply with the final Basel III capital rule, or potentially even greater capital requirements, sooner than expected.

While we expect to meet the requirements of the new Basel III-based capital rules on a stand-alone basis, we may fail to do so. In addition, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends and share repurchases. Higher capital levels could also lower our return on equity.

Unfavorable results from stress analyses may adversely affect our ability to retain customers or compete for new business opportunities.

The Federal Reserve conducts an annual stress analysis of bank holding companies with average total consolidated assets of $50 billion or more, as well as intermediate holding companies established under Regulation YY, to evaluate their ability to absorb losses in three economic and financial scenarios generated by the Federal Reserve, including adverse and severely adverse economic and financial scenarios. The rules also require such companies and their bank subsidiaries with $50 billion or more in total assets to conduct their own semi-annual stress analysis to assess the potential impact of the scenarios used as part of the Federal Reserve's annual stress analysis. A summary of the results of certain aspects of the Federal Reserve's annual stress analysis is released publicly and contains bank holding company specific information and results. The rules also require these companies to disclose publicly a summary of the results of their semi-annual stress analyses, and their bank subsidiaries' annual stress analyses, under the severely adverse scenario.

As discussed in "Item 1. Business - Supervision and Regulation — Enhanced Prudential Standards — Stress Testing and Capital Planning (Comprehensive Capital Analysis and Review)," We will remain subject to the annual stress analysis and semi-annual stress analysis indirectly through BNPP's U.S. intermediate holding company until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer required to be included in the stress tests applicable to the other U.S. entities of BNPP.

CCAR is an annual exercise by the Federal Reserve to assess whether large bank holding companies operating and U.S. intermediate holding companies have sufficient capital to continue operations throughout times of economic and financial stress. DFAST is a separate stress testing framework implemented by the federal bank regulators, including the Federal Reserve and the FDIC, to assess whether banking organizations have sufficient capital to absorb losses and support operations during adverse economic conditions. DFAST applies to banking organizations with assets of $10 billion or more, while the CCAR applies to banking organizations with assets of $50 billion or more. Accordingly, even if we are no longer subject to the CCAR process at some point in the future, we will continue to be subject to DFAST.

Our regulators may also require us to raise additional capital or take other actions, or may impose restrictions on our business, based on the results of the stress tests, including rejecting, or requiring revisions to, any annual capital plan submitted in connection with a CCAR process that is applicable to us. See "Item 1. Business - Supervision and Regulatory — Enhanced Prudential Standards — Stress Testing and Capital Planning (Comprehensive Capital Analysis and Review)" for a description of the CCAR, including the capital plan requirement.

Although these stress tests are not meant to assess our current condition, our customers may misinterpret and adversely react to the results of these stress tests. Any potential misinterpretations and adverse reactions could limit our ability to attract and retain customers or to effectively compete for new business opportunities. The inability to attract and retain customers or effectively compete for new business may have a material and adverse effect on our business, financial condition or results of operations.

We may not pay dividends on our common stock in the future.

Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. Our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition. Moreover, the Federal Reserve will closely scrutinize any dividend payout ratios exceeding 30% of after-tax net income.

BNP Paribas USA will submit a capital plan on or about April 5, 2018, and dividends and any share repurchases proposed and/or intended to be made by us after the second quarter of 2018 must be included therein if the capital plan requirements applicable to BNPP's other U.S. entities are applicable to us at that time. For any year in which one or more of our parent holding companies is subject to the capital planning requirements, the Federal Reserve must review such capital plan or plans before we can take certain capital actions, including declaring and paying dividends and repurchasing or redeeming capital securities. If the Federal Reserve objects to all or part of a capital plan or any amendment to a capital plan for any reason, our ability to declare and pay dividends on our common stock may be limited. The Federal Reserve's capital plan requirements will remain applicable to us until BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which we are no longer required to be included in any capital plan of the other U.S. entities of BNPP.

While the Federal Reserve did not object to BWC's 2017 capital plan, which includes the payment of a quarterly dividend by us through the second quarter of 2018, there can be no assurance that the Federal Reserve will not object to the payment of dividends by us in connection with any capital plan requirements that are applicable to us in periods following the second quarter of 2018.

Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock. See " – Risks Related to Our Business – Our liquidity is dependent on dividends from First Hawaiian Bank" for additional information on our reliance on dividends paid to us by the Bank.

Rulemaking changes implemented by the CFPB will result in higher regulatory and compliance costs that may adversely affect our results of operations.

The CFPB is a federal agency responsible for implementing, examining and enforcing compliance with federal consumer financial protection laws. The CFPB also has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, their service providers and certain non-depository entities such as debt collectors and consumer reporting agencies. The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. See "Item 1. Business - Supervision and Regulation — Consumer Financial Protection." The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. We may also be required to add additional compliance personnel or incur other significant compliance-related expenses. Our business, results of operations or competitive position may be adversely affected as a result.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of civil government attorneys on banks and the financial services industry generally. This focus has only intensified since the Great Recession, with regulators and civil government attorneys focusing on a variety of financial institution practices and requirements, including foreclosure practices, civil government attorneys with applicable consumer protection laws, classification of held for sale assets and compliance with anti-money laundering statutes, the Bank Secrecy Act and sanctions administered by OFAC. In addition, a single event or issue may give rise to numerous and overlapping investigations and proceedings, including by multiple federal and state regulators and other governmental authorities.

In the normal course of business, from time to time, we may be named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our business activities. Certain of the legal actions included claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing our arbitration clause in the future. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management's attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could have a material adverse effect on our business, financial condition or results of operations.

Increases in FDIC insurance premiums may adversely affect our earnings.

Our bank's deposits are insured by the FDIC up to legal limits and, accordingly, our bank is subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums our bank will be required to pay for FDIC insurance. In 2010, the FDIC increased the deposit insurance fund's target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the insurance fund's reserve ratio and has put in place a restoration plan to restore the deposit insurance fund to its 1.35% minimum reserve ratio mandated by the Dodd-Frank Act by September 30, 2020. Additional increases in assessment rates may be required in the future to achieve this targeted reserve ratio. In addition, higher levels of bank failures during the Great Recession and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the deposit insurance fund. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

The Tax Cuts and Jobs Act (the "Tax Act") could have adverse or uncertain impacts on some aspects of our business, results of operations or financial condition.

On December 22, 2017, President Trump signed into law the Tax Act. The Tax Act makes many significant amendments to the U.S. Internal Revenue Code of 1986, as amended (the "Code"), including reducing the statutory rate of U.S. federal corporate income tax from 35% to 21%. The reduction in the corporate tax rate under the Tax Act required a one-time revaluation of certain of our tax-related assets. As such, we recorded approximately $47.6 million of additional income tax expense in our consolidated statements of income in the fourth quarter of 2017. Our revaluation of our deferred tax assets is subject to further clarifications of the Tax Act that cannot be estimated at this time. Should adjustments be made to the revaluation of certain of our tax-related assets performed in the fourth quarter of 2017, such income tax expense or benefit will be recorded in the period in which the clarification or additional information is made available to us. The revaluation of our deferred tax assets may vary materially from the amount recorded.

The overall impact of the Tax Act is subject to the effect of numerous provisions in the Tax Act, including the imposition of a "base erosion and anti-abuse tax", limitations on deductibility of interest, limitations on the deduction of certain executive compensation costs and limitations on the use of future net operating losses to 80% of taxable income, among other changes. It is possible that the impact from certain of these or other provisions could reduce the benefit from the reduction in the statutory U.S. federal rate. The overall impact of the Tax Act also depends on the future interpretations and regulations that may be issued by U.S. tax authorities, and it is possible that future guidance could adversely impact us. While we expect the Tax Act to have a net positive economic impact on us, it contains measures that could have adverse or uncertain impacts on some aspects of our business, results of operations or financial condition.

Non-compliance with the USA PATRIOT Act, the Bank Secrecy Act or other laws and regulations could result in fines or sanctions against us.

The USA PATRIOT Act of 2001 and the Bank Secrecy Act require financial institutions to design and implement programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. In recent years, several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us, which could have a material adverse effect on our business, financial condition or results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with nonaffiliated third parties (with certain exceptions) and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

We are required to disclose in our periodic reports filed with the SEC specified activities engaged in by our "affiliates".

In August 2012, Congress enacted the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRSHRA"), which expands the scope of U.S. sanctions against Iran. Section 219 of ITRSHRA amended the Exchange Act, to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRSHRA requires companies to disclose these types of transactions even if they would otherwise be permissible under U.S. law. Reporting companies are required to separately file with the SEC a notice that such activities have been disclosed in the relevant periodic report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Under ITRSHRA, we would be required to report if we or any of our "affiliates" knowingly engaged in certain specified activities during the period covered by the report. Because the SEC defines the term "affiliate" broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us. Because we are a controlled affiliate of BNPP, we may be required to disclose certain activities undertaken by BNPP with Iranian counterparties during an applicable reporting period. We have disclosed such activities in the "Part II, Item 9B. Other" section of this Form 10-K. Disclosure of such activities, even if such activities are not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

Risks Related to Our Controlling Stockholder

BNPP continues to have significant control over us, and its interests may conflict with ours or yours in the future.

BNPP beneficially owns approximately 62% of our common stock. As a result, BNPP continues to have significant control over us. As long as BNPP controls more than 50% of our outstanding common stock, BNPP will be able to determine the outcome of all matters requiring approval of stockholders, cause or prevent a change of control of our company and preclude all unsolicited acquisitions of our company, including transactions that may be in the best interests of our other stockholders. Going forward, BNPP's degree of control will depend on, among other things, its level of beneficial ownership of our common stock and its ability to exercise certain rights under the terms of the Stockholder Agreement that we entered into with BNPP in connection with our IPO.

Under the terms of the Stockholder Agreement, BNPP is entitled to designate nominees for election to our board of directors and make certain appointments to committees of our board. Pursuant to the Stockholder Agreement, until the earlier of (i) the one-year anniversary of the first date when BNPP ceases to directly or indirectly beneficially own 50% of our outstanding common stock and (ii) the date BNPP ceases to directly or indirectly beneficially own at least 25% of our outstanding common stock, BNPP will have the right to designate a majority of the nominees for election to our board of directors. In addition, until BNPP ceases to directly or indirectly own at least 25% of our outstanding common stock, we will still be required to obtain the approval of a majority of the directors on our board of directors designated for nomination and election by BNPP before undertaking (or permitting or authorizing any of our subsidiaries to undertake) various significant corporate actions, including engaging in certain business activities, amending our bylaws, entrance into mergers or consolidations with a consideration value in excess of certain thresholds, entrance into, amendments to or terminations of material agreements (subject to certain exceptions), incurrence or guarantee of indebtedness in excess of certain thresholds (subject to certain exceptions), termination of our or our bank's Chief Executive Officer or Chief Financial Officer (other than for cause) and certain other significant transactions. BNPP will retain other approval rights until it ceases to directly or indirectly own at least 5% of our outstanding common stock, including approval rights relating to our issuance of capital stock (subject to certain exceptions), listing or delisting our securities on a national securities exchange and certain other matters. BNPP will also retain certain approval rights until it ceases to consolidate our financial statements with its financial statements under the International Financial Reporting Standards ("IFRS"), including approval rights relating to our annual budget and any changes in our independent public accounting firm. In addition, BNPP will retain certain approval rights until it ceases to control us for purposes of the BHC Act (unless earlier waived), including approval rights relating to the declaration or payment of dividends and certain other matters.

BNPP's concentration of voting power and veto rights could deprive stockholders of an opportunity to receive a premium for their shares of common stock as part of a sale of the Company, and could affect the market price of our common stock. In addition, BNPP's interests may differ from our interests or those of our other stockholders, and BNPP may affect the management of our business or may not exercise its voting power or consent rights in a manner favorable to our other stockholders. We will also continue to be subject to the regulatory supervision applicable to BNPP and companies under its control, including enhanced regulations in France, the United States and the other markets in which BNPP operates that apply to BNPP because it is a "global systemically important financial institution." Accordingly, BNPP's control over us and the consequences of such control could have a material adverse effect on our business and business prospects and negatively impact the trading price of our common stock. Additionally, in accordance with the Insurance Agreement we entered into with BNPP in connection with our IPO, until such time as BNPP no longer directly or indirectly beneficially owns 50% of our outstanding common stock, we will rely on BNPP to procure and maintain director and officer liability insurance for us. After such time, we will be responsible for procuring and maintaining our own director and officer liability insurance. At such time, we will be without the benefit of BNPP's leverage with our insurance providers to negotiate the new policies which may result in increased costs to us.

We may fail to replicate or replace functions, systems and infrastructure provided to us by BNPP or certain of its affiliates, and BNPP and its affiliates may fail to perform the services provided for in the Transitional Services Agreement.

Although, prior to our IPO, we operated largely as a standalone company without receiving significant services from BNPP or any of its affiliates, we have historically received certain services from BNPP and BOW, and provided other services to BNPP and BOW, including information technology services, services that support financial transactions and budgeting, risk management and compliance services, human resources services, insurance, operations and other support services, primarily through shared services contracts with various third party service providers. BNPP and its affiliates, including BOW, have no obligation to provide any support to us other than the services provided pursuant to certain agreements that we entered into in connection with our IPO, including the Transitional Services Agreement. Under the Transitional Services Agreement, BNPP, BWHI and BOW have agreed to continue to provide us with certain services provided to us prior to the IPO by or through BNPP, BWHI and BOW, either directly or on a pass-through basis, and we have agreed to continue to provide, or arrange to provide, BNPP, BWHI and BOW with certain services we have historically provided to them, either directly or on a pass-through basis. The Transitional Services Agreement will terminate on December 31, 2018, although the provision of certain services will terminate on earlier dates. We expect to incur additional annual costs for services provided to us under the Transitional Services Agreement.

We are working to replicate or replace the services that we will continue to need in the operation of our business that are provided currently by BNPP, BWHI or BOW through shared service contracts they have with various third party service providers and that will continue to be provided under the Transitional Services Agreement for applicable transitional periods. Although we negotiated the terms of the Transitional Services Agreement on an arm's length basis, we cannot assure you that we could not obtain the services to which it relates at the same or better levels or at the same or lower costs directly from third party providers. As a result, when BNPP, BWHI and BOW cease providing these services to us, either as a result of the termination of the Transitional Services Agreement or individual services thereunder or a failure by BNPP, BWHI and BOW to perform their respective obligations under the Transitional Services Agreement, our costs of procuring these services or comparable replacement services may increase, and the cessation of such services may result in service interruptions and divert management's attention from other aspects of our operations. In particular, certain third-party contracts underlying services that BNPP, BWHI and BOW provide to us on a pass-through basis do not allow such services to be passed through to us once BNPP's beneficial ownership of our common stock generally falls below 50%. As a result, the provision of such services under the Transitional Services Agreement will cease on such date and will not be subject to extension. Although we intend to procure comparable replacement services on our own in advance of this date, because we do not know when this ownership threshold will be reached, we cannot ensure that we will be able to procure such replacement services in a timely manner or on a cost-efficient basis. Similarly, BOW will no longer be able to receive certain services on a pass-through basis through contracts we have with third parties after the ownership threshold is reached. If we have not entered into standalone agreements by that time, we may be responsible for fees that otherwise would have been the responsibility of BOW.

There is a risk that an increase in the costs associated with replicating and replacing the services provided to us under the Transitional Services Agreement and the diversion of management's attention to these matters could have a material adverse effect on our business, financial condition or results of operations. Additionally, we may not be able to operate effectively if the quality of replacement services is inferior to the services we are currently receiving. Furthermore, once we are no longer an affiliate of BNPP, we will no longer receive certain group discounts and reduced fees that we are eligible to receive as an affiliate of BNPP. The loss of these discounts and reduced fees could increase our expenses and have a material adverse effect on our business, financial condition or results of operations.

Contingent liabilities related to our spinoff of BWHI and BOW as part of the Reorganization Transactions could materially and adversely affect our financial condition, results of operations or cash flows.

As part of the Reorganization Transactions, we contributed our subsidiary, BOW, to BWHI, a bank holding company that is a Delaware corporation, and then spun off BWHI to BNPP. In connection with the Reorganization Transactions, we entered into several agreements with BNPP and BWHI, including the Master Reorganization Agreement. Although we have allocated liabilities between the Company and BNPP and its affiliates in accordance with these agreements, there is no guarantee that BNPP and its affiliates will meet their obligations under these agreements. If BWHI or its subsidiaries were to default in payment of any obligations owed to a third party pursuant to a contract covered by the Master Reorganization Agreement entered into in connection with the Reorganization Transactions or the Transitional Services Agreement referred to in the Master Reorganization Agreement, we could be liable under the applicable provisions of such contract with a third party and be required to make additional payments in excess of what we expected to pay under the Master Reorganization Agreement or the Transitional Services Agreement. Any such increased liability resulting from BNPP's and its affiliates' failure to meet their obligations under these agreements could materially and adversely affect our business, financial condition, result of operations or cash flows.

In addition, pursuant to the Master Reorganization Agreement, BWHI has agreed to indemnify us for certain liabilities, and we have agreed to indemnify BWHI for certain liabilities, in each case for uncapped amounts, and there can be no assurance that the indemnity from BWHI will be sufficient to protect us against the full amount of such liabilities, or that BWHI will be able to fully satisfy its indemnification obligations. Indemnity payments that we may be required to provide BWHI may be significant and could negatively impact our business. Moreover, even if we ultimately succeed in recovering from BWHI any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves.

We may be subject to unexpected income tax liabilities in connection with the Reorganization Transactions. BWHI is required to pay us for any unexpected income tax liabilities that arise in connection with the Reorganization Transactions. However, in the event that BWHI does not satisfy its payment obligations, we could be subject to significantly higher federal and/or state and local income tax liabilities than currently anticipated.

BNPP, BWHI and we expect that no U.S. federal income taxes will be imposed on us in connection with the Reorganization Transactions. However, we paid state and local income taxes of approximately $95.4 million in June 2016 (which was partially offset by a federal tax reduction of approximately $33.4 million received through the intercompany settlement of estimated taxes in April 2017) in connection with the Reorganization Transactions (the "Expected Taxes"). BNPP, BWHI and we reported a total tax liability in connection with the Reorganization Transactions of $92.1 million (the "Return Taxes") in the tax returns of various state and local jurisdictions. Pursuant to the Tax Sharing Agreement, we reimbursed BWHI approximately $2.1 million due to the Return Taxes being lower than the Expected Taxes. Such amount was recorded as an adjustment to additional paid-in capital. We could be subject to higher income tax liabilities in the event that the Internal Revenue Service (the "IRS") or state and local tax authorities successfully assert that our income tax liabilities in respect of the Reorganization Transactions are higher than the Return Taxes. Under the terms of the Tax Sharing Agreement, BWHI is required to pay us for any such additional taxes on an "after-tax basis" (which means an amount determined by reducing the payment amount by any tax benefits derived by the Company and increasing the payment amount by any tax costs, including additional taxes, incurred by the Company as a result of such additional taxes and/or payments). See "Our Relationship with BNPP and Certain Other Related Party Transactions — Relationship with BNPP — Tax Sharing Agreement." If, however, our income tax liabilities in respect of the Reorganization Transactions are higher than the Return Taxes and BWHI fails to satisfy its payment obligations under the Tax Sharing Agreement, we could be liable for significantly higher federal and/or state income tax liabilities. We have not sought and will not seek any rulings from the IRS or state and local tax authorities regarding our expected tax treatment of the Reorganization Transactions.

In addition, under the U.S. Internal Revenue Code of 1986, as amended (the "Code") and related rules and regulations, each entity that was a member of the BancWest combined tax reporting group during any taxable period or portion of any taxable period ending on or before the effective time of the Reorganization Transactions is jointly and severally liable for the U.S. federal income tax liability of the entire combined tax reporting group for such taxable period. Although the Tax Sharing Agreement allocates the responsibility for prior period taxes of the combined tax reporting group in accordance with the existing tax allocation agreements, if BWHI were unable to pay any such prior period taxes for which it is responsible, we could be required to pay the entire amount of such taxes, and such amounts could be significant. Other provisions of federal, state or local tax law may establish similar liability for other matters, including laws governing tax qualified pension plans, as well as other contingent liabilities.

We continue to be subject to regulation and supervision as a subsidiary of BNPP.

As long as we continue to be controlled by BNPP for purposes of the BHC Act, BNPP's regulatory status may impact our regulatory status. For example, unsatisfactory examination ratings or enforcement actions regarding BNPP could impact our ability to obtain or preclude us from obtaining any necessary approvals or informal clearance to engage in new activities. To the extent that we are required to obtain regulatory approvals under the BHC Act to make acquisitions or expand our activities, as long as BNPP controls us, BNPP would be required to obtain BHC Act approvals for such acquisitions or activities as well. The Federal Reserve may determine that BNPP controls us until its ownership and control falls to 4.9% or below of any class of voting securities, or even to zero percent. See "Item 1. Business - Supervision and Regulation — Enhanced Prudential Standards." In particular, the enhanced prudential standards implemented under the Dodd-Frank Act applicable to bank holding companies with $50 billion or more in assets, as well as U.S. intermediate holding companies established under Regulation YY, have had a significant impact on the business results and operations of such institutions, and this in turn may impact us as a controlled subsidiary of BNPP. These enhanced prudential standards include capital, leverage, liquidity and risk-management requirements that would not apply to us as a standalone company with less than $50 billion in assets. We expect these laws and regulations will cease to apply to us when BNPP's ownership and control of us for U.S. bank regulatory purposes falls to a level at which those laws and regulations as applicable to the U.S. entities of BNPP no longer apply to us. As noted above, it is possible that BNPP's ownership and control of us for U.S. bank regulatory purposes may need to fall to 4.9% or below of any class of our voting securities, or even to zero, before all such laws and regulations will cease to apply to us. See "— Risks Related to the Regulatory Oversight of Our Business — We are subject to capital adequacy requirements and may be subject to more stringent capital requirements," "Item 1. Business - Supervision and Regulation — Enhanced Prudential Standards" and "Item 1. Business - Supervision and Regulation — Regulatory Impact of Control by BNPP."

Furthermore, if BNPP fails or goes into recovery or resolution, such event could have a material adverse effect on our business.

As described in "Item 1. Business - Supervision and Regulation — Regulatory Impact of Control by BNPP," BNPP is required to submit annually to its applicable regulators a Group Recovery and Resolution Plan under Directive 2014/59. In the event BNPP is subject to resolution proceedings or resolution powers by its applicable regulators, actions taken by such regulators may result in significant structural or other changes to BNPP and/or its controlled subsidiaries, including changes that may adversely affect us.

As long as BNPP owns a majority of our common stock, we will rely on certain exemptions from the corporate governance requirements of NASDAQ available for "controlled companies."

We are a "controlled company" within the meaning of the corporate governance listing standards of NASDAQ because BNPP owns more than 50% of our outstanding common stock. A controlled company may elect not to comply with certain corporate governance requirements of NASDAQ. Consistent with this, the Stockholder Agreement provides that, so long as we are a controlled company, we are not required to comply with the requirements to have a majority of independent directors or to have the corporate governance and nominating committee and the compensation committee of our board of directors consist entirely of independent directors. Currently, six of our nine directors do not qualify as "independent directors" under the applicable rules of NASDAQ. As a result, stockholders in the Company do not have certain of the protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of NASDAQ.

BNPP may not complete the divestiture of our common stock that it beneficially owns.

BNPP currently beneficially owns approximately 62% of our outstanding common stock. The timing of any subsequent sales by BNPP of shares of our common stock is unknown at this time and will be subject to market conditions and other considerations as well as a lock-up agreement by the BNPP selling stockholder. There can be no assurance of the time period over which such disposition will occur or that it will occur at all. Any delay by BNPP in completing, or uncertainty about its ability or intention to complete, the divestiture of our common stock that it beneficially owns could have a material adverse effect on our company and the market price for our common stock.

Conflicts of interest and other disputes may arise between BNPP and us that may be resolved in a manner unfavorable to us and our other stockholders.

Conflicts of interest and other disputes may arise between BNPP and us in connection with our past and ongoing relationships, and any future relationships we may establish in a number of areas, including, but not limited to, the following:

- *Contractual Arrangements.* We have entered into several agreements with BNPP and/or its affiliates that provide a framework for our ongoing relationship with BNPP, including a Stockholder Agreement, a Transitional Services Agreement, a Registration Rights Agreement, a License Agreement and an Insurance Agreement. In addition, in connection with the Reorganization Transactions and the intermediate holding company restructuring on July 1, 2016, we entered into several agreements with BNPP and certain of its affiliates which allocated assets, liabilities and expenses following our contribution of BOW to BWHI and the spinoff of BWHI to BNPP, including a Master Reorganization Agreement, an Expense Reimbursement Agreement, a Tax Sharing Agreement and the IHC Tax Allocation Agreement. Any failure by BNPP or any other party to meet its obligations under any of these agreements could lead to a dispute, the resolution of which, if unfavorable to us, could have a material adverse effect on our company and the market price of our common stock.

- *Competing Business Activities.* In the ordinary course of its business, BNPP may also engage in activities where BNPP's interests conflict or are competitive with our or our other stockholders' interests. These activities may include BNPP's interests in any transaction it may conduct with us, any exercise by BNPP of its rights to register and sell additional stock under the Registration Rights Agreement, any sale by BNPP of a controlling interest in us to a third party or any investments by BNPP in, or business activities conducted by BNPP for, one or more of our competitors. Any of these disputes or conflicts of interests that arise may be resolved in a manner adverse to us or to our stockholders other than BNPP and its affiliates. As a result, our future competitive position and growth potential could be adversely affected.

- *BNPP Designated Directorships.* Those members of our board of directors designated for nomination and election to our board of directors by BNPP may have, or appear to have, conflicts of interest with respect to certain of our operations as a result of any roles they may have as officers or employees of BNPP or any of its affiliates or any investments or interests they may own in companies that compete with our business. The ownership interests of our directors in the common stock of BNPP could create, or appear to create, conflicts of interest when directors are faced with decisions that could have different implications for the two companies. For example, these decisions could relate to (i) the nature, quality and cost of services rendered to us by BNPP or any of its affiliates, (ii) employee retention or recruiting or (iii) our dividend policy.

- *Business Opportunities.* BNPP or its affiliates may engage in a corporate opportunity in the same or similar lines of business in which we or our affiliates now engage or propose to engage or otherwise compete with us or our affiliates. As a result of competition, our future competitive position and growth potential could be adversely affected.

These and other conflicts of interest and potential disputes could have a material adverse effect on our business, financial condition, results of operations or on the market price of our common stock.

Certain of our subsidiaries are subject to regulatory requirements and restrictions as a result of enforcement actions brought against BNPP.

On January 26, 2018, BNP Paribas USA, Inc. ("BNP Paribas USA"), a subsidiary of BNPP, announced that it had reached a settlement with the U.S. Department of Justice (the "DOJ") relating to violations of certain U.S. laws and regulations in connection with the operation of BNPP's foreign exchange business (the "Settlement"). Separately, on July 17, 2017, BNPP announced a settlement with the Federal Reserve to resolve the Federal Reserve's related investigation and, on May 24, 2017, BNPP entered into a consent order with the New York State Department of Financial Services in relation to similar matters. The Settlement includes a guilty plea entered into by BNP Paribas USA with the DOJ on January 25, 2018. In 2014, BNPP entered into a plea agreement (the "Plea Agreement") with the DOJ regarding sanctions violations. Certain of our subsidiaries are subject to ongoing requirements and restrictions as a result of the Settlement and the Plea Agreement.

Exemption from Loss of Qualified Professional Asset Manager Status.

Prohibited Transaction Class Exemption 84-14 (the "QPAM Exemption") permits asset managers which qualify as Qualified Professional Asset Managers ("QPAMs") within the meaning of the QPAM Exemption and meet each of the conditions of the QPAM Exemption to engage in a variety of arm's length transactions with parties in interest that would otherwise be prohibited under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code. While there may be one or more other applicable exemptions for most plan transactions, the QPAM Exemption is an effective and efficient trading exemption for plans.

One of the conditions of the QPAM Exemption is that no entity owning 5% or more of the QPAM nor controlling, controlled by or under common control with such entity has been convicted of or plead guilty to the crimes enumerated in the Section I(g) of the QPAM Exemption in the preceding ten years. In 2014, when BNPP entered into the Plea Agreement, BNPP, on behalf of its affiliated and related asset managers, requested and received an individual exemption (the "2015 Exemption") to allow them to continue to use the QPAM exemption. The 2015 Exemption is conditioned on no other crime being committed by an affiliate of the asset managers. When BNP Paribas USA is convicted in connection with the Settlement, all asset managers affiliated with BNPP will become ineligible to use the 2015 Exemption. Accordingly, BNPP filed an application for another individual exemption covering the Plea Agreement and the Settlement to permit the use of the QPAM Exemption for its affiliated managers' ERISA and Individual Retirement Account clients. While the exemption request is under review by the Department of Labor (the "DOL"), BNPP-affiliated QPAMs, including our bank and its wholly-owned subsidiary Bishop Street Capital Management Corporation ("Bishop Street"), will be permitted to continue to rely on the 2015 Exemption until the sentencing and conviction, which is not expected until the DOL rules on the application. Accordingly, the business operations of our bank and Bishop Street are not expected to be disrupted and, even if the exemptive request is denied, other exemptions may be applicable to the strategies used by our bank and Bishop Street.

Our bank and Bishop Street are QPAMs that currently rely on the QPAM Exemption pursuant to the 2015 Exemption. There can be no assurance that the DOL will grant another exemption in this case. If the DOL does not grant the exemption requested by BNPP prior to the time the order of conviction against BNP Paribas USA is entered, our bank and Bishop Street will not be able to rely on the QPAM Exemption and would have to rely on other applicable exemptions, if available.

Until the earlier of (i) ten years from the conviction of BNP Paribas USA and (ii) our bank and Bishop Street are no longer owned, directly or indirectly, 5% or more by BNPP or BNP Paribas USA, the conditions of the 2015 Exemption or any exemption issued after the conviction of BNP Paribas USA will need to be relied upon by our bank and Bishop Street.

Exemption from Section 9(a) of the Investment Company Act of 1940, as amended (the "Investment Company Act").

Section 9(a)(1) of the Investment Company Act prohibits a person, or an affiliated person of such a person, from, among other things, being an investment adviser to any registered investment company or principal underwriter of any registered open-end investment company if the person, within the last ten years, has been convicted of or pleaded guilty to any felony or misdemeanor arising out of such person's conduct as, among other things, a bank.

Certain investment adviser affiliates of BNPP, including our indirect wholly-owned subsidiary Bishop Street, applied for exemptions from the prohibition of section 9(a) of the Investment Company Act in connection with the Plea

Agreement and the Settlement. The requested exemptive orders were issued by the SEC (the “SEC Exemptions”) and each is subject to certain conditions, including that BNPP will comply in all material respects with the conditions of the Plea Agreement (in the case of the 2014 order) and the Settlement (in the case of the 2018 order), as well as other specified orders. Until the earlier of (a) such time as we are no longer an affiliated person of BNPP for purposes of the Investment Company Act and (b) July 28, 2024 (in the case of the 2014 order) and February 23, 2028 (in the case of the 2018 order), these conditions will continue to apply to Bishop Street or any other of our affiliates that engage in the activities named in Section 9(a) of the Investment Company Act. For these purposes, we will continue to be an affiliated person of BNPP so long as it owns 5% or more of our voting securities or otherwise directly or indirectly controls or is under common control with us.

If BNPP or a BNPP affiliate violates the terms of either the 2015 Exemption or the SEC Exemptions, our subsidiaries may be prohibited from engaging in significant aspects of their respective businesses, which could in turn have a negative impact on our business, financial condition or results of operations. Furthermore, entities with which our subsidiaries would ordinarily do business may refrain from engaging with them while they are subject to the terms of the 2015 Exemption and the SEC Exemptions. This could harm our reputation and have a negative impact on our business.

Risks Related to Our Common Stock

Our stock price may be volatile, and you could lose part or all of your investment as a result.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price may fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or continue to cover, us;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us, our competitors or other financial institutions and regarding BNPP and BNPP’s intentions and efforts to dispose of our stock;
- future sales of our common stock;
- departure of our management team or other key personnel;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- changes or proposed changes in laws or regulations, or differing interpretations thereof affecting our business, or enforcement of these laws and regulations;
- litigation and governmental investigations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to litigation that, even if our defense is successful, could distract our management and be costly to defend. General market fluctuations, industry factors and general economic and political conditions and events — such as economic slowdowns or recessions, interest rate changes or credit loss trends — could also cause our stock price to decrease regardless of operating results.

As of January 1, 2018, we are no longer an "emerging growth company" as defined in the JOBS Act, and the reduced disclosure requirements applicable to emerging growth companies no longer apply to us.

As of January 1, 2018, we no longer qualify as an "emerging growth company" as defined in the JOB Act. Consequently, we are now or will soon be subject to certain disclosure requirements that apply to other public companies but did not previously apply to us due to our status as an emerging growth company. These requirements include:

- compliance with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- compliance with any requirement that may be adopted by the Public Company Accounting Oversight Board;
- full disclosure obligations regarding executive compensation; and
- compliance with the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Compliance with these additional requirements may increase our compliance and financial reporting expenses and may divert management's attention from other aspects of our business. Failure to comply with these requirements could subject us to enforcement actions by the SEC, which could divert management's attention, damage our reputation and adversely affect our business, operating results or financial condition.

Fulfilling our public company financial reporting and other regulatory obligations and transitioning to a standalone public company will be expensive and time consuming and may strain our resources.

As a public company, we are subject to the reporting requirements of the Exchange Act and are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under Sarbanes-Oxley and the related rules and regulations of the SEC, as well as the rules of NASDAQ. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition. Sarbanes-Oxley requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Compliance with these requirements places additional demands on our legal, accounting, finance and investor relations staff and on our accounting, financial and information systems and may further increase our legal and accounting compliance costs as well as our compensation expense as we may be required to hire additional legal, accounting, tax, finance and investor relations staff. As a public company we may also need to enhance our investor relations and corporate communications functions and attract additional qualified board members. These additional efforts may strain our resources and divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition or results of operations. We have incurred and expect to incur additional incremental ongoing and one-time expenses in connection with our transition to a standalone public company and our separation from BNPP. The actual amount of the incremental expenses we will incur may be higher, perhaps significantly, from our current estimates for a number of reasons, including, among others, the final terms we are able to negotiate with service providers prior to the termination of the Transitional Services Agreement, as well as additional costs we may incur that we have not currently anticipated.

In accordance with Section 404 of Sarbanes-Oxley, and beginning with this Annual Report on Form 10-K, our management is required to conduct an annual assessment of the effectiveness of our internal control over financial reporting and include a report on these internal controls in the annual reports we file with the SEC on Form 10-K. Our independent registered public accounting firm is required to formally attest to the effectiveness of our internal controls. Implementing the requirements of Section 404 of Sarbanes-Oxley requires significant documentation of policies, procedures and systems, review of that documentation by our internal auditing and accounting staff and our outside independent registered public accounting firm, and testing of our internal control over financial reporting by our internal auditing and accounting staff and our outside independent registered public accounting firm. This process involves considerable time and attention, may strain our internal resources, and will increase our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees during the implementation of these changes and thereafter. If, in any future reporting period, our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by NASDAQ, the SEC or other regulatory authorities, which could require additional financial and management resources. This could have a material adverse effect on our business, financial condition or results of operations.

The financial reporting resources we have put in place may not be sufficient to ensure the accuracy of the additional information we are required to disclose as a publicly listed company.

Following our IPO, we transitioned from being a wholly-owned subsidiary of a large publicly listed entity to becoming a publicly listed company in our own right. As such, we are subject to the heightened financial reporting standards under GAAP and SEC rules, including more extensive levels of disclosure, which require enhancements to the design and operation of our internal control over financial reporting.

If we are unable to meet the demands that have been placed upon us as a public company, including the requirements of Sarbanes-Oxley, we may be unable to accurately report our financial results, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Sarbanes-Oxley could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. If material weaknesses or other deficiencies occur, our ability to accurately and timely report our financial position could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from NASDAQ, and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.
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Future sales and issuances of our common stock, including expected sales by BNPP or as part of our equity-based compensation plans, could result in dilution of the percentage ownership of our stockholders and could lower our stock price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock or from the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate. As of February 21, 2018, we had a total of 139,601,123 shares of common stock outstanding, of which approximately 62% continues to be beneficially owned by BNPP and will be restricted securities as defined under Rule 144 subject to certain restrictions on resale.

Shares beneficially owned by BNPP are eligible for resale in a public market, subject to volume, manner of sale and other limitations under Rule 144 or registration under the Securities Act. BNPP is now considered an affiliate based on its beneficial ownership of our common stock, as well as its rights under the Stockholder Agreement.

In connection with our IPO and first secondary offering, we entered into a Registration Rights Agreement with BNPP that grants BNPP demand and “piggyback” registration rights with respect to the shares of our common stock beneficially owned by BNPP. BNPP may exercise its demand and piggyback registration rights at any time, subject to certain limitations, and any shares of our common stock registered pursuant to BNPP’s registration rights will be freely tradable in the public market, other than any shares acquired by any of our affiliates.

As restrictions on resale end, the market price of our shares of common stock could drop significantly. The timing and manner of the sale of BNPP’s remaining beneficial ownership of our common stock remains uncertain, and we have no control over the timing and manner in which BNPP may seek to divest such remaining shares. BNPP could elect to sell its common stock in a number of different ways, including in one or more tranches via future registrations or, alternatively, by the sale of all or a significant tranche of such remaining shares to a single third party purchaser. Any such sales would impact the price of our shares of common stock and there can be no guarantee that the price at which BNPP is willing to sell its remaining shares will be at a level that you determine adequately values our shares of common stock.

We have also filed a registration statement to register 6,253,385 shares of our common stock for issuance pursuant to awards granted under the equity incentive and employee stock purchase plans. We have granted awards covering 691,054 shares of our common stock under these plans as of December 31, 2017. We may increase the number of shares registered for this purpose from time to time, subject to stockholder approval. Once we register and issue these shares, their holders will be able to sell them in the public market, subject to applicable transfer restrictions.

We cannot predict the size of future issuances or sales of our common stock or the effect, if any, that future issuances or sales of shares of our common stock may have on the market price of our common stock. Sales or distributions of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

BNPP could sell a controlling interest in us to a third party in a private transaction, which may not lead to your realization of any change-of-control premium on shares of our common stock and would subject us to the control of a presently unknown third party.

BNPP continues to beneficially own a controlling equity interest of our company. BNPP will have the ability, should it choose to do so, to cause the sale of some or all of its shares of FHI common stock in a privately negotiated transaction, which, if sufficient in size, could result in a change of control of our company.

The ability of BNPP to privately sell its shares of our common stock, with no requirement for a concurrent offer to be made to acquire all of the shares of our outstanding common stock that will be publicly traded hereafter, could prevent you from realizing any change-of-control premium on your shares of our common stock that may accrue to BNPP on its private sale of our common stock. In addition, if BNPP privately sells its significant equity interest in our company, we may become subject to the control of a presently unknown third party. Such third party may have interests that conflict with those of other stockholders. Such a change in control may adversely affect our ability to operate our business as described in this Form 10-K and could have a material adverse effect on our business, financial condition or results of operations.

Certain banking laws and certain provisions of our certificate of incorporation may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our stockholders. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock following completion of this offering, generally creates a rebuttable presumption that the acquirer “controls” the bank holding company or depository institution. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including our bank.

There also are provisions in our second amended and restated certificate of incorporation, which we refer to as our certificate of incorporation, and third amended and restated bylaws, which we refer to as our bylaws, such as limitations on the ability to call a special meeting of our stockholders, restrictions on stockholders’ ability to act by written consent, and supermajority vote requirements for any amendment of our bylaws adopted by stockholders and certain other actions, that may be used to delay or block a takeover attempt. In addition, our board of directors is authorized under our certificate of incorporation to issue shares of our preferred stock, and determine the rights, terms conditions and privileges of such preferred stock, without stockholder approval. These provisions may effectively inhibit a non-negotiated merger or other business combination, which, in turn, could have a material adverse effect on the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters and main branch is located at 999 Bishop Street, Honolulu, Hawaii 96813. Inclusive of our main branch, we operated 62 branch offices located on the islands of Oahu, Maui, Hawaii, Kauai, Guam and Saipan as of December 31, 2017. We lease 38 of our branch offices and own the remainder of our offices, including our corporate headquarters and main branch which is located in the First Hawaiian Center. We are currently in the process of evaluating plans for more efficient usage of square footage, modernization and technological improvements to existing branches. We have closed and may close branches in certain circumstances to improve our efficiency.

ITEM 3. LEGAL PROCEEDINGS

We operate in a highly regulated environment. From time to time, we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows, or capital levels. For additional information, see the discussion related to contingencies in "Note 18. Commitments and Contingent Liabilities" in our consolidated financial statements under "Item 8. Financial Statements and Supplementary Data."

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

FHI's common stock is listed on the NASDAQ under the symbol "FHB" and is quoted daily in leading financial publications. The following table sets forth the range of high and low sales prices of our common stock as reported on the NASDAQ for periods following our IPO on August 4, 2016. Dividends declared are also shown in the table below for periods following our IPO. See "Item 1. Supervision and Regulation – Dividends" for more information.

	High	Low	Dividends
2017			
Fourth quarter	**$ 30.85**	**$ 27.34**	**$ 0.22**
Third quarter	**31.48**	**26.30**	**0.22**
Second quarter	**31.34**	**26.96**	**0.22**
First quarter	**35.32**	**28.66**	**0.22**
2016			
Fourth quarter	$ 35.47	$ 25.80	$ 0.20
Third quarter	27.97	24.25	0.20

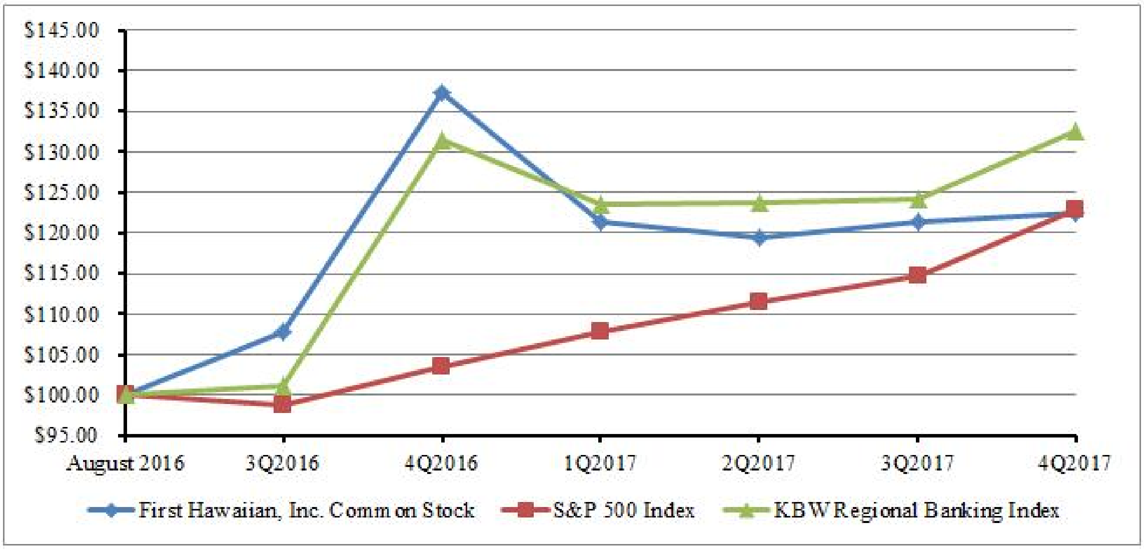
As of February 21, 2018, there were 23 common registered shareholders of record. A registered shareholder of record is a shareholder whose share ownership in a company is recorded directly on the records of the company's stock transfer agent. If one owns company shares through a bank, broker or other intermediary, then that shareholder is considered a "beneficial" shareholder. These holdings are considered to be held in "street name" through a bank, broker, or other intermediary and in the aggregate, are registered as a single shareholder of record.

Purchases of Equity Securities by the Issuer

We did not have a share repurchase plan at December 31, 2017. During the year ended December 31, 2017, 4,669 shares were purchased from employees in connection with income tax withholdings related to the vesting of common stock awards. These shares were not purchased as part of a publicly announced program.

Performance Graph

The following graph displays the cumulative total stockholder return on our common stock based on the market price of the common stock compared to the cumulative total returns for the Standard & Poor's ("S&P") 500 Index and the KBW Regional Banking Index ("KRX"). The graph assumes that $100 was invested on our IPO date, August 4, 2016, in our common stock(1), the S&P 500 Index(2) and the KRX(1). The cumulative total return on each investment is as of the dates indicated and assumes reinvestment of dividends.



(1) The investments in FHI were calculated using a volume weighted average price with a 10-day averaging period with dividends reinvested at the ex-dividend date.
(2) The S&P 500 Index and KRX were calculated using a 10-day averaging period.

The stock performance depicted in the graph above should not be relied upon as indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA

Financial Highlights

(dollars in thousands, except per share data)	For the Year Ended December 31, 2017	2016	2015	2014	2013
Income Statement Data:					
Interest income	**$ 570,768**	$ 518,520	$ 483,846	$ 467,283	$ 467,393
Interest expense	**41,964**	26,848	22,521	23,485	28,402
Net interest income	**528,804**	491,672	461,325	443,798	438,991
Provision for loan and lease losses	**18,500**	8,600	9,900	11,100	12,200
Net interest income after provision for loan and lease losses	**510,304**	483,072	451,425	432,698	426,791
Noninterest income[2]	**205,605**	226,037	219,111	215,961	214,445
Noninterest expense[2]	**347,554**	337,280	327,309	304,415	296,724
Income before provision for income taxes	**368,355**	371,829	343,227	344,244	344,512
Provision for income taxes	**184,673**	141,651	129,447	127,572	129,998
Net income	**$ 183,682**	$ 230,178	$ 213,780	$ 216,672	$ 214,514
Basic earnings per share	**$ 1.32**	$ 1.65	$ 1.53	$ 1.55	$ 1.54
Diluted earnings per share	**$ 1.32**	$ 1.65	$ 1.53	$ 1.55	$ 1.54
Basic weighted-average outstanding shares	**139,560,305**	139,487,762	139,459,620	139,459,620	139,459,620
Diluted weighted-average outstanding shares	**139,656,993**	139,492,608	139,459,620	139,459,620	139,459,620
Dividends declared per share	**$ 0.88**	$ 0.62	$ —	$ —	$ —
Dividend payout ratio	**66.67 %**	37.27 %	— %	— %	— %
Supplemental Income Statement Data (non-GAAP)[1]:					
Core net interest income	**$ 528,804**	$ 491,672	$ 456,489	$ 440,727	434,741
Core noninterest income[2]	**198,683**	198,793	195,905	195,139	202,686
Core noninterest expense[2]	**342,097**	331,060	327,309	304,415	296,024
Core net income	**230,366**	217,111	196,315	201,633	204,982
Core basic earnings per share	**$ 1.65**	$ 1.56	$ 1.41	$ 1.45	$ 1.47
Core diluted earnings per share	**$ 1.65**	$ 1.56	$ 1.41	$ 1.45	$ 1.47
Other Financial Information / Performance Ratios:					
Net interest margin	**2.99 %**	2.88 %	2.78 %	2.88 %	2.99 %
Core net interest margin (non-GAAP)[1],[3]	**2.99 %**	2.88 %	2.75 %	2.86 %	2.97 %
Efficiency ratio[2]	**47.32 %**	46.99 %	48.10 %	46.14 %	45.41 %
Core efficiency ratio (non-GAAP)[1],[2],[4]	**47.02 %**	47.94 %	50.17 %	47.87 %	46.44 %
Return on average total assets	**0.92 %**	1.19 %	1.14 %	1.24 %	1.29 %
Core return on average total assets (non-GAAP)[1],[5]	**1.16 %**	1.12 %	1.05 %	1.15 %	1.23 %
Return on average tangible assets (non-GAAP)[11]	**0.97 %**	1.26 %	1.20 %	1.31 %	1.37 %
Core return on average tangible assets (non-GAAP)[1],[6]	**1.22 %**	1.18 %	1.10 %	1.22 %	1.31 %
Return on average total stockholders' equity	**7.24 %**	8.96 %	7.81 %	8.03 %	8.04 %
Core return on average total stockholders' equity (non-GAAP)[1],[7]	**9.08 %**	8.45 %	7.18 %	7.47 %	7.68 %
Return on average tangible stockholders' equity (non-GAAP)[11]	**11.91 %**	14.64 %	12.28 %	12.72 %	12.83 %
Core return on average tangible stockholders' equity (non-GAAP)[1],[8]	**14.93 %**	13.80 %	11.28 %	11.84 %	12.26 %
Noninterest expense to average assets[2]	**1.74 %**	1.74 %	1.74 %	1.74 %	1.78 %
Core noninterest expense to average assets (non-GAAP)[1],[2],[9]	**1.72 %**	1.71 %	1.74 %	1.74 %	1.78 %

	December 31, 2017	2016	2015	2014	2013
Balance Sheet Data:					
Loans and leases	**$12,277,369**	$11,520,378	$ 10,722,030	$ 10,023,590	$ 9,527,322
Allowance for loan and lease losses	**137,253**	135,494	135,484	134,799	133,239
Interest-bearing deposits in other banks	**667,560**	798,231	2,350,099	915,957	1,488,466
Investment securities	**5,234,658**	5,077,514	4,027,265	4,791,611	3,911,343
Goodwill	**995,492**	995,492	995,492	995,492	995,492
Total assets	**20,549,461**	19,661,829	19,352,681	18,133,696	17,118,777
Total deposits	**17,612,122**	16,794,532	16,061,924	14,725,379	13,578,346
Total liabilities	**18,016,910**	17,185,344	16,615,740	15,458,656	14,467,666
Total stockholders' equity	**2,532,551**	2,476,485	2,736,941	2,675,040	2,651,111
Book value per share	**$ 18.14**	$ 17.75	$ 19.63	$ 19.18	$ 19.01
Tangible book value per share (non-GAAP)[11]	**$ 11.01**	$ 10.61	$ 12.49	$ 12.04	$ 11.87
Asset Quality Ratios:					
Non-accrual loans and leases / total loans and leases	**0.08 %**	0.08 %	0.16 %	0.24 %	0.33 %
Allowance for loan and lease losses / total loans and leases	**1.12 %**	1.18 %	1.26 %	1.34 %	1.40 %
Net charge-offs / average total loans and leases	**0.14 %**	0.08 %	0.09 %	0.10 %	0.10 %

Capital Ratios[10]:	December 31, 2017	2016	2015	2014	2013
Common Equity Tier 1 Capital Ratio	**12.45 %**	12.75 %	15.31 %	N/A	N/A
Tier 1 Capital Ratio	**12.45 %**	12.75 %	15.31 %	16.14 %	16.60 %
Total Capital Ratio	**13.50 %**	13.85 %	16.48 %	17.41 %	17.97 %
Tier 1 Leverage Ratio	**8.52 %**	8.36 %	9.84 %	10.16 %	10.63 %
Total stockholders' equity to total assets	**12.32 %**	12.60 %	14.14 %	14.75 %	15.49 %
Tangible stockholders' equity to tangible assets (non-GAAP)[11]	**7.86 %**	7.93 %	9.49 %	9.80 %	10.27 %

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

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

GAAP to Non-GAAP Reconciliation

	For the Years Ended December 31,				
(dollars in thousands, except per share data)	**2017**	2016	2015	2014	2013
Net interest income	**$ 528,804**	$ 491,672	$ 461,325	$ 443,798	$ 438,991
Accounting change (ASC 310 adjustment)	**—**	—	—	—	(4,250)
Early buyout on lease	**—**	—	—	(3,071)	—
Early loan termination[a]	**—**	—	(4,836)	—	—
Core net interest income (non-GAAP)	**$ 528,804**	$ 491,672	$ 456,489	$ 440,727	$ 434,741
Noninterest income	**$ 205,605**	$ 226,037	$ 219,111	$ 215,961	$ 214,445
Gains on sale of securities	**—**	(4,566)	(7,737)	—	(226)
Gains on sale of stock (Visa/MasterCard)	**—**	(22,678)	(4,584)	(20,822)	(11,088)
Gains on sale of real estate and other assets	**(6,922)**	—	(3,414)	—	(445)
Other adjustments[a],[b]	**—**	—	(7,471)	—	—
Core noninterest income (non-GAAP)	**$ 198,683**	$ 198,793	$ 195,905	$ 195,139	$ 202,686
Noninterest expense	**$ 347,554**	$ 337,280	$ 327,309	$ 304,415	$ 296,724
One-time items[a][c]	**(5,457)**	(6,220)	—	—	(700)
Core noninterest expense (non-GAAP)	**$ 342,097**	$ 331,060	$ 327,309	$ 304,415	$ 296,024
Net income	**$ 183,682**	$ 230,178	$ 213,780	$ 216,672	$ 214,514
Accounting change (ASC 310 adjustment)	**—**	—	—	—	(4,250)
Early buyout on lease	**—**	—	—	(3,071)	—
Early loan termination	**—**	—	(4,836)	—	—
Gains on sale of securities	**—**	(4,566)	(7,737)	—	(226)
Gains on sale of stock (Visa/MasterCard)	**—**	(22,678)	(4,584)	(20,822)	(11,088)
Gains on sale of real estate and other assets	**(6,922)**	—	(3,414)	—	(445)
Other adjustments[b]	**—**	—	(7,471)	—	—
One-time items[c]	**5,457**	6,220	—	—	700
Tax Cuts and Jobs Act	**47,598**	—	—	—	—
Tax adjustments[d]	**551**	7,957	10,577	8,854	5,777
Total core adjustments	**46,684**	(13,067)	(17,465)	(15,039)	(9,532)
Core net income (non-GAAP)	**$ 230,366**	$ 217,111	$ 196,315	$ 201,633	$ 204,982
Core basic earnings per share (non-GAAP)	**$ 1.65**	$ 1.56	$ 1.41	$ 1.45	$ 1.47
Core diluted earnings per share (non-GAAP)	**$ 1.65**	$ 1.56	$ 1.41	$ 1.45	$ 1.47

(a) Adjustments that are not material to our financial results have not been presented for certain periods.

(b) Other adjustments include a one-time MasterCard signing bonus and a recovery of an investment that was previously written down.

(c) One-time items include salaries and benefits stemming from the Tax Act and initial public offering related costs.

(d) Represents the adjustments to net income, tax effected at the Company's effective tax rate for the respective period, exclusive of one-time Tax Act expense.

(2) Subsequent to the issuance of the Company's 2016 consolidated financial statements, the Company's management determined that certain expenses related to the card rewards program were incorrectly offset against credit and debit card fee income and credit card interchange assessment fees were incorrectly classified in card rewards program expenses versus credit and debit card fee income in the consolidated statements of income for the years ended December 31, 2013 through 2016. As a result, certain noninterest income and noninterest expense and core noninterest income and core noninterest expense amounts have been revised from the amounts previously reported to correct the classification errors. There was no change to net income or earnings per share as previously reported as a result of these errors. Management has evaluated the materiality of these errors on its prior period financial statements from a quantitative and qualitative perspective, and has concluded that these errors were not material to any prior annual period. See Note 1 to the Company's consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

The amounts on prior period financial information that have been revised are summarized below:

(dollars in thousands)	For the Year Ended December 31, 2016	2015	2014	2013
Income Statement Data:				
Noninterest income as previously reported	$ 217,601	$ 211,403	$ 209,237	$ 208,393
Reclassification	8,436	7,708	6,724	6,052
Noninterest income as revised	$ 226,037	$ 219,111	$ 215,961	$ 214,445
Noninterest expense as previously reported	$ 328,844	$ 319,601	$ 297,691	$ 290,672
Reclassification	8,436	7,708	6,724	6,052
Noninterest expense as revised	$ 337,280	$ 327,309	$ 304,415	$ 296,724
Other Financial Information / Performance Ratios:				
Noninterest expense to average assets as previously reported	1.70 %	1.70 %	1.70 %	1.75 %
Reclassification	0.04 %	0.04 %	0.04 %	0.03 %
Noninterest expense to average assets as revised	1.74 %	1.74 %	1.74 %	1.78 %
Efficiency ratio as previously reported	46.36 %	47.50 %	45.58 %	44.90 %
Reclassification	0.63 %	0.60 %	0.56 %	0.51 %
Efficiency ratio as revised	46.99 %	48.10 %	46.14 %	45.41 %

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

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

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

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

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

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

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

(10) Beginning in 2015, regulatory capital ratios were reported using Basel III capital definitions, inclusive of transition provisions and Basel III risk-weighted assets. Our 2013-2014 capital ratios were reported using Basel I capital definitions, in which the common equity tier 1 capital ratio was not required. The change in our capital ratios from December 31, 2015 to December 31, 2016 was primarily due to distributions of $363.6 million made in connection with the Reorganization Transactions. The change in our capital ratios from December 31, 2016 to December 31, 2017 was primarily due to a one-time charge to provision for income taxes of $47.6 million due to the revaluation of certain tax-related assets at the projected lower corporate tax rate resulting from the Tax Act.

(11) Return on average tangible assets, return on average tangible stockholders' equity, tangible stockholders' equity to tangible assets and tangible book value per share are non-GAAP financial measures. We compute our return on average tangible assets as the ratio of net income to average tangible assets, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from our average total assets. We compute our return on average tangible stockholders' equity as the ratio of net income to average tangible stockholders' equity, which is calculated by subtracting (and thereby effectively excluding) amounts related to the effect of goodwill from our average total stockholders' equity. We compute our tangible stockholders' equity to tangible assets as the ratio of tangible stockholders' equity to tangible assets, each of which we calculate by subtracting (and thereby effectively excluding) amounts related to our goodwill. We compute our tangible book value per share as the ratio of tangible stockholders' equity to diluted outstanding shares. We believe that these financial measures are useful for investors, regulators, management and others to evaluate financial performance and capital adequacy relative to other financial institutions. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP. The following table provides a reconciliation of these non-GAAP financial measures with their most closely related GAAP measures for the years indicated:

GAAP to Non-GAAP Reconciliation

	For the Years Ended December 31,				
(dollars in thousands, except per share data)	**2017**	2016	2015	2014	2013
Income Statement Data:					
Net income	**$ 183,682**	$ 230,178	$ 213,780	$ 216,672	$ 214,514
Average total stockholders' equity	**$ 2,538,341**	$ 2,568,219	$ 2,735,786	$ 2,698,395	$ 2,667,445
Less: average goodwill	**995,492**	995,492	995,492	995,492	995,492
Average tangible stockholders' equity	**$ 1,542,849**	$ 1,572,727	$ 1,740,294	$ 1,702,903	$ 1,671,953
Average total assets	**$ 19,942,807**	$ 19,334,653	$ 18,785,701	$ 17,493,170	$ 16,653,577
Less: average goodwill	**995,492**	995,492	995,492	995,492	995,492
Average tangible assets	**$ 18,947,315**	$ 18,339,161	$ 17,790,209	$ 16,497,678	$ 15,658,085
Return on average total stockholders' equity	**7.24 %**	8.96 %	7.81 %	8.03 %	8.04 %
Return on average tangible stockholders' equity (non-GAAP)	**11.91 %**	14.64 %	12.28 %	12.72 %	12.83 %
Return on average total assets	**0.92 %**	1.19 %	1.14 %	1.24 %	1.29 %
Return on average tangible assets (non-GAAP)	**0.97 %**	1.26 %	1.20 %	1.31 %	1.37 %
Average stockholders' equity to average assets	**12.73 %**	13.28 %	14.56 %	15.43 %	16.02 %
Average tangible stockholders' equity to average tangible assets (non-GAAP)	**8.14 %**	8.58 %	9.78 %	10.32 %	10.68 %

	December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Total stockholders' equity	**$ 2,532,551**	$ 2,476,485	$ 2,736,941	$ 2,675,040	$ 2,651,111
Less: goodwill	**995,492**	995,492	995,492	995,492	995,492
Tangible stockholders' equity	**$ 1,537,059**	$ 1,480,993	$ 1,741,449	$ 1,679,548	$ 1,655,619
Total assets	**$ 20,549,461**	$ 19,661,829	$ 19,352,681	$ 18,133,696	$ 17,118,777
Less: goodwill	**995,492**	995,492	995,492	995,492	995,492
Tangible assets	**$ 19,553,969**	$ 18,666,337	$ 18,357,189	$ 17,138,204	$ 16,123,285
Shares outstanding	**139,588,782**	139,530,654	139,459,620	139,459,620	139,459,620
Total stockholders' equity to total assets	**12.32 %**	12.60 %	14.14 %	14.75 %	15.49 %
Tangible stockholders' equity to tangible assets (non-GAAP)	**7.86 %**	7.93 %	9.49 %	9.80 %	10.27 %
Book value per share	**$ 18.14**	$ 17.75	$ 19.63	$ 19.18	$ 19.01
Tangible book value per share (non-GAAP)	**$ 11.01**	$ 10.61	$ 12.49	$ 12.04	$ 11.87

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

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

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including the following: the geographic concentration of our business; current and future economic and market conditions in the United States generally or in Hawaii, Guam and Saipan in particular; the effect of the current low interest rate environment or changes in interest rates on our business including our net interest income, net interest margin, the fair value of our investment securities, and our mortgage loan originations, mortgage servicing rights and mortgage loans held for sale; our inability to receive dividends from our bank, pay dividends to our common stockholders and satisfy obligations as they become due; the effects of geopolitical instability, including war, terrorist attacks, pandemics and man-made and natural disasters; our ability to maintain our bank's reputation; our ability to attract and retain skilled employees or changes in our management personnel; our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business; our ability to successfully develop and commercialize new or enhanced products and services; changes in the demand for our products and services; the effectiveness of our risk management and internal disclosure controls and procedures; any failure or interruption of our information and communications systems; our ability to identify and address cybersecurity risks; the effect of a material breach of, or disruption to, the security of any of our or our vendors' systems; the failure to properly use and protect our customer and employee information and data; our ability to keep pace with technological changes; our ability to attract and retain customer deposits; the effects of problems encountered by other financial institutions; our access to sources of liquidity and capital to address our liquidity needs; fluctuations in the fair value of our assets and liabilities and off-balance sheet exposures; the effects of the failure of any component of our business infrastructure provided by a third party; the impact of, and changes in, applicable laws, regulations and accounting standards and policies, including the enactment of the Tax Act (Public Law 115-97) on December 22, 2017; possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations; our likelihood of success in, and the impact of, litigation or regulatory actions; market perceptions associated with our separation from BNPP and other aspects of our business; contingent liabilities and unexpected tax liabilities that may be applicable to us as a result of the Reorganization Transactions; the effect of BNPP's beneficial ownership of our outstanding common stock and the control it retains over our business; our ability to retain service providers to perform oversight or control functions or services that have otherwise been performed in the past by affiliates of BNPP; the one-time and incremental costs of operating as a stand-alone public company; our ability to meet our obligations as a public company, including our obligations under Section 404 of the Sarbanes-Oxley Act of 2002; the fact that we are no longer an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies no longer apply to us; and damage to our reputation from any of the factors described above.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements set forth under "Item 1A. Risk Factors" in this Annual Report on Form 10-K. 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 majority-owned, indirect subsidiary of BNPP, a financial institution based in France. 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.

As of December 31, 2017, we were the largest full service bank headquartered in Hawaii as measured by assets, loans and leases, deposits and net income. As of December 31, 2017, we had $20.5 billion of assets, $12.3 billion of gross loans and leases and $17.6 billion of deposits. We also generated $183.7 million of net income or diluted earnings per share of $1.32 per share for the year ended December 31, 2017. We operate our business through three operating segments: Retail Banking, Commercial Banking and Treasury and Other. See “Note 22. Reportable Operating Segments” in our consolidated financial statements for more information.

Reorganization Transactions

On April 1, 2016, BNPP effected the Reorganization Transactions pursuant to which FHI, which was then known as BancWest, contributed BOW, its subsidiary at the time, to BWHI, a newly formed bank holding company and a wholly-owned subsidiary of BNPP. Upon formation, BWHI was a direct wholly-owned subsidiary of BancWest and, as part of the Reorganization Transactions, BancWest contributed 100% of its interest in BOW to BWHI. Following the contribution of BOW to BWHI, BancWest distributed its interest in BWHI to BNPP, and BWHI became a wholly-owned subsidiary of BNPP. As part of these transactions, we amended our certificate of incorporation to change our name to First Hawaiian, Inc., with the Bank remaining our only direct wholly-owned subsidiary.

The Reorganization Transactions were made in connection with our transition to a stand-alone public company and our separation from BNPP. On July 1, 2016, in order to comply with the Federal Reserve’s requirement (under Regulation YY) applicable to BNPP that a foreign banking organization with $50 billion or more in U.S. non-branch assets as of June 30, 2015 establish a U.S. intermediate holding company and hold its interest in the substantial majority of its U.S. subsidiaries through the intermediate holding company by July 1, 2016, we became an indirect wholly-owned subsidiary of BNP Paribas USA, BNPP’s U.S. intermediate holding company. As part of that reorganization, we became a direct wholly-owned subsidiary of BWC, the BNPP selling stockholder and a direct wholly-owned subsidiary of BNP Paribas USA.

Public Offerings and Separation from BNPP

Shares of FHI’s common stock began trading on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “FHB” on August 4, 2016. In August 2016, FHI completed its initial public offering (“IPO”) of 24,250,000 shares of common stock sold by BWC. In February 2017, BWC sold an additional 28,750,000 shares of FHI common stock in a secondary offering. FHI did not receive any of the proceeds from the two sales of shares of its common stock by BWC. BNPP is the beneficial owner of approximately 62% of FHI’s common stock as of December 31, 2017.

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

Basis of Presentation

For periods prior to April 1, 2016, the financial operations, assets and liabilities of BancWest (now known as First Hawaiian, Inc.) related to FHB (and not BOW) have been combined with FHB and are presented on a basis of accounting that reflects a change in reporting entity as if we were a separate stand-alone entity for all periods presented. The accompanying consolidated financial statements include allocations of certain assets of BancWest as agreed to by the parties and also certain expenses amounting to approximately $5.8 million and $18.8 million for the years ended December 31, 2016 and 2015, respectively, specifically applicable to the operations of BancWest related to FHB through the date of the Reorganization Transactions. Management believes these allocations are reasonable. Prior to April 1, 2016, the residual revenues and expenses not included in our consolidated financial statements represent those directly related to BWHI and BOW. The allocated expenses included in our consolidated financial statements, residual revenues and expenses are not necessarily indicative of the financial position or results of operations of our company if we had operated as a stand-alone public entity during the reporting periods prior to April 1, 2016 and may not be indicative of our company's future results of operations and financial condition.

Upon completion of the Reorganization Transactions on April 1, 2016, the consolidated financial statements of the Company reflected the results of operations, financial position and cash flows of FHI and its wholly-owned subsidiary, FHB. All significant intercompany account balances and transactions have been eliminated in consolidation. The consolidated financial statements do not reflect any changes that may occur in our operations and expenses as a result of the Reorganization Transactions or our IPO.

Hawaii Economy

Hawaii's economy continued to perform well during the year ended December 31, 2017, led in large part by a strong tourism industry, real estate and labor market conditions and growth in personal income and tax revenues. Hawaii's tourism industry remained robust, achieving new records in 2017 in visitor arrivals and spending. Visitor arrivals for the year ended December 31, 2017 increased by 5.0% compared to 2016, and total visitor spending for the year ended December 31, 2017 increased by 6.2% compared to 2016 according to the Hawaii Tourism Authority. Visitor arrivals and spending increased, in particular, from U.S. mainland, Canadian and Japanese visitors. The statewide seasonally-adjusted unemployment rate was 2.0% in December 2017 compared to 2.9% in December 2016 according to the Hawaii State Department of Labor & Industrial Relations. The national seasonally-adjusted unemployment rate was 4.1% in December 2017 compared to 4.7% in December 2016. With regards to housing, the volume of single-family home sales on Oahu increased by 6.3% for the year ended December 31, 2017 compared to 2016, while the volume of condominium sales on Oahu increased by 6.9% for the year ended December 31, 2017 compared to 2016 according to the Honolulu Board of Realtors. Likewise, the median price of single-family home sales and condominium sales on Oahu was $755,000 and $405,000, respectively, or an increase of 2.7% and 3.8%, respectively, for the year ended December 31, 2017 compared to 2016. As of December 31, 2017, months of inventory of single family homes and condominiums on Oahu remained low at approximately 2.1 months and 2.3 months, respectively. Lastly, state general excise and use tax revenues increased by 4.5% for the year ended December 31, 2017 compared to 2016 according to the Hawaii Department of Taxation.

Hawaii's economy continued to grow during 2017, but is significantly dependent on U.S. mainland economic conditions as well as key international economies, particularly Japan. We continue to monitor construction activity in Hawaii and the local economy's ability to absorb further planned expansion given deteriorating home affordability, tourism in Hawaii, the movement of interest rates in the U.S., the agenda of the U.S. administration and its impact on existing banking regulations, changes in Japan's economic conditions including the exchange rate of its currency, and the economic and regulatory conditions of the European Union, as such factors could impact our profitability in future reporting periods.

Financial Highlights

Net income was $183.7 million for the year ended December 31, 2017, a decrease of $46.5 million or 20% as compared to the same period in 2016. Basic and diluted earnings per share were $1.32 for the year ended December 31, 2017, a decrease of $0.33 or 20% as compared to the same period in 2016. The decrease was primarily due to an increase in the provision for income taxes, a decrease in noninterest income, an increase in noninterest expense and an increase in the Provision, partially offset by an increase in net interest income.

Net income for the year ended December 31, 2017 was negatively impacted by a $47.6 million increase in the provision for income taxes as a result of the Tax Act. Core net income was $230.4 million for the year ended December 31, 2017, an increase of $13.3 million or 6% as compared to the same period in 2016. Core basic and diluted earnings per share were $1.65 for the year ended December 31, 2017, an increase of $0.09 or 6% as compared to the same period in 2016. Core net income and core basic and diluted earnings per share are non-GAAP financial measures. For a reconciliation to the most directly comparable GAAP financial measures for core net income and core basic and diluted earnings per share, see "Item 6. Selected Financial Data - GAAP to Non-GAAP Reconciliation".

Net income was $230.2 million for the year ended December 31, 2016, an increase of $16.4 million or 8% as compared to the same period in 2015. Basic and diluted earnings per share were $1.65 for the year ended December 31, 2016, an increase of $0.12 or 8% as compared to the same period in 2015. The increase was primarily due to an increase in net interest income, an increase in noninterest income and a decrease in the Provision. This was partially offset by an increase in both the provision for income taxes and noninterest expense for the year ended December 31, 2016 as compared to the same period in 2015.

Our return on average total assets was 0.92% for the year ended December 31, 2017, a decrease of 27 basis points as compared to the same period in 2016, and our return on average total stockholders' equity was 7.24% for the year ended December 31, 2017, a decrease of 172 basis points as compared to the same period in 2016. Our return on average tangible assets was 0.97% for the year ended December 31, 2017, a decrease of 29 basis points as compared to the same period in 2016, and our return on average tangible stockholders' equity was 11.91% for the year ended December 31, 2017, a decrease of 273 basis points as compared to the same period in 2016. We continued to prudently manage our expenses as our efficiency ratio was 47.32% for the year ended December 31, 2017 as compared to 46.99% for the same period in 2016. The efficiency ratio for the year ended December 31, 2016 was favorably impacted by net gains on the sale of investment securities of $27.3 million. Return on average tangible assets and return on average tangible stockholders' equity are non-GAAP financial measures. For a reconciliation to the most directly comparable GAAP financial measures for return on average tangible assets and return on average tangible stockholders' equity, see "Item 6. Selected Financial Data - GAAP to Non-GAAP Reconciliation".

Our return on average total assets was 1.19% for the year ended December 31, 2016, an increase of five basis points as compared to the same period in 2015, and our return on average total stockholders' equity was 8.96% for the year ended December 31, 2016, an increase of 115 basis points as compared to the same period in 2015. Our return on average tangible assets was 1.26% for the year ended December 31, 2016, an increase of six basis points as compared to the same period in 2015, and our return on average tangible stockholders' equity was 14.64% for the year ended December 31, 2016, an increase of 236 basis points as compared to the same period in 2015. We continued to manage our expenses as our efficiency ratio was 46.99% for the year ended December 31, 2016 as compared to 48.10% for the same period in 2015. Return on average tangible assets and return on average tangible stockholders' equity are non-GAAP financial measures. For a reconciliation to the most directly comparable GAAP financial measures for return on average tangible assets and return on average tangible stockholders' equity, see "Item 6. Selected Financial Data - GAAP to Non-GAAP Reconciliation".

Our results for the year ended December 31, 2017 were highlighted by the following:

- Net interest income was $528.8 million for the year ended December 31, 2017, an increase of $37.1 million or 8% as compared to the same period in 2016. Our net interest margin was 2.99% for the year ended December 31, 2017, an increase of 11 basis points as compared to the same period in 2016. The increase in net interest income was primarily due to strong loan growth and an increase in average balances and yields on our investment securities portfolio. This was partially offset by higher average balances in interest-bearing deposits at higher rates.

- The Provision was $18.5 million for the year ended December 31, 2017, an increase of $9.9 million as compared to the same period in 2016. The increase in the Provision maintained the Allowance at levels deemed adequate to cover probable incurred credit losses as of the balance sheet date.

- Noninterest income was $205.6 million for the year ended December 31, 2017, a decrease of $20.4 million or 9% as compared to the same period in 2016. The decrease was primarily due to a $22.7 million net gain on the sale of 274,000 shares of our Visa Class B restricted shares during the year ended December 31, 2016 that did not recur in 2017, partially offset by an $11.6 million increase in other noninterest income.

- Noninterest expense was $347.6 million for the year ended December 31, 2017, an increase of $10.3 million or 3% as compared to the same period in 2016. The increase in noninterest expense was primarily due to a $6.1 million increase in salaries and employee benefits, a $1.9 million increase in regulatory assessment and fees and a $1.9 million increase in occupancy expenses.

Our results for the year ended December 31, 2016 were highlighted by the following:

- Net interest income was $491.7 million for the year ended December 31, 2016, an increase of $30.3 million or 7% as compared to the same period in 2015. Our net interest margin was 2.88% for the year ended December 31, 2016, an increase of 10 basis points as compared to the same period in 2015. The increase in net interest income was primarily due to strong loan growth and an increase in yields on our investment securities portfolio, partially offset by lower yields from our loans and leases, lower average balances of investment securities and higher deposit funding costs.

- The Provision was $8.6 million for the year ended December 31, 2016, a decrease of $1.3 million or 13% as compared to the same period in 2015. While we have experienced strong loan growth over the past year, nonperforming assets have continued to decrease.

- Noninterest income was $226.0 million for the year ended December 31, 2016, an increase of $6.9 million or 3% as compared to the same period in 2015. The increase was primarily due to a $15.0 million increase in net gains on the sale of investment securities and higher bank-owned life insurance ("BOLI") income of $5.0 million, partially offset by a $7.2 million decrease in other noninterest income. We recorded a net gain of $22.7 million related to the sale of 274,000 shares of our Visa Class B restricted shares during the year ended December 31, 2016.

- Noninterest expense was $337.3 million for the year ended December 31, 2016, an increase of $10.0 million or 3% as compared to the same period in 2015. The increase in noninterest expense was primarily due to a $3.5 million increase in regulatory assessment and fees, a $3.2 million increase in occupancy expenses and a $2.7 million increase in contracted services and professional fees.

During 2017, we continued to experience strong loan growth and invested our excess liquidity in high-grade investment securities. Our deposit balances also continued to increase in 2017 with a shift towards higher earning products for our customers. We also continued to maintain adequate reserves for credit losses and high levels of liquidity and capital.

- Total loans and leases were $12.3 billion as of December 31, 2017, an increase of $757.0 million or 7% as compared to December 31, 2016. Growth was particularly strong in our commercial real estate and residential real estate mortgage portfolios. This was a reflection of a strong Hawaii economy, an increase in statewide personal income, low unemployment rates and demand for more urban housing developments.

- The Allowance was $137.3 million as of December 31, 2017, an increase of $1.8 million or 1% from December 31, 2016. The ratio of our Allowance to total loans and leases outstanding decreased to 1.12% as of December 31, 2017, compared to 1.18% as of December 31, 2016. The Allowance was commensurate with our stable credit risk profile, loan portfolio growth and composition and a strong Hawaii economy.

- We continued to invest excess liquidity in high-grade investment securities, primarily collateralized mortgage obligations issued by the Government National Mortgage Association ("Ginnie Mae"). The total carrying value of our investment securities portfolio was $5.2 billion as of December 31, 2017, an increase of $157.1 million or 3% compared to December 31, 2016.

- Total deposits were $17.6 billion as of December 31, 2017, an increase of $817.6 million or 5% from December 31, 2016. Increases in time, money market and demand deposit balances were partially offset by a decrease in savings deposit balances.

- Finally, total stockholders’ equity was $2.5 billion as of December 31, 2017, an increase of $56.1 million or 2% from December 31, 2016. The increase in stockholders’ equity was primarily due to earnings for the year of $183.7 million, partially offset by cash dividends declared and paid of $122.8 million.

Analysis of Results of Operations

Net Interest Income

For the years ended December 31, 2017, 2016 and 2015, average balances, related income and expenses, on a fully taxable-equivalent basis, and resulting yields and rates are presented in Table 1. An analysis of the change in net interest income, on a fully taxable-equivalent basis, is presented in Table 2.

Average Balances and Interest Rates **Table 1**

	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
(dollars in millions)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets									
Interest-Bearing Deposits in Other Banks	$ 507.3	$ 5.5	1.09 %	$ 1,368.9	$ 7.1	0.52 %	$ 1,651.9	$ 4.5	0.27 %
Available-for-Sale Investment Securities	5,201.5	102.3	1.97	4,549.0	83.0	1.82	4,665.0	73.6	1.58
Loans Held for Sale	—	—	—	—	—	—	5.1	0.2	3.92
Loans and Leases[1]									
Commercial and industrial	3,230.2	103.6	3.21	3,229.5	96.0	2.97	2,869.8	83.9	2.92
Real estate - commercial	2,643.6	96.7	3.66	2,313.0	86.0	3.72	2,156.2	81.6	3.78
Real estate - construction	537.8	18.6	3.45	436.4	14.2	3.26	371.9	12.4	3.33
Real estate - residential	3,821.5	155.8	4.08	3,553.6	145.9	4.10	3,383.6	144.7	4.28
Consumer	1,540.0	83.1	5.40	1,454.4	80.9	5.56	1,299.2	76.6	5.90
Lease financing	171.5	4.9	2.87	188.3	5.4	2.86	217.1	6.3	2.90
Total Loans and Leases	11,944.6	462.7	3.87	11,175.2	428.4	3.83	10,297.8	405.5	3.94
Other Earning Assets	27.5	0.3	1.04	—	—	—	—	—	—
Total Earning Assets[2]	17,680.9	570.8	3.23	17,093.1	518.5	3.03	16,619.8	483.8	2.91
Cash and Due from Banks	321.4			289.9			284.3		
Other Assets	1,940.5			1,951.7			1,881.6		
Total Assets	$ 19,942.8			$ 19,334.7			$ 18,785.7		
Interest-Bearing Liabilities									
Interest-Bearing Deposits									
Savings	$ 4,475.2	$ 3.9	0.09 %	$ 4,390.3	$ 2.6	0.06 %	$ 4,172.1	$ 1.7	0.04 %
Money Market	2,576.0	3.3	0.13	2,478.4	2.3	0.09	2,384.8	2.2	0.09
Time	4,096.4	34.8	0.85	3,817.6	21.7	0.57	3,730.2	18.4	0.49
Total Interest-Bearing Deposits	11,147.6	42.0	0.38	10,686.3	26.6	0.25	10,287.1	22.3	0.22
Short-Term Borrowings	2.2	—	0.80	113.6	0.2	0.17	381.6	0.2	0.05
Total Interest-Bearing Liabilities	11,149.8	42.0	0.38	10,799.9	26.8	0.25	10,668.7	22.5	0.21
Net Interest Income		$ 528.8			$ 491.7			$ 461.3	
Interest Rate Spread			2.85 %			2.78 %			2.70 %
Net Interest Margin			2.99 %			2.88 %			2.78 %
Noninterest-Bearing Demand Deposits	5,868.8			5,589.5			5,032.1		
Other Liabilities	385.9			377.1			349.1		
Stockholders' Equity	2,538.3			2,568.2			2,735.8		
Total Liabilities and Stockholders' Equity	$ 19,942.8			$ 19,334.7			$ 18,785.7		

(1) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.
(2) For the years ended December 31, 2017 and 2016, the taxable-equivalent basis adjustments made to the table above were not material.

Analysis of Change in Net Interest Income **Table 2**

(dollars in millions)	Year Ended December 31, 2017 Compared to December 31, 2016 Volume	Rate	Total(1)	Year Ended December 31, 2016 Compared to December 31, 2015 Volume	Rate	Total(1)
Change in Interest Income:						
Interest-Bearing Deposits in Other Banks	**$ (6.3)**	**$ 4.7**	**$ (1.6)**	$ (0.8)	$ 3.3	$ 2.5
Available-for-Sale Investment Securities	**12.5**	**6.8**	**19.3**	(1.9)	11.3	9.4
Loans Held for Sale	**—**	**—**	**—**	(0.2)	—	(0.2)
Loans and Leases						
Commercial and industrial	**—**	**7.6**	**7.6**	10.7	1.4	12.1
Real estate - commercial	**12.1**	**(1.5)**	**10.6**	5.9	(1.5)	4.4
Real estate - construction	**3.5**	**0.9**	**4.4**	2.1	(0.3)	1.8
Real estate - residential	**10.9**	**(1.0)**	**9.9**	7.1	(5.9)	1.2
Consumer	**4.7**	**(2.5)**	**2.2**	8.8	(4.5)	4.3
Lease financing	**(0.5)**	**—**	**(0.5)**	(0.8)	(0.1)	(0.9)
Total Loans and Leases	**30.7**	**3.5**	**34.2**	33.8	(10.9)	22.9
Other Earning Assets	**0.3**	**—**	**0.3**	—	—	—
Total Change in Interest Income	**37.2**	**15.0**	**52.2**	30.9	3.7	34.6
Change in Interest Expense:						
Interest-Bearing Deposits						
Savings	**—**	**1.2**	**1.2**	0.1	0.8	0.9
Money Market	**0.1**	**0.9**	**1.0**	0.1	—	0.1
Time	**1.7**	**11.4**	**13.1**	0.4	2.9	3.3
Total Interest-Bearing Deposits	**1.8**	**13.5**	**15.3**	0.6	3.7	4.3
Short-Term Borrowings	**(0.4)**	**0.2**	**(0.2)**	(0.2)	0.2	—
Total Change in Interest Expense	**1.4**	**13.7**	**15.1**	0.4	3.9	4.3
Change in Net Interest Income	**$ 35.8**	**$ 1.3**	**$ 37.1**	$ 30.5	$ (0.2)	$ 30.3

(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 $528.8 million for the year ended December 31, 2017, an increase of $37.1 million or 8% as compared to the same period in 2016. Our net interest margin was 2.99% for the year ended December 31, 2017, an increase of 11 basis points as compared to the same period in 2016. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances in all loan categories except lease financing and higher average balances and yields in our investment securities portfolio. This was partially offset by higher average balances in interest-bearing deposits and higher deposit funding costs. For the year ended December 31, 2017, the average balance of our loans and leases was $11.9 billion, an increase of $769.4 million or 7% compared to the same period in 2016. The higher average balance in loans and leases was primarily due to strong growth in our commercial real estate, construction, residential real estate and consumer lending portfolios. For the year ended December 31, 2017, yields on our investment securities portfolio were 1.97%, an increase of 15 basis points from the same period in 2016. The average balance of our investment securities portfolio increased $652.5 million or 14% to $5.2 billion. Yields on our loans and leases were 3.87% for the year ended December 31, 2017, an increase of four basis points as compared to the same period in 2016. Deposit funding costs were $42.0 million for the year ended December 31, 2017, an increase of $15.4 million or 58% compared to the same period in 2016. Rates paid on our interest-bearing deposits were 38 basis points for the year ended December 31, 2017, an increase of 13 basis points from the same period in 2016.

Net interest income, on a fully taxable-equivalent basis, was $491.7 million for the year ended December 31, 2016, an increase of $30.3 million or 7% as compared to the same period in 2015. Our net interest margin was 2.88% for the year ended December 31, 2016, an increase of ten basis points as compared to the same period in 2015. The increase in net interest income, on a fully taxable-equivalent basis, was primarily due to higher average balances in all loan categories except lease financing and higher yields in our investment securities portfolio. This was partially offset by lower average balances in investment securities, lower yields on our loans and higher deposit funding costs. For the year ended December 31, 2016, the average balance of our loans and leases was $11.2 billion, an increase of $877.4 million or 9% compared to the same period in 2015. The higher average balance in loans and leases was primarily due to strong growth in our commercial and industrial, commercial real estate, consumer and residential real estate lending portfolios. For the year ended December 31, 2016, yields on our investment securities portfolio were 1.82%, an increase of 24 basis points from the same period in 2015. This was partially offset by a $116.0 million or 2% decrease in the average balance of our investment securities portfolio. Yields on our loans and leases were 3.83% for the year ended December 31, 2016, a decrease of 11 basis points as compared to the same period in 2015. We experienced a decrease in yields in nearly all of our loan categories as loans that paid-off were generally replaced with new originations at lower yields. Deposit funding costs were $26.6 million for the year ended December 31, 2016, an increase of $4.3 million or 19% compared to the same period in 2015. Rates paid on our interest-bearing deposits were 25 basis points for the year ended December 31, 2016, an increase of three basis points from the same period in 2015.

Provision for Loan and Lease Losses

The Provision was $18.5 million for the year ended December 31, 2017, which represented an increase of $9.9 million compared to the same period in 2016. We recorded net charge-offs of $16.7 million and $8.6 million for the years ended December 31, 2017 and 2016, respectively. This represented net charge-offs of 0.14% and 0.08% of total average loans and leases for the years ended December 31, 2017 and 2016, respectively. The Allowance was $137.3 million and $135.5 million as of December 31, 2017 and 2016, respectively, and represented 1.12% of total outstanding loans and leases as of December 31, 2017, compared to 1.18% of total outstanding loans and leases as of December 31, 2016. The Provision is recorded to maintain the Allowance at levels deemed adequate by management based on the factors noted in the "Risk Governance and Quantitative and Qualitative Disclosures About Market Risk — Credit Risk" section of this MD&A.

Noninterest Income

Table 3 presents the major components of noninterest income for the years ended December 31, 2017, 2016 and 2015:

Noninterest Income **Table 3**

	Year Ended December 31,			Change		Change	
(dollars in thousands)	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Service charges on deposit accounts[(1)]	**$ 35,807**	$ 37,392	$ 40,058	$ (1,585)	(4) %	$ (2,666)	(7) %
Credit and debit card fees[(1)]	**64,049**	65,262	64,916	(1,213)	(2)	346	1
Other service charges and fees	**34,063**	35,355	38,641	(1,292)	(4)	(3,286)	(9)
Trust and investment services income	**30,485**	29,440	29,671	1,045	4	(231)	(1)
Bank-owned life insurance	**13,283**	15,021	9,976	(1,738)	(12)	5,045	51
Investment securities gains, net	**—**	27,277	12,321	(27,277)	n.m.	14,956	n.m.
Other	**27,918**	16,290	23,528	11,628	71	(7,238)	(31)
Total noninterest income	**$205,605**	$226,037	$219,111	$(20,432)	(9) %	$ 6,926	3 %

n.m. – Denotes a variance that is not a meaningful metric to inform the change in noninterest income from the year ended December 31, 2016 to the same period in 2017 and from the year ended December 31, 2015 to the same period in 2016.

(1) Certain prior period noninterest income and noninterest expense amounts have been revised from the amounts previously reported to conform with the current year's presentations. For the year ended December 31, 2016, service charges on deposit accounts were overstated by $0.8 million and credit and debit card fees were understated by $9.2 million. For the year ended December 31, 2015, service charges on deposit accounts were overstated by $0.8 million and credit and debit card fees were understated by $8.5 million. For further information, see footnote 2 to Item 6. Selected Financial Data – Financial Highlights.

Total noninterest income was $205.6 million for the year ended December 31, 2017, a decrease of $20.4 million or 9% as compared to the same period in 2016. Total noninterest income was $226.0 million for the year ended December 31, 2016, an increase of $6.9 million or 3% as compared to the same period in 2015.

Service charges on deposit accounts were $35.8 million for the year ended December 31, 2017, a decrease of $1.6 million or 4% as compared to the same period in 2016. This decrease was primarily due to a $1.8 million decrease in account analysis service charges due to both higher balances in business accounts and higher credit rates, which resulted in higher earning credits that offset fee income, partially offset by a $0.3 million increase in overdraft and checking account fees from lower average transactional account balances during the year ended December 31, 2017. Service charges on deposit accounts were $37.4 million for the year ended December 31, 2016, a decrease of $2.7 million or 7% as compared to the same period in 2015. This decrease was primarily due to a $1.7 million decrease in overdraft fees from higher average transactional account balances during the year ended December 31, 2016 and a $0.6 million decrease in service charges from account analysis services due to higher balances in business accounts, which resulted in higher earning credits that offset fee income.

Credit and debit card fees were $64.0 million for the year ended December 31, 2017, a decrease of $1.2 million or 2% as compared to the same period in 2016. This decrease was primarily due to a $2.9 million decrease in interchange settlement fees, a $1.0 million decrease in network association dues and a $0.3 million decrease in rental fees from credit card terminals, partially offset by an increase of $2.9 million in merchant service revenues. Credit and debit card fees were $65.3 million for the year ended December 31, 2016, an increase of $0.3 million or 1% as compared to the same period in 2015.

Other service charges and fees were $34.1 million for the year ended December 31, 2017, a decrease of $1.3 million or 4% as compared to the same period in 2016. This decrease was primarily due to a $1.2 million decrease in residential mortgage loan servicing fees. Other service charges and fees were $35.4 million for the year ended December 31, 2016, a decrease of $3.3 million or 9% as compared to the same period in 2015. This decrease was primarily due to a $3.2 million decrease in fees from servicing BOW credit cards which ended in November 2015, a $1.0 million decrease in residential mortgage loan servicing fees and a $0.5 million decrease in insurance income, partially offset by a $0.6 million increase in fee income from our cash management services and a $0.4 million increase in fees from annuities and securities.

Trust and investment services income was $30.5 million for the year ended December 31, 2017, an increase of $1.0 million or 4% as compared to the same period in 2016. This increase was primarily due to a $0.3 million increase in irrevocable trust fees, a $0.3 million increase in business cash management fees, a $0.2 million increase in investment management fees and a $0.2 million increase in corporate trust and agency fees. Trust and investment services income was $29.4 million for the year ended December 31, 2016, a decrease of $0.2 million or 1% as compared to the same period in 2015. This decrease was primarily due to a $0.6 million decrease in irrevocable trust fees and a $0.1 million decrease in pension plan fees, partially offset by a $0.4 million increase in corporate trust and agency fees.

BOLI income was $13.3 million for the year ended December 31, 2017, a decrease of $1.7 million or 12% as compared to the same period in 2016. This decrease was primarily due to a $2.5 million decrease in death benefits received, partially offset by a $0.8 million increase in BOLI earnings. BOLI income was $15.0 million for the year ended December 31, 2016, an increase of $5.0 million or 51% as compared to the same period in 2015. The increase was primarily due to death benefits of $3.9 million as well as earnings during this period.

Net gains on the sale of investment securities were nil for the year ended December 31, 2017, a decrease of $27.3 million as compared to the same period in 2016. Net gains on the sale of investment securities for the year ended December 31, 2016 were primarily due to a $22.7 million net gain on the sale of 274,000 Visa Class B restricted shares. Net gains on the sale of investment securities were $27.3 million for the year ended December 31, 2016, an increase of $15.0 million as compared to the same period in 2015. Net gains in 2015 included the sale of our remaining shares in MasterCard for $4.6 million as well as net gains of $7.7 million related to our sale of U.S. Treasury Notes.

Other noninterest income was $27.9 million for the year ended December 31, 2017, an increase of $11.6 million or 71% as compared to the same period in 2016. The increase in other noninterest income was primarily due to a $6.9 million gain on the sale of real estate, a $3.9 million increase in income due to adjustments to certain liabilities assumed as a result of the Reorganization Transactions and the signing of the Tax Act, a $1.2 million increase in vendor bonuses received, a $1.1 million decrease in the amortization of mortgage servicing rights and a $1.0 million increase related to insurance proceeds from severe weather which affected the Hawaiian Islands. This was partially offset by $2.4 million decrease in recoveries on loans in excess of amounts previously charged-off for the year ended December 31, 2017 as compared to the same period in 2016. Other noninterest income was $16.3 million for the year ended December 31, 2016, a decrease of $7.2 million or 31% as compared to the same period in 2015. The decrease in other noninterest income was primarily due to a $5.3 million decrease from a vendor bonus received in 2015, a $2.9 million decrease in income from a previously written-down investment security, a $2.7 million decrease in gains on the sale of mortgage loans as a result of our decision to temporarily discontinue the sale of residential real estate loans to government-sponsored enterprises and a $1.7 million decrease due to the recoveries from various bank operations in 2015. This was partially offset by a $3.8 million increase in customer-related interest rate swap fees.

Noninterest Expense

Table 4 presents the major components of noninterest expense for the years ended December 31, 2017, 2016 and 2015:

Noninterest Expense **Table 4**

(dollars in thousands)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016		Change 2016 vs. 2015	
Salaries and employee benefits	**$175,351**	$169,233	$170,233	$ 6,118	4 %	$(1,000)	(1)%
Contracted services and professional fees	**45,011**	45,345	42,663	(334)	(1)	2,682	6
Occupancy[(1)]	**23,485**	21,606	18,401	1,879	9	3,205	17
Equipment	**17,247**	16,912	15,836	335	2	1,076	7
Regulatory assessment and fees	**14,907**	12,972	9,490	1,935	15	3,482	37
Advertising and marketing	**6,191**	6,127	5,472	64	1	655	12
Card rewards program[(1)]	**23,363**	22,459	23,969	904	4	(1,510)	(6)
Other	**41,999**	42,626	41,245	(627)	(1)	1,381	3
Total noninterest expense	**$347,554**	$337,280	$327,309	$10,274	3 %	$ 9,971	3 %

(1) Certain prior period noninterest income and noninterest expense amounts have been revised from the amounts previously reported to conform with the current year's presentations. For the year ended December 31, 2016, occupancy was understated by $1.5 million and card rewards program was understated by $6.9 million. For the year ended December 31, 2015, occupancy was understated by $1.4 million and card rewards program was understated by $6.3 million. For further information, see footnote 2 to Item 6. Selected Financial Data – Financial Highlights.

Total noninterest expense was $347.6 million for the year ended December 31, 2017, an increase of $10.3 million or 3% as compared to the same period in 2016. Total noninterest expense was $337.3 million for the year ended year ended December 31, 2016, an increase of $10.0 million or 3% from the same period in 2015.

Salaries and employee benefits expense was $175.4 million for the year ended December 31, 2017, an increase of $6.1 million or 4% as compared to the same period in 2016. This increase was primarily due to an $8.3 million increase in base salaries and related payroll taxes, a $2.2 million increase in other compensation, primarily related to bonuses to employees due to the benefits from the Tax Act being passed in December 2017 and an $0.8 million increase in group health plan costs. This was partially offset by a $3.5 million increase in deferred loan origination costs and a $2.7 million decrease in incentive compensation. Salaries and employee benefits expense was $169.2 million for the year ended December 31, 2016, a decrease of $1.0 million or 1% from the same period in 2015. This decrease was primarily due to a $4.5 million decrease in base salaries primarily due to reimbursements from an affiliate related to CCAR requirements, a $3.3 million increase in deferred loan origination costs and a $1.4 million decrease in retirement plan expenses. This was partially offset by a $3.2 million increase in other compensation, primarily related to bonuses resulting from the initial public offering, a $3.0 million increase in incentive compensation and a $1.6 million increase in group health plan costs.

Contracted services and professional fees were $45.0 million for the year ended December 31, 2017, a decrease of $0.3 million or 1% as compared to the same period in 2016. Contracted services and professional fees were $45.3 million for the year ended December 31, 2016, an increase of $2.7 million or 6% from the same period in 2015. This increase was due to a $5.2 million increase in audit, legal and consultant fees and a $3.1 million increase in outside services, primarily attributable to marketing and rebranding services. This was partially offset by a $5.7 million decrease in reimbursements from an affiliate related to CCAR expenses.

Occupancy expense was $23.5 million for the year ended December 31, 2017, an increase of $1.9 million or 9% as compared to the same period in 2016. This increase was primarily due to a $1.6 million decrease in net sublease rental income and a $0.3 million increase in building maintenance expense. Occupancy expense was $21.6 million for the year ended December 31, 2016, an increase of $3.2 million or 17% from the same period in 2015. This increase was primarily due to a $1.4 million decrease in net sublease rental income and a $1.3 million increase in utilities expenses.

Equipment expense was $17.2 million for the year ended December 31, 2017, an increase of $0.3 million or 2% as compared to the same period in 2016. Equipment expense was $16.9 million for the year ended December 31, 2016, an increase of $1.1 million or 7% from the same period in 2015. This increase was primarily due to a $1.4 million increase in service contracts expense.

Regulatory assessment and fees were $14.9 million for the year ended December 31, 2017, an increase of $1.9 million or 15% as compared to the same period in 2016. This increase was primarily due to twelve months under that change in the calculation of the FDIC insurance assessment and adoption of an additional surcharge, which resulted in a higher insurance rate, as well as a higher assessment base (i.e., average total assets), compared to only six months under the new calculation for the year ended December 31, 2016. Regulatory assessment and fees were $13.0 million for the year ended December 31, 2016, an increase of $3.5 million or 37% from the same period in 2015. This increase was primarily due to a change in the calculation of the FDIC insurance assessment and adoption of an additional surcharge, which resulted in a higher insurance rate, as well as a higher assessment base.

Card rewards program expense was $23.4 million for the year ended December 31, 2017, an increase of $0.9 million or 4% as compared to the same period in 2016. This increase was primarily due to a change in terms related to the expiration of our debit card reward points recorded during 2017. Card rewards program expense was $22.5 million for the year ended December 31, 2016, a decrease of $1.5 million or 6% from the same period in 2015. This decrease was primarily due to a change in terms related to the expiration of our debit card reward points recorded during the year ended December 31, 2016.

Other noninterest expense was $42.0 million for the year ended December 31, 2017, a decrease of $0.6 million or 1% as compared to the same period in 2016. This decrease was primarily due to a $1.0 million decrease in operational losses (which includes losses as a result of bank error, fraud, items processing, or theft), a $0.7 million decrease in expenses related to clean-up and repairs from severe weather which affected the Hawaiian Islands in 2016, a $0.4 million decrease in telephone expenses and a $0.4 million decrease in travel expenses. This was partially offset by a $1.2 million increase in software amortization expense and an $0.8 million increase in insurance expense as a result of higher rates due to our transition to a stand-alone public company. Other noninterest expense was $42.6 million for the year ended December 31, 2016, an increase of $1.4 million or 3% as compared to the same period in 2015. This increase was primarily due to a $1.0 million increase in expenses related to clean-up and repairs from severe weather which affected the Hawaiian Islands, a $0.9 million increase in software depreciation, a $0.5 million increase in operational losses and a $0.4 million increase in supplies related to chip-embedded credit cards. This was partially offset by a $1.9 million decrease in mortgage loan charges.

Provision for Income Taxes

The provision for income taxes was $184.7 million (reflecting an effective tax rate of 50.13%) for the year ended December 31, 2017, compared with a provision for income taxes of $141.7 million (reflecting an effective tax rate of 38.10%) for the same period in 2016. The increase in the provision for income taxes was due to the impact of the Tax Act that was signed into law on December 22, 2017, which reduced the corporate tax rate from 35% to 21%. The reduction in the corporate tax rate required a one-time revaluation of certain tax-related assets, which resulted in the Company recording $47.6 million as additional income tax expense in the fourth quarter of 2017. Additional information about the provision for income taxes is presented in “Note 16. Income Taxes” in our consolidated financial statements.

Analysis of Business Segments

Our business segments are Retail Banking, Commercial Banking, and Treasury and Other. Table 5 summarizes net income from our business segments for the years ended December 31, 2017, 2016 and 2015. Additional information about operating segment performance is presented in “Note 22. Reportable Operating Segments” in our consolidated financial statements.

Business Segment Net Income — **Table 5**

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Retail Banking	**$ 151,806**	$ 182,443	$ 193,372
Commercial Banking	**56,314**	74,904	82,065
Treasury and Other	**(24,438)**	(27,169)	(61,657)
Total	**$ 183,682**	$ 230,178	$ 213,780

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

Net income for the Retail Banking segment was $151.8 million for the year ended December 31, 2017, a decrease of $30.6 million or 17% as compared to the same period in 2016. The decrease in net income for the Retail Banking segment was primarily due to a $28.6 million increase in the provision for income taxes, an $11.9 million increase in noninterest expense and a $3.7 million increase in the Provision, partially offset by a $14.4 million increase in net interest income. The increase in the provision for income taxes was primarily due to the Tax Act. The increase in noninterest expense was primarily due to higher allocated expenses, salaries and employee benefits expense, contracted services and professional fees, occupancy expense and regulatory assessment and fees. The increase in net interest income was primarily due to higher earnings credits as a result of higher average balances and margins in our deposit portfolio. The increase in total assets for the Retail Banking segment was primarily due to strong residential real estate loan growth, reflective of the strong housing market and economic conditions in Hawaii during 2017.

Net income for the Retail Banking segment was $182.4 million for the year ended December 31, 2016, a decrease of $10.9 million or 6% as compared to the same period in 2015. The decrease in net income for the Retail Banking segment was primarily due to a $12.5 million increase in noninterest expense, a $10.4 million increase in the provision for income taxes and a $6.4 million decrease in noninterest income, partially offset by a $16.8 million increase in net interest income and a $1.5 million decrease in the Provision. The increase in noninterest expense was primarily due to higher allocated expenses, occupancy expense and regulatory assessment and fees, partially offset by lower mortgage loan charges. The decrease in noninterest income was primarily due to lower gains on the sale of mortgage loans, overdraft fees and mortgage investor loan fees. The increase in net interest income was primarily due to higher earnings credits as a result of higher average balances and margins in our deposit portfolio. The increase in total assets for the Retail Banking segment was primarily due to strong loan growth, reflective of the economic conditions in Hawaii during 2016.

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

Net income for the Commercial Banking segment was $56.3 million for the year ended December 31, 2017, a decrease of $18.6 million or 25% as compared to the same period in 2016. The decrease in net income for the Commercial Banking segment was primarily due to a $6.2 million increase in the Provision, a $5.0 million increase in noninterest expense, a $4.3 million decrease in net interest income and a $4.0 million increase in the provision for income taxes. The increase in noninterest expense was primarily due to higher allocated expenses, regulatory assessment and fees and card reward expenses, partially offset by lower operational losses. The decrease in net interest income was primarily due to higher allocated charges from credit cards and lower amortized loan origination fees. The increase in the provision for income taxes was primarily due to the Tax Act. The increase in total assets for the Commercial Banking segment was primarily due to growth in our commercial real estate portfolio, reflective of a strong real estate market in Hawaii during 2017.

Net income for the Commercial Banking segment was $74.9 million for the year ended December 31, 2016, a decrease of $7.2 million or 9% as compared to the same period in 2015 The decrease in net income for the Commercial Banking segment was primarily due to a $5.2 million decrease in noninterest income, a $2.0 million increase in the provision for income taxes and a $1.7 million increase in noninterest expense, partially offset by a $2.0 million increase in net interest income. The decrease in noninterest income was primarily due to a vendor bonus and gain on the sale of equipment in 2015 and a decrease in fees from servicing BOW credit cards beginning in November 2015, partially offset by higher customer-related interest rate swap fees and merchant services fees. The increase in net interest income was primarily due to higher average loan balances. The increase in noninterest expense was primarily due to higher regulatory assessment and fees, partially offset by a change in terms related to the expiration of our debit card reward points, which was recorded during the year ended December 31, 2016. The Commercial Banking segment also experienced an increase in total assets due to strong loan growth in 2016.

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

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

Net loss for the Treasury and Other segment was $24.4 million for the year ended December 31, 2017, a decrease in net loss of $2.7 million or 10% as compared to the same period in 2016. The decrease in net loss was primarily due to a $27.1 million decrease in net interest expense and a $6.6 million decrease in noninterest expense, partially offset by a $20.5 million decrease in noninterest income and a $10.4 million decrease in the benefit for income taxes. The decrease in net interest expense was primarily due to higher earnings credits as a result of higher average balances in our loan portfolio and higher average balances and yields in our investment securities portfolio. The decrease in noninterest expense was primarily due to lower allocated expenses and contracted services and professional fees, partially offset by higher salaries and employee benefits expense and occupancy expense. The decrease in noninterest income was primarily due to a $22.7 million net gain on the sale of 274,000 Visa Class B restricted shares in 2016, partially offset by gains on the sale of real estate. The decrease in the benefit for income taxes was primarily due to the Tax Act. The increase in total assets for the Treasury and Other segment was primarily due to an increase in investment securities.

Net loss for the Treasury and Other segment was $27.2 million for the year ended December 31, 2016, a decrease in net loss of $34.5 million or 56% as compared to the same period in 2015. The decrease in net loss was primarily due to an $18.5 million increase in noninterest income, an $11.5 million decrease in net interest expense and a $4.2 million decrease in noninterest expense. The increase in noninterest income was primarily due to a $22.7 million net gain on the sale of 274,000 Visa Class B restricted shares and higher BOLI income. The decrease in net interest expense was primarily due to higher yields in our investment securities portfolio. The decrease in noninterest expense was primarily due to a decrease in allocated expenses, partially offset by higher salaries and employee benefits, equipment and occupancy expense. The decrease in total assets for the Treasury and Other segment was primarily due to a decrease in interest bearing deposits in other banks.

Analysis of Financial Condition

Liquidity

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

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

Immediate liquid resources are available in cash which is primarily on deposit with the Federal Reserve Bank of San Francisco (the "FRB"). As of December 31, 2017 and December 31, 2016, cash and cash equivalents were $1.0 billion and $1.1 billion, respectively. Potential sources of liquidity also include investment securities in our available-for-sale portfolio. The carrying value of our available-for-sale investment securities were $5.2 billion and $5.1 billion as of December 31, 2017 and December 31, 2016, respectively. As of December 31, 2017 and December 31, 2016, we maintained our excess liquidity primarily in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. As of both December 31, 2017 and December 31, 2016, our available-for-sale investment securities portfolio was comprised of securities with an average base duration of approximately 3.8 years. Furthermore, as of December 31, 2017, we expect maturities and paydowns of approximately $877.5 million to occur over the next twelve months. These funds offer substantial resources to meet either new loan demand or to help offset reductions in our deposit funding base. Liquidity is further enhanced by our ability to pledge loans to access secured borrowings from the Federal Home Loan Bank of Des Moines (the "FHLB") and the FRB. As of December 31, 2017, we have borrowing capacity of $1.8 billion from the FHLB and $688.7 million from the FRB based on the amount of collateral pledged.

Our core deposits have historically provided us with a long term source of stable and relatively lower cost source of funding. Our core deposits, defined as all deposits exclusive of time deposits exceeding $250,000, totaled $14.7 billion and $14.2 billion as of December 31, 2017 and December 31, 2016, which represented 83% and 85%, respectively, of our total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company. While we consider core deposits to be less volatile, deposit levels could decrease if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances.

The Company's routine funding requirements are expected to consist primarily of general corporate needs and dividends to be paid to our 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, short-term borrowings, and the issuance of long term debt and equity securities.

Investment Securities

Table 6 presents the estimated fair value of our available-for-sale investment securities portfolio as of December 31, 2017 and December 31, 2016:

Investment Securities **Table 6**

	December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
U.S. Treasury securities	**$ 392,255**	$ 392,473	$ 499,976
Government-sponsored enterprises debt securities	**242,601**	242,667	95,824
Government agency mortgage-backed securities	**351,390**	185,663	55,982
Government-sponsored enterprises mortgage-backed securities	**174,741**	204,385	10,745
Non-government mortgaged-backed securities	**—**	—	157
Non-government asset-backed securities	**—**	12,583	95,310
Collateralized mortgage obligations:			
Government agency	**3,290,474**	3,351,822	2,239,934
Government-sponsored enterprises	**762,718**	687,921	1,029,337
Debt securities issued by state and political subdivisions	**20,479**	—	—
Total available-for-sale securities	**$ 5,234,658**	$ 5,077,514	$ 4,027,265

Table 7 presents the maturity distribution at amortized cost and weighted-average yield to maturity of our available-for-sale investment securities portfolio as of December 31, 2017:

Maturities and Weighted-Average Yield on Securities[1] **Table 7**

(dollars in millions)	1 Year or Less	Weighted Average Yield	After 1 Year - 5 Years	Weighted Average Yield	After 5 Years - 10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total	Weighted Average Yield	Fair Value
As of December 31, 2017											
Available-for-Sale Securities											
U.S. Treasury securities	$ —	— %	$ 306.5	1.15 %	$ 97.9	1.84 %	$ —	— %	$ 404.4	1.32 %	$ 392.3
Government-sponsored enterprises debt securities	35.0	2.80	50.0	1.69	164.7	2.04	—	—	249.7	2.08	242.6
Mortgage-Backed Securities:[2]											
Government agency	39.7	2.49	151.9	2.58	95.8	2.56	69.5	2.54	356.9	2.56	351.4
Government-sponsored enterprises	34.0	2.11	89.6	2.14	39.3	2.11	15.8	2.05	178.7	2.12	174.7
Collateralized mortgage obligations:[2]											
Government agency	622.9	1.97	1,810.8	2.02	778.2	2.08	155.3	2.12	3,367.2	2.03	3,290.5
Government-sponsored enterprises	145.9	1.91	450.3	1.95	176.1	1.94	7.6	1.67	779.9	1.94	762.7
Debt securities issued by state and political subdivisions	—	—	—	—	—	—	20.5	3.28	20.5	3.28	20.5
Total available-for-sale securities as of December 31, 2017	$ 877.5	2.02 %	$ 2,859.1	1.94 %	$ 1,352.0	2.08 %	$ 268.7	2.30 %	$ 5,357.3	2.01 %	$ 5,234.7

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

The fair value of our available-for-sale investment securities portfolio was $5.2 billion as of December 31, 2017, an increase of $157.1 million or 3% compared to December 31, 2016. Our available-for-sale investment securities are carried at fair value with changes in fair value reflected in other comprehensive income (loss), unless a security is deemed to be other-than-temporarily impaired (“OTTI”).

As of December 31, 2017, we maintained all of our investment securities in the available-for-sale category recorded at fair value in the consolidated balance sheets, with $4.1 billion invested in collateralized mortgage obligations issued by Ginnie Mae, Fannie Mae and Freddie Mac. Our available-for-sale portfolio also included $392.3 million in U.S. Treasury securities, $242.6 million in debt securities issued by government-sponsored enterprises (FHLB and Federal Farm Credit Banks Funding Corporation callable bonds), $526.1 million in mortgage-backed securities issued by Ginnie Mae, Fannie Mae and Freddie Mac and $20.5 million in debt securities issued by state 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 $0.2 million and $2.0 million as of December 31, 2017 and December 31, 2016, respectively. Gross unrealized losses in our investment securities portfolio were $122.9 million and $101.1 million as of December 31, 2017 and December 31, 2016. Lower unrealized gains and higher unrealized losses in our investment securities portfolio were primarily due to market interest rates increasing during the year ended December 31, 2017, relative to when the investment securities were purchased. The lower gross unrealized gain positions were primarily related to our collateralized mortgage obligations, the fair value of which is sensitive to changes in market interest rates.

We conduct a regular assessment of our investment securities portfolio to determine whether any securities are OTTI. When assessing unrealized losses for OTTI, we consider the nature of the investment, the financial condition of the issuer, the extent and duration of unrealized losses, expected cash flows of underlying assets and market conditions. As of December 31, 2017, we had no plans to sell investment securities with unrealized losses, and believe it is more likely than not that we would not be required to sell such securities before recovery of their amortized cost, which may be at maturity.

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

See “Note 3. Investment Securities” in our consolidated financial statements for more information on our investment securities portfolio.

Loans and Leases

Table 8 presents the composition of our loan and lease portfolio by major categories for each of the last five years:

Loans and Leases **Table 8**

(dollars in thousands)	December 31, 2017	2016	2015	2014	2013
Commercial and industrial	**$ 3,135,266**	$ 3,239,600	$ 3,057,455	$ 2,697,142	$ 2,758,545
Real estate:					
Commercial	**2,667,597**	2,343,495	2,164,448	2,047,465	1,937,971
Construction	**632,911**	450,012	367,460	470,061	426,211
Residential	**4,090,053**	3,796,459	3,532,427	3,338,021	3,075,053
Total real estate	**7,390,561**	6,589,966	6,064,335	5,855,547	5,439,235
Consumer	**1,586,476**	1,510,772	1,401,561	1,226,603	1,079,034
Lease financing	**165,066**	180,040	198,679	244,298	250,508
Total loans and leases	**$12,277,369**	$11,520,378	$ 10,722,030	$ 10,023,590	$ 9,527,322

Total loans and leases were $12.3 billion as of December 31, 2017, an increase of $757.0 million or 7% from December 31, 2016 with increases in all categories except commercial and industrial and lease financing.

Commercial and industrial loans are made primarily to corporations, middle market and small businesses for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. We also offer a variety of automobile dealer flooring lines to our customers in Hawaii and California to assist with the financing of their inventory. Commercial and industrial loans were $3.1 billion as of December 31, 2017, a decrease of $104.3 million or 3% from December 31, 2016. The decrease was primarily due to reductions in dealer flooring balances and paydowns in our Shared National Credits portfolio.

Commercial real estate loans are secured by first mortgages on commercial real estate at loan to value (“LTV”) ratios generally not exceeding 75% and a minimum debt service coverage ratio of 1.20 to 1. The commercial properties are predominantly apartments, neighborhood and grocery anchored retail, industrial, office, and to a lesser extent, specialized properties such as hotels. The primary source of repayment for investor property is cash flow from the property and for owner occupied property is the operating cash flow from the business. Commercial real estate loans were $2.7 billion as of December 31, 2017, an increase of $324.1 million or 14% from December 31, 2016. Strong demand for commercial real estate lending activities was reflective of a strong real estate market in Hawaii and the demand by both investors and owner occupants to refinance and/or to acquire new real estate assets.

Construction loans are for the purchase or construction of a property for which repayment will be generated by the property. Loans in this portfolio are primarily for the purchase of land, as well as for the development of commercial properties, single family homes and condominiums. We classify loans as construction until the completion of the construction phase. Following construction, if a loan is retained by the Bank, the loan is reclassified to the commercial real estate or residential real estate classes of loans. Construction loans were $632.9 million as of December 31, 2017, an increase of $182.9 million or 41% from December 31, 2016 as new lending opportunities continue to result from strong residential and commercial construction activity.

Residential real estate loans are generally secured by 1-4 unit residential properties and are underwritten using traditional underwriting systems to assess the credit risks and financial capacity and repayment ability of the consumer. Decisions are primarily based on LTV ratios, debt-to-income (“DTI”) ratios, liquidity and credit scores. LTV ratios generally do not exceed 80%, although higher levels are permitted with mortgage insurance. We offer fixed rate mortgage products and variable rate mortgage products with interest rates that are subject to change every year after the first, third, fifth or tenth year, depending on the product and are based on the London Interbank Offered Rate (“LIBOR”). Variable rate residential mortgage loans are underwritten at fully-indexed interest rates. We generally do not offer interest-only, payment-option facilities, Alt-A loans or any product with negative amortization. Residential real estate loans were $4.1 billion as of December 31, 2017, an increase of $293.6 million or 8% from December 31, 2016. Our portfolio of residential real estate loans continues to benefit from Hawaii’s strong real estate market and continued demand for new housing developments in the current low interest rate environment.

Consumer loans consist primarily of open- and closed-end direct and indirect credit facilities for personal, automobile and household purchases as well as credit card loans. We seek to maintain reasonable levels of risk in consumer lending by following prudent underwriting guidelines, which include an evaluation of personal credit history, cash flow and collateral values based on existing market conditions. Consumer loans were $1.6 billion as of December 31, 2017, an increase of $75.7 million or 5% from December 31, 2016. High levels of consumer outstanding balances were reflective of a strong Hawaii economy, higher statewide personal income and lower unemployment trends. These factors contribute to a higher level of consumer spending.

Lease financing consists of commercial single investor leases and leveraged leases. Underwriting of new lease transactions is based on our lending policy, including but not limited to an analysis of customer cash flows and secondary sources of repayment, including the value of leased equipment, the guarantors' cash flows and/or other credit enhancements. No new leveraged leases are being added to the portfolio and all remaining leveraged leases are running off. Lease financing was $165.1 million as of December 31, 2017, a decrease of $15.0 million or 8% from December 31, 2016.

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

Tables 9 and 10 present the geographic distribution of our loan and lease portfolio as of December 31, 2017 and 2016:

Geographic Distribution of Loan and Lease Portfolio **Table 9**

	December 31, 2017				
(dollars in thousands)	**Hawaii**	**U.S. Mainland**[(1)]	**Guam & Saipan**	**Foreign & Other**	**Total**
Commercial and industrial	**$1,253,250**	**$1,645,357**	**$ 159,305**	**$ 77,354**	**$ 3,135,266**
Real estate:					
Commercial	**1,810,675**	**488,782**	**366,237**	**1,903**	**2,667,597**
Construction	**385,442**	**213,761**	**33,708**	**—**	**632,911**
Residential	**3,940,316**	**2,704**	**147,033**	**—**	**4,090,053**
Total real estate	**6,136,433**	**705,247**	**546,978**	**1,903**	**7,390,561**
Consumer	**1,153,043**	**25,681**	**405,517**	**2,235**	**1,586,476**
Lease financing	**49,379**	**95,337**	**10,220**	**10,130**	**165,066**
Total Loans and Leases	**$8,592,105**	**$2,471,622**	**$1,122,020**	**$ 91,622**	**$12,277,369**
Percentage of Total Loans and Leases	**70%**	**20%**	**9%**	**1%**	**100%**

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

Geographic Distribution of Loan and Lease Portfolio **Table 10**

	December 31, 2016				
(dollars in thousands)	**Hawaii**	**U.S. Mainland**[(1)]	**Guam & Saipan**	**Foreign & Other**	**Total**
Commercial and industrial	$1,301,866	$1,679,681	$ 144,130	$ 113,923	$ 3,239,600
Real estate:					
Commercial	1,670,718	361,157	311,620	—	2,343,495
Construction	306,138	128,583	15,291	—	450,012
Residential	3,649,844	6,650	139,965	—	3,796,459
Total real estate	5,626,700	496,390	466,876	—	6,589,966
Consumer	1,107,002	28,355	372,759	2,656	1,510,772
Lease financing	53,814	106,783	8,566	10,877	180,040
Total Loans and Leases	$8,089,382	$2,311,209	$ 992,331	$ 127,456	$11,520,378
Percentage of Total Loans and Leases	70%	20%	9%	1%	100%

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

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

Table 11 presents contractual loan maturity categories normally not subject to regular periodic principal reductions and sensitivities of those loans to changes in interest rates as of December 31, 2017:

Maturities for Selected Loan Categories[(1)] **Table 11**

(dollars in thousands)	December 31, 2017 Due in One Year or Less	Due After One to Five Years	Due After Five Years	Total
Commercial and industrial	**$ 1,329,502**	**$ 1,404,264**	**$ 401,500**	**$ 3,135,266**
Real estate - construction	**138,508**	**228,555**	**265,848**	**632,911**
Total Loans and Leases	**$ 1,468,010**	**$ 1,632,819**	**$ 667,348**	**$ 3,768,177**
Total of loans due after one year with:				
Fixed interest rates		**$ 239,378**	**$ 107,223**	**$ 346,601**
Variable interest rates		**1,393,441**	**560,125**	**1,953,566**
Total Loans and Leases		**$ 1,632,819**	**$ 667,348**	**$ 2,300,167**

(1) Based on contractual maturities.

Credit Quality

We evaluate certain loans and leases, including commercial and industrial loans, commercial real estate loans and construction loans, individually for impairment and non-accrual status. A loan is considered to be impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. We generally place a loan on non-accrual status when management believes that collection of principal or interest has become doubtful or when a loan or lease becomes 90 days past due as to principal or interest, unless it is well secured and in the process of collection. Loans on non-accrual status are generally classified as impaired, but not all impaired loans are necessarily placed on non-accrual status. See “Note 5. Allowance for Loan and Lease Losses” in our consolidated financial statements for more information about our credit quality indicators.

For purposes of managing credit risk and estimating the Allowance, management has identified three categories of loans (commercial, residential real estate and consumer) that we use to develop our systematic methodology to determine the Allowance. The categorization of loans for the evaluation of credit risk is specific to our credit risk evaluation process and these loan categories are not necessarily the same as the loan categories used for other evaluations of our loan portfolio. See “Note 5. Allowance for Loan and Lease Losses” in our consolidated financial statements for more information about our approach to estimating the Allowance.

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

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

Table 12 presents information on our non-performing assets and accruing loans and leases past due 90 days or more for each of the last five years:

Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More **Table 12**

(dollars in thousands)	December 31, 2017	2016	2015	2014	2013
Non-Performing Assets					
Non-Accrual Loans and Leases					
Commercial Loans:					
Commercial and industrial	**$ 2,932**	$ 2,730	$ 3,958	$ 2,871	$ 3,312
Real estate - commercial	**1,786**	—	138	2,429	1,587
Real estate - construction	**—**	—	—	1,556	6,279
Lease financing	**—**	153	181	187	—
Total Commercial Loans	**4,718**	2,883	4,277	7,043	11,178
Residential	**5,107**	6,547	12,344	16,850	19,827
Total Non-Accrual Loans and Leases	**9,825**	9,430	16,621	23,893	31,005
Other Real Estate Owned	**329**	329	154	4,364	2,177
Total Non-Performing Assets	**$ 10,154**	$ 9,759	$ 16,775	$ 28,257	$ 33,182
Accruing Loans and Leases Past Due 90 Days or More					
Commercial Loans:					
Commercial and industrial	**$ 220**	$ 449	$ 2,496	$ —	$ 131
Real estate - commercial	**1,400**	—	161	—	—
Lease financing	**—**	83	174	—	—
Total Commercial Loans	**1,620**	532	2,831	—	131
Residential	**1,360**	866	737	1,874	1,048
Consumer	**1,394**	1,870	1,454	1,784	1,872
Total Accruing Loans and Leases Past Due 90 Days or More	**$ 4,374**	$ 3,268	$ 5,022	$ 3,658	$ 3,051
Restructured Loans on Accrual Status and Not Past Due 90 Days or More	**34,130**	44,496	28,351	35,589	33,681
Total Loans and Leases	**$12,277,369**	$11,520,378	$ 10,722,030	$ 10,023,590	$ 9,527,322
Ratio of Non-Accrual Loans and Leases to Total Loans and Leases	**0.08 %**	0.08 %	0.16 %	0.24 %	0.33 %
Ratio of Non-Performing Assets to Total Loans and Leases and Other Real Estate Owned	**0.08 %**	0.08 %	0.16 %	0.28 %	0.35 %
Ratio of Non-Performing Assets and Accruing Loans and Leases Past Due 90 Days or More to Total Loans and Leases and Other Real Estate Owned	**0.12 %**	0.11 %	0.20 %	0.32 %	0.38 %

Table 13 presents the activity in Non-Performing Assets ("NPAs") for the years ended December 31, 2017 and 2016:

Non-Performing Assets **Table 13**

(dollars in thousands)	Year Ended December 31, 2017	2016
Balance at beginning of year	**$ 9,759**	$ 16,775
Additions	**5,692**	3,205
Reductions		
Payments	**(1,902)**	(6,831)
Return to accrual status	**(1,896)**	(2,065)
Sales of other real estate owned	**(775)**	(884)
Charge-offs/write-downs	**(724)**	(441)
Total Reductions	**(5,297)**	(10,221)
Balance at End of Year	**$ 10,154**	$ 9,759

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

Total NPAs were $10.2 million as of December 31, 2017, an increase of $0.4 million or 4% from December 31, 2016. The ratio of our NPAs to total loans and leases and other real estate owned was 0.08% as of December 31, 2017, unchanged from December 31, 2016. The increase in total NPAs was primarily due to a $1.8 million increase in commercial real estate loans partially offset by a decrease of $1.4 million decrease in residential real estate non-accrual loans.

The largest component of our NPAs continues to be residential real estate loans. The level of these NPAs remains elevated due to a lengthy judicial foreclosure process in Hawaii. As of December 31, 2017, residential real estate non-accrual loans were $5.1 million, a decrease of $1.4 million or 22% from December 31, 2016. As of December 31, 2017, our residential real estate non-accrual loans were comprised of 36 loans with a weighted average current loan-to-value ("LTV") ratio of 71%.

Commercial and industrial non-accrual loans were $2.9 million as of December 31, 2017, an increase of $0.2 million or 7% from December 31, 2016. All of our commercial and industrial non-accrual loans were individually evaluated for impairment and we have already taken $0.9 million in charge-offs related to these loans.

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

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

Loans and leases past due 90 days or more and still accruing interest were $4.4 million as of December 31, 2017, an increase of $1.1 million or 34% as compared to December 31, 2016. Commercial real estate loans that were past due 90 days or more and still accruing interest increased by $1.4 million from December 31, 2016. This was partially offset by decreases in delinquencies in our consumer, commercial and industrial and lease financing portfolios.

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 troubled debt restructuring, the contractual terms of the loan agreement refers to the contractual terms specified by the original loan agreement, not the contractual terms specified by the modified loan agreement.

Impaired loans were $45.3 million and $59.4 million as of December 31, 2017 and 2016, respectively. These impaired loans had a related Allowance of $0.5 million and $1.1 million as of December 31, 2017 and 2016, respectively. The decrease in impaired loans during 2017 was primarily due to a net decrease of two commercial and industrial loans totaling $6.5 million, a net increase of three commercial real estate loans that resulted in a net decrease of $1.1 million and a net decrease of nine residential real estate loans totaling $2.1 million. The balance of impaired loans was also affected by charge-offs and paydowns. As of December 31, 2017 and 2016, we recorded charge-offs of $1.5 million and $2.0 million, respectively, related to our total impaired loans. Our impaired loans are considered in management's assessment of the overall adequacy of the Allowance.

If interest due on the balances of all non-accrual loans as of December 31, 2017 had been accrued under the original terms, approximately $0.3 million in additional interest income would have been recorded in the year ended December 31, 2017 and approximately $0.3 million in additional interest income would have been recorded for 2016. Actual interest income recorded on these loans was $2.3 million for the year ended December 31, 2017 and $3.5 million for the year ended December 31, 2016.

Loans Modified in a Troubled Debt Restructuring

Table 14 presents information on loans whose terms have been modified in a troubled debt restructuring ("TDR") as of December 31, 2017 and 2016:

Loans Modified in a Troubled Debt Restructuring **Table 14**

(dollars in thousands)	December 31, 2017	December 31, 2016
Commercial and industrial	**$ 15,251**	$ 24,842
Real estate - commercial	**8,850**	12,546
Total commercial	**24,101**	37,388
Residential	**12,394**	13,813
Total	**$ 36,495**	$ 51,201

Loans modified in a TDR were $36.5 million as of December 31, 2017, a net decrease of $14.7 million or 29% from 2016. This decrease was primarily due to the net reduction of three commercial and industrial loans totaling $6.9 million, one paid off commercial real estate loan of $2.9 million and the net reduction of four residential real estate loans totaling $1.0 million. This was further decreased by charge-offs and paydowns on existing loans. As of December 31, 2017, $34.1 million or 94% 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 5. Allowance for Loan and Lease Losses'' in our consolidated financial statements for more information and a description of the modification programs that we currently offer to our customers.

Allowance for Loan and Lease Losses

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

Table 15 presents an analysis of our Allowance for the years indicated:

Allowance for Loan and Lease Losses **Table 15**

	December 31,				
(dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Balance at Beginning of Year	**$ 135,494**	$ 135,484	$ 134,799	$ 133,239	$ 130,279
Loans and Leases Charged-Off					
Commercial Loans:					
Commercial and industrial	**(1,519)**	(348)	(866)	(2,298)	(1,051)
Commercial real estate	**—**	—	—	—	(3)
Lease financing	**(147)**	—	—	—	(9)
Total Commercial Loans	**(1,666)**	(348)	(866)	(2,298)	(1,063)
Residential	**(408)**	(799)	(618)	(1,086)	(4,075)
Consumer	**(23,851)**	(18,791)	(18,312)	(15,291)	(14,663)
Total Loans and Leases Charged-Off	**(25,925)**	(19,938)	(19,796)	(18,675)	(19,801)
Recoveries on Loans and Leases Previously Charged-Off					
Commercial Loans:					
Commercial and industrial	**844**	251	940	1,387	422
Real estate - commercial	**596**	3,329	1,115	207	154
Construction	**—**	—	—	—	1,178
Lease financing	**—**	2	3	57	18
Total Commercial Loans	**1,440**	3,582	2,058	1,651	1,772
Residential	**687**	1,358	2,198	1,470	1,789
Consumer	**7,057**	6,408	6,325	6,014	7,000
Total Recoveries on Loans and Leases Previously Charged-Off	**9,184**	11,348	10,581	9,135	10,561
Net Loans and Leases Charged-Off	**(16,741)**	(8,590)	(9,215)	(9,540)	(9,240)
Provision for Loan and Lease Losses	**18,500**	8,600	9,900	11,100	12,200
Balance at End of Year	**$ 137,253**	$ 135,494	$ 135,484	$ 134,799	$ 133,239
Average Loans and Leases Outstanding	**$ 11,944,596**	$ 11,175,213	$ 10,297,834	$ 9,675,143	$ 9,190,354
Ratio of Net Loans and Leases Charged-Off to Average Loans and Leases Outstanding	**0.14 %**	0.08 %	0.09 %	0.10 %	0.10 %
Ratio of Allowance for Loan and Lease Losses to Loans and Leases Outstanding	**1.12 %**	1.18 %	1.26 %	1.34 %	1.40 %

Tables 16 and 17 present the allocation of the Allowance by loan category, in both dollars and as a percentage of total loans and leases outstanding as of the dates indicated:

Allocation of the Allowance by Loan and Lease Category **Table 16**

	December 31,				
(dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Commercial and industrial	**$ 34,006**	$ 33,129	$ 34,025	$ 31,835	$ 34,026
Real estate - commercial	**18,044**	18,448	18,489	16,320	16,606
Real estate - construction	**6,817**	4,513	3,793	4,725	4,702
Lease financing	**611**	847	888	1,089	1,078
Total commercial	**59,478**	56,937	57,195	53,969	56,412
Residential	**42,852**	43,436	46,099	44,858	42,028
Consumer	**31,249**	28,388	28,385	27,041	25,589
Unallocated	**3,674**	6,733	3,805	8,931	9,210
Total Allowance for Loan and Lease Losses	**$137,253**	$135,494	$ 135,484	$ 134,799	$ 133,239

Allocation of the Allowance by Loan and Lease Category (as a percentage of total loans and leases outstanding) **Table 17**

	December 31,									
	2017		**2016**		**2015**		**2014**		**2013**	
	Allocated Allowance as % of loan or lease category	**Loan category as % of total loans and leases**	**Allocated Allowance as % of loan or lease category**	**Loan category as % of total loans and leases**	**Allocated Allowance as % of loan or lease category**	**Loan category as % of total loans and leases**	**Allocated Allowance as % of loan or lease category**	**Loan category as % of total loans and leases**	**Allocated Allowance as % of loan or lease category**	**Loan category as % of total loans and leases**
Commercial and industrial	**1.08 %**	**25.54** %	1.02 %	28.12 %	1.11 %	28.52 %	1.18 %	26.91 %	1.23 %	28.95 %
Real estate - commercial	**0.68**	**21.73**	0.79	20.34	0.85	20.19	0.80	20.43	0.86	20.34
Real estate - construction	**1.08**	**5.16**	1.00	3.91	1.03	3.43	1.01	4.69	1.10	4.47
Lease financing	**0.37**	**1.34**	0.47	1.56	0.45	1.85	0.45	2.44	0.43	2.63
Total commercial	**0.90**	**53.77**	0.92	53.93	0.99	53.99	0.99	54.47	1.05	56.39
Residential	**1.05**	**33.31**	1.14	32.96	1.31	32.94	1.34	33.29	1.37	32.28
Consumer	**1.97**	**12.92**	1.88	13.11	2.03	13.07	2.20	12.24	2.37	11.33
Total	**1.12** %	**100.00** %	1.18 %	100.00 %	1.26 %	100.00 %	1.34 %	100.00 %	1.40 %	100.00 %

As of December 31, 2017, the Allowance was $137.3 million or 1.12% of total loans and leases outstanding, compared with an Allowance of $135.5 million or 1.18% of total loans and leases outstanding as of December 31, 2016. The level of the Allowance was commensurate with our stable credit risk profile, loan portfolio growth and composition and a strong Hawaii economy.

Net charge-offs of loans and leases were $16.7 million or 0.14% of total average loans and leases outstanding for the year ended December 31, 2017 compared to $8.6 million or 0.08% for 2016. Net charge-offs in our commercial lending portfolio were $0.2 million for the year ended December 31, 2017 compared to net recoveries of $3.2 million for 2016. Our net recovery position in 2016 was primarily due to a $3.2 million recovery on a previously charged-off commercial real estate loan. Net recoveries in our residential lending portfolio were $0.3 million for the year ended December 31, 2017 compared to net recoveries of $0.6 million for 2016. Our net recovery position in this portfolio segment is largely attributable to rising real estate prices in Hawaii. Net charge-offs in our consumer lending portfolio were $16.8 million for the year ended December 31, 2017 compared to net charge-offs of $12.4 million for 2016. 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.

Although we determine the amount of each component of the Allowance separately, the Allowance as a whole was considered appropriate by management as of December 31, 2017 and 2016 based on our ongoing analysis of estimated probable credit losses, credit risk profiles, economic conditions, coverage ratios and other relevant factors.

As of December 31, 2017, the allocation of the Allowance to our commercial loans increased by $2.5 million or 4.5% from 2016. As of December 31, 2017, the allocation of the Allowance to our residential real estate loan portfolio decreased by $0.6 million or 1.3% from 2016. In the fourth quarter of 2017, loss emergence periods used for estimating loss rates were increased, resulting in increased allocations for selected portfolio segments, which included commercial and industrial, commercial real estate, construction and residential real estate loans. Also, we review qualitative factors periodically to reflect changing conditions, which resulted in the net decrease in the allocation for residential real estate loans.

See “Note 5. Allowance for Loan and Lease Losses” in our consolidated financial statements for more information on the Allowance.

Goodwill

Goodwill was $995.5 million as of both December 31, 2017 and December 31, 2016. Our goodwill originated from the acquisition of BancWest by BNPP 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. Goodwill is not amortized but is subject, at a minimum, to annual tests for impairment at a reporting unit level. Determining the amount of goodwill impairment, if any, includes assessing the current implied fair value of the reporting unit as if it were being acquired in a business combination and comparing it to the carrying amount of the reporting unit’s goodwill. There was no impairment in our goodwill for the year ended December 31, 2017. Future events that could cause a significant decline in our expected future cash flows or a significant adverse change in our business or the business climate may necessitate taking charges in future reporting periods related to the impairment of our goodwill and other intangible assets.

Other Assets

Other assets were $355.3 million as of December 31, 2017, a decrease of $7.5 million or 2% from December 31, 2016. This decrease was primarily due to a decrease in deferred tax assets of $43.1 million of which $33.4 million was due to an intercompany settlement of estimated taxes in April 2017, partially offset by a $39.3 million increase in affordable housing and other tax credit investment partnership interest.

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 18 presents the composition of our deposits as of December 31, 2017 and December 31, 2016:

Deposits **Table 18**

(dollars in thousands)	December 31, 2017	December 31, 2016
Demand	**$ 6,126,853**	$ 5,992,617
Savings	**4,509,419**	4,609,306
Money Market	**2,801,968**	2,454,013
Time	**4,173,882**	3,738,596
Total Deposits[(1)]	**$ 17,612,122**	$ 16,794,532

(1) Public deposits were $2.4 billion and $2.2 billion as of December 31, 2017 and 2016, respectively.

Total deposits were $17.6 billion as of December 31, 2017, an increase of $817.6 million or 5% from December 31, 2016. Increases in money market, time and demand deposit balances were partially offset by a decrease in the savings deposit balance as customers shifted balances to higher earning products. In addition to efficiently funding balance sheet growth, the increased concentration in core deposit accounts (defined as all deposits excluding time deposits in excess of $250,000) generally deepens and extends the length of customer relationships.

Table 19 presents the amount of time deposits of $100,000 or more issued by the Company, further segregated by time remaining until maturity as of December 31, 2017:

Table 19

(dollars in thousands)	Domestic	Foreign	Total
Three months or less	**$ 1,828,504**	**$ 51,267**	**$ 1,879,771**
Over three through twelve months	**1,058,252**	**63,383**	**1,121,635**
Over one year through three years	**239,618**	**34,448**	**274,066**
Over three years	**96,053**	**37,420**	**133,473**
Total	**$ 3,222,427**	**$ 186,518**	**$ 3,408,945**

Securities Sold Under Agreements to Repurchase

We had no securities sold under agreements to repurchase (“repurchase agreements”) as of December 31, 2017. As of December 31, 2016, we had $9.2 million in repurchase agreements, which are reflected as short-term borrowings in the consolidated balance sheets. All of our repurchase agreements as of December 31, 2016 were either with the State of Hawaii or counties within the State of Hawaii. Balances in repurchase agreements fluctuate throughout the year based on the liquidity needs of our customers. See “Note 10. Short Term Borrowings” in our consolidated financial statements for more information.

Pension and Postretirement Plan Obligations

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

Pension and postretirement benefit plan obligations, net of pension plan assets was $120.2 million as of December 31, 2017, a decrease of $1.1 million or 1% from December 31, 2016. The balance as of December 31, 2017 included retirement benefits payable of $134.2 million for the Company’s underfunded plans, partially offset by pension plan assets for overfunded plans, recorded as a component of other assets on the consolidated balance sheets, of $14.0 million.

See “Note 15. Benefit Plans” in our consolidated financial statements for more information on our pension and postretirement benefit plans.

Foreign Activities

Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets which are denominated in dollars or other non-local currency. As of December 31, 2017 and 2016, aggregate cross-border outstandings in countries which amounted to 0.75% to 1% of our total consolidated assets totaled approximately $177.3 million to Japan and $151.9 million to Canada. There were no cross-border outstandings in excess of 1% of our total consolidated assets. As of December 31, 2015, we did not have cross-border outstandings to any foreign country which exceeded 0.75% of our total consolidated assets.

Capital

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

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

As of December 31, 2017, our 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 20 below. There have been no conditions or events since December 31, 2017 that management believes have changed either the Company's or the Bank's capital classifications.

Regulatory Capital **Table 20**

	December 31,	
(dollars in thousands)	**2017**	**2016**
Stockholders' Equity	**$ 2,532,551**	$ 2,476,485
Less:		
Goodwill	**995,492**	995,492
Accumulated other comprehensive loss, net	**(96,383)**	(88,011)
Common Equity Tier 1 Capital and Tier 1 Capital	**$ 1,633,442**	$ 1,569,004
Add:		
Allowable Reserve for Loan and Lease Losses	**137,853**	136,094
Total Capital	**$ 1,771,295**	$ 1,705,098
Risk-Weighted Assets	**$ 13,120,542**	$ 12,307,895
Key Regulatory Capital Ratios		
Common Equity Tier 1 Capital Ratio	**12.45 %**	12.75 %
Tier 1 Capital Ratio	**12.45 %**	12.75 %
Total Capital Ratio	**13.50 %**	13.85 %
Tier 1 Leverage Ratio	**8.52 %**	8.36 %

Total stockholders' equity was $2.5 billion as of December 31, 2017, an increase of $56.1 million or 2% from December 31, 2016. The change in stockholders' equity was primarily due to earnings for the year ended December 31, 2017 of $183.7 million partially offset by cash dividends paid of $122.8 million during the year ended December 31, 2017 to the Company's shareholders.

In January 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.24 per share on our outstanding shares. The dividend is to be paid on March 9, 2018 to shareholders of record at the close of business on February 26, 2018.

Off-Balance Sheet Arrangements and Guarantees

Off-Balance Sheet Arrangements

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

Guarantees

We sell residential mortgage loans in the secondary market primarily to Fannie Mae or Freddie Mac. The agreements under which we sell residential mortgage loans to Fannie Mae or Freddie Mac contain provisions that include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the specific representations and warranties vary among investors, insurance or guarantee agreements, they typically cover: ownership of the loan; validity of the lien securing the loan; the absence of delinquent taxes or liens against the property securing the loan; compliance with loan criteria set forth in the applicable agreement; compliance with applicable federal, state, and local laws; and other matters. As of December 31, 2017 and 2016, the unpaid principal balance of our portfolio of residential mortgage loans sold was $2.3 billion and $2.7 billion, respectively. The agreements under which we sell residential mortgage loans require delivery of various documents to the investor or its document custodian. Although these loans are primarily sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred if a loan review reveals that underwriting and documentation standards were potentially not met in the origination of those loans. Upon receipt of a repurchase request, we work with investors to arrive at a mutually agreeable resolution. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor to determine if a contractually required repurchase event has occurred. We manage the risk associated with potential repurchases or other forms of settlement through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards. For the year ended December 31, 2017, there were no repurchases or pending repurchase requests of residential mortgage loans.

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 year ended December 31, 2017, we had no repurchase requests related to loan servicing activities, nor were there any pending repurchase requests as of December 31, 2017.

Although to date repurchase requests related to representation and warranty provisions and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency as investors more aggressively pursue all means of recovering losses on their purchased loans. However, as of December 31, 2017, management believes that this exposure is not material due to the historical level of repurchase requests and loss trends and thus has not established a liability for losses related to mortgage loan repurchases. As of December 31, 2017, 99% of our residential mortgage loans serviced for investors were current. We maintain ongoing communications with investors and continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in loans sold to investors.

Contractual Obligations

Our contractual obligations as of December 31, 2017 were as follows:

Contractual Obligations **Table 21**

(dollars in thousands)	Less Than One Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Contractual Obligations					
Time Deposits	$3,486,040	$447,036	$240,680	$ 126	$4,173,882
Long-Term Debt	8	17	9	—	34
Non-Cancelable Operating Leases	6,801	12,486	6,860	18,004	44,151
Postretirement Benefit Contributions	1,292	2,789	2,983	8,546	15,610
Purchase Obligations	34,524	12,560	2,350	375	49,809
Total Contractual Obligations	$3,528,665	$474,888	$252,882	$ 27,051	$4,283,486

Commitments to extend credit, standby letters of credit and commercial letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon; therefore, these items are not included in the table above. Purchase obligations arise from agreements to purchase goods or services that are enforceable and legally binding. Other contracts included in purchase obligations primarily consist of service agreements for various systems and applications supporting bank operations. Postretirement benefit contributions represent the minimum expected contribution to the postretirement benefit plan. Actual contributions may differ from these estimates.

Our liability for unrecognized tax benefits (“UTBs”) as of December 31, 2017 and 2016 were $141.3 million and $137.1 million, respectively. The increase in UTB was primarily due to additions related to previously identified tax positions. We are unable to reasonably estimate the period of cash settlement with the respective taxing authority. As a result, our liability for UTBs is not disclosed in the table above.

See the discussion of credit, lease and other contractual commitments in “Note 4. Loans and Leases” and “Note 18. Commitments and Contingent Liabilities” in our consolidated financial statements.

Critical Accounting Policies

Our consolidated financial statements were prepared in accordance with GAAP and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in "Note 1. Organization and Summary of Significant Accounting Policies" to our consolidated financial statements. Application of these principles requires us to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the consolidated financial statements. These factors include among other things, whether the policy requires management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The accounting policies which we believe to be most critical in preparing our consolidated financial statements are those that are related to the determination of the Allowance, fair value estimates, pension and postretirement benefit obligations and income taxes.

In June 2016, the FASB issued new guidance on accounting for credit losses on financial instruments that will require us to recognize lifetime expected credit losses on our financial assets. We are still evaluating the new guidance and its impact on, among other things, our retained earnings, net income and capital levels in future reporting periods. We will be required to comply with the new guidance beginning in 2020.

Allowance for Loan and Lease Losses

We perform periodic and systematic detailed reviews of our loan and lease portfolio to assess overall collectability.

The Allowance provides for probable and estimable losses inherent in the loan and lease portfolio. The Allowance is increased or decreased through the provisioning process. There is no exact method of predicting specific losses or amounts that ultimately may be charged off on particular categories of the loan and lease portfolio.

Management's evaluation of the adequacy of the Allowance is often the most critical of accounting estimates for a financial institution. Our determination of the amount of the Allowance is a critical accounting estimate as it requires significant reliance on the accuracy of credit risk ratings on individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows on impaired loans, significant reliance on estimated loss rates on homogenous portfolios and consideration of our quantitative and qualitative evaluation of economic factors and trends. While our methodology in establishing the Allowance attributes portions of the Allowance to the commercial, residential real estate and consumer portfolios, the entire Allowance is available to absorb credit losses inherent in the total loan and lease portfolio.

The Allowance related to our commercial portfolio is generally most sensitive to the accuracy of credit risk ratings assigned to each borrower. Commercial loan risk ratings are evaluated based on each situation by experienced senior credit officers and are subject to periodic review by an independent internal team of credit specialists. The Allowance related to our residential real estate portfolio is most sensitive to the accuracy of delinquency data. Further refinement of the Allowance related to the residential real estate portfolio requires management to evaluate the borrower's financial condition and collateral values, among other factors. The Allowance related to our consumer portfolio is generally most sensitive to economic assumptions and delinquency trends.

The Allowance attributable to each portfolio also includes an unallocated amount for imprecision in the estimation process. Furthermore, the estimate of the Allowance may change due to modifications in the mix and level of loan and lease balances outstanding and general economic conditions as evidenced by changes in interest rates, unemployment rates, bankruptcy filings and real estate values. While no one factor is dominant, each has the ability to result in actual loan losses which differ from originally estimated amounts.

See "Note 5. Allowance for Loan and Lease Losses" contained in our consolidated financial statements and "— Analysis of Financial Condition — Allowance for Loan and Lease Losses" for more information on the Allowance.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value measurements, we maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 valuations as those based on quoted prices, unadjusted, for identical instruments traded in active markets. Level 2 valuations are those based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active or model based valuation techniques for which all significant assumptions are observable in the market. Level 3 valuations are based on model based techniques that use at least one significant assumption not observable in the market, or significant management judgment or estimation, some of which may be internally developed.

Financial assets that are recorded at fair value on a recurring basis include available for sale investment securities, and derivative financial instruments. As of December 31, 2017 and 2016, $5.2 billion or 26% and $5.1 billion or 26%, respectively, of our total assets consisted of financial assets recorded at fair value on a recurring basis and most of these financial assets consisted of available for sale investment securities measured using information from a third party pricing service. These investments in debt securities and asset backed securities were classified in Level 2 of the fair value hierarchy. Financial liabilities that were recorded at fair value on a recurring basis were comprised of derivative financial instruments. As of December 31, 2017 and 2016, $20.5 million or less than 1% and $31.2 million or less than 1%, respectively, of our total liabilities, consisted of financial liabilities recorded at fair value on a recurring basis. As of December 31, 2017 and 2016, $15.1 million and $23.7 million, respectively, was classified in Level 2 of the fair value hierarchy and $5.4 million and $7.5 million, respectively, was classified in Level 3 of the fair value hierarchy. As of December 31, 2017 and 2016, the liability which was classified in Level 3 of the fair value hierarchy was related to the sale of our Visa Class B restricted shares in 2016. We recorded a derivative liability which requires payment to the buyer of the Visa Class B restricted shares in the event Visa further reduces the conversion ratio to its publicly traded Visa Class A shares.

Our third party pricing service makes no representations or warranties that the pricing data provided to us is complete or free from errors, omissions or defects. As a result, we have processes in place to monitor and periodically review the information provided to us by our third party pricing service:

(1) Our third party pricing service provides us with documentation by asset class of inputs and methodologies used to value securities. We review this documentation to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy. This documentation is periodically updated by our third party pricing service. Accordingly, transfers of securities within the fair value hierarchy are made if deemed necessary. During the year ended December 31, 2017, there were no transfers of securities within the fair value hierarchy.

(2) On a monthly basis, management reviews the pricing information received from our third party pricing service. This review process includes a comparison to non-binding third party broker quotes, as well as a review of market related conditions impacting the information provided by our third party pricing service. We also identify 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 historic levels, as well as instances of a significant widening of the bid ask spread in the brokered markets. As of December 31, 2017, management did not make adjustments to prices provided by our third party pricing service as a result of illiquid or inactive markets.

(3) On an annual basis, to the extent available, we obtain and review independent auditor's reports from our third party pricing service related to controls placed in operation and tests of operating effectiveness. We did not note any significant control deficiencies in our review of the independent auditors' reports related to services rendered by our third party pricing service.

(4) Our third party pricing service has also established processes for us to submit inquiries regarding quoted prices. Periodically, we will challenge the quoted prices provided by our third party pricing service. Our third party pricing service will review the inputs to the evaluation in light of the new market data presented by us. Our third party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Based on the composition of our investment securities portfolio, we believe that we have developed appropriate internal controls and performed appropriate due diligence procedures to prevent or detect material misstatements by our third party pricing service. See "Note 21. Fair Value" contained in our consolidated financial statements for more information on our use of fair value estimates.

Pension and Postretirement Benefit Obligations

We use the following key variables to calculate annual pension costs: (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 cost is directly affected by the number of employees eligible for pension benefits and their estimated compensation increases. To calculate estimated compensation increases, management reviews our salary increases each year and compares this data with industry information. For all pension and postretirement plan calculations, we use a December 31st measurement date.

The expected long-term rate of return was based on a calculated rate of return from average rates of return on various asset classes over a 20 year historical time horizon. Using long-term historical data allows the Company to capture multiple economic environments, which management believes is relevant when using historical returns. Net actuarial gains or losses that exceed a 5% corridor of the greater of the projected benefit obligation or the fair value of plan assets as of the beginning of the year are amortized from accumulated other comprehensive income into net periodic pension cost on a straight-line basis over five years.

In estimating the projected benefit obligation, an independent actuary bases assumptions on factors such as mortality rate, turnover rate, retirement rate, disability rate and other assumptions related to the population of individuals in the pension plan. If significant actuarial gains or losses occur, the actuary reviews the demographic and economic assumptions with management, at which time the Company considers revising these assumptions based on actual results.

Our determination of the pension and postretirement benefit obligations and net periodic benefit cost is a critical accounting estimate as it requires the use of estimates and judgment related to the amount and timing of expected future cash out flows for benefit payments and cash inflows for maturities and return on plan assets. Changes in estimates and assumptions related to mortality rates and future health care costs could also have a material impact to our financial condition or results of operations. The discount rate assumption is used to determine the present value of future benefit obligations and the net periodic benefit cost. The discount rate assumption used to value the present value of future benefit obligations as of each year end is the rate used to determine the net periodic benefit cost for the following year.

See "Note 15. Benefit Plans" contained in our consolidated financial statements for more information on pension and postretirement benefit obligations.

Income Taxes

In estimating income taxes payable or receivable, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of each tax position. Accordingly, previously estimated liabilities are regularly reevaluated and adjusted through the provision for income taxes. Changes in the estimate of income taxes payable or receivable occur periodically due to changes in tax rates, interpretations of tax law, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impact the relative merits and risks of each tax position. These changes, when they occur, may affect the provision for income taxes as well as current and deferred income taxes, and may be significant to our consolidated statements of income and balance sheets.

For example, on December 22, 2017, President Trump signed into law the Tax Act. The Tax Act makes many significant amendments to the U.S. Internal Revenue Code of 1986, as amended (the “Code”), including reducing the statutory rate of U.S. federal corporate income tax from 35% to 21%. The reduction in the corporate tax rate under the Tax Act required a one-time revaluation of certain of our tax-related assets. As such, we recorded approximately $47.6 million of additional income tax expense in our consolidated statements of income in the fourth quarter of 2017. Our revaluation of our deferred tax assets is subject to further clarifications of the Tax Act that cannot be estimated at this time. The revaluation of our deferred tax assets may vary materially from the amount recorded.

Management's determination of the realization of net deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, as well as the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

We are also required to record a liability for UTBs for the entire amount of a tax benefit taken in a prior or future income tax return when we determine that a tax position has a less than 50% likelihood of being accepted by the taxing authority. As of December 31, 2017 and 2016, our liabilities for UTBs were $141.3 million and $137.1 million, respectively. See "Note 16. Income Taxes" contained in our consolidated financial statements for more information on income taxes.

Future Application of Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of December 31, 2017, see "Note 1. Organization and Basis of Presentation — Recent Accounting Pronouncements" to the consolidated financial statements for more information.

Risk Governance and Quantitative and Qualitative Disclosures About Market Risk

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

Credit Risk

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

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

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

Residential real estate is not further categorized into classes, but consists of loans secured by 1-4 family residential properties and home equity lines of credit and loans. Our bank's underwriting standards typically require LTV ratios of not more than 80%, although higher levels are permitted with accompanying mortgage insurance. First mortgage loans secured by residential properties generally carry a moderate level of credit risk, with an average loan size of approximately $300,000. Residential mortgage loan production is added to our loan portfolio or is sold in the secondary market, based on management's evaluation of our liquidity, capital and loan portfolio mix as well as market conditions. Changes in interest rates, the economic environment and other market factors have impacted, and will likely continue to impact, the marketability and value of collateral and the financial condition of our borrowers which impacts the level of credit risk inherent in this portfolio, although we remain a supply constrained housing environment in Hawaii. Geographic concentrations exist for this portfolio as nearly all residential mortgage loans and home equity lines of credit and loans outstanding are for residences located in Hawaii, Guam or Saipan. These island locales are susceptible to a wide array of potential natural disasters including, but not limited to, hurricanes, floods, tsunamis and earthquakes. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed interest rates. Our procedures for underwriting home equity loans include an assessment of an applicant's overall financial capacity and repayment ability. Decisions are primarily based on repayment ability via debt to income ratios, LTV ratios and credit scores.

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

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

Market Risk

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

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

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

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

Market Risk Measurement

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

Table 22 presents, for the twelve months subsequent to December 31, 2017, 2016 and 2015, an estimate of the change in net interest income that would result from an immediate change in market interest rates, moving in a parallel fashion over the entire yield curve, relative to the measured base case scenario. The base case scenario assumes that the balance sheet and interest rates are generally unchanged. We evaluate the sensitivity by using: 1) a dynamic forecast, incorporating expected changes in the balance sheet, and 2) a static forecast, where the balance sheet as of December 31, 2017, 2016 and 2015 is held constant.

Net Interest Income Sensitivity Profile **Table 22**

	As of December 31, 2017		As of December 31, 2016		As of December 31, 2015	
	Dynamic Forecast	Static Forecast	Dynamic Forecast	Static Forecast	Dynamic Forecast	Static Forecast
Immediate Change in Interest Rates (basis points)						
+200	**6.3 %**	**10.9 %**	8.6 %	11.9 %	8.7 %	11.0 %
+100	**3.8**	**5.5**	4.5	5.8	6.0	6.7
(100)	**(4.8)**	**(4.8)**	(6.0)	(6.8)	(6.7)	(7.1)

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

Under the dynamic balance sheet forecasts, the change in net interest income from the base case scenario as of December 31, 2017 was generally lower or less sensitive as compared to similar projections made as of December 31, 2016 and 2015. This was, in part, due to our larger fixed rate investment securities portfolio as well as our larger fixed rate residential real estate loan portfolio as of December 31, 2017 compared to December 31, 2016 and 2015. Generally, fixed rate investment securities and loan portfolios will not reprice as quickly in response to changes in market interest rates.

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

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

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

Limitations of Market Risk Measures

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

Market Risk Governance

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

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

Through review and oversight by the ALCO, we attempt to engage in strategies that neutralize interest rate risk as much as possible. Our use of derivative financial instruments, as detailed in “Note 17. Derivative Financial Instruments” to the consolidated financial statements, has generally been limited. This is due to natural on balance sheet hedges arising out of offsetting interest rate exposures from loans and investment securities with deposits and other interest-bearing liabilities. In particular, the investment securities portfolio is utilized to manage the interest rate exposure and sensitivity to within the guidelines and limits established by the ALCO. We utilize natural and offsetting economic hedges in an effort to reduce the need to employ off-balance sheet derivative financial instruments to hedge interest rate risk exposures. Expected movements in interest rates are also considered in managing interest rate risk. Thus, as interest rates change, we may use different techniques to manage interest rate risk.

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

Operational Risk

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

Selected Quarterly Financial Data (Unaudited)

Table 23

(dollars in thousands, except per share data)	2017 Quarters Ended 12/31	2017 9/30	2017 6/30	2017 3/31	2016 Quarters Ended 12/31	2016 9/30	2016 6/30	2016 3/31
Interest income	$ 148,558	$ 145,270	$ 140,019	$ 136,921	$ 138,313	$ 129,334	$ 127,061	$ 123,812
Interest expense	13,672	11,951	8,765	7,576	7,063	6,651	6,634	6,500
Net interest income	134,886	133,319	131,254	129,345	131,250	122,683	120,427	117,312
Provision for loan and lease losses	5,100	4,500	4,400	4,500	3,900	2,100	1,900	700
Noninterest income[(1)(5)]	54,324	49,664	50,558	51,059	50,984	50,734	48,508	75,811
Noninterest expense[(2)(5)]	89,850	84,784	86,929	85,991	84,466	84,848	80,610	87,356
Income before income taxes	94,260	93,699	90,483	89,913	93,868	86,469	86,425	105,067
Provision for income taxes[(3)]	82,576	35,336	33,588	33,173	37,316	33,234	31,565	39,536
Net income	$ 11,684	$ 58,363	$ 56,895	$ 56,740	$ 56,552	$ 53,235	$ 54,860	$ 65,531
Per share information:								
Earnings Per Common Share - Basic	$ 0.08	$ 0.42	$ 0.41	$ 0.41	$ 0.41	$ 0.38	$ 0.39	$ 0.47
Earnings Per Common Share - Diluted	$ 0.08	$ 0.42	$ 0.41	$ 0.41	$ 0.41	$ 0.38	$ 0.39	$ 0.47
Cash dividends declared per common share	$ 0.22	$ 0.22	$ 0.22	$ 0.22	$ 0.20	$ 0.20	$ 0.22	$ -
Common share price:								
High	$ 30.85	$ 31.48	$ 31.34	$ 35.32	$ 35.47	$ 27.97	N/A	N/A
Low	$ 27.34	$ 26.30	$ 26.96	$ 28.66	$ 25.80	$ 24.25	N/A	N/A
Quarter-end	$ 29.18	$ 30.29	$ 30.62	$ 29.92	$ 34.82	$ 26.86	N/A	N/A
Performance Ratios:								
Return on average tangible stockholders' equity (non-GAAP)[(4)]	2.94 %	14.76 %	14.89 %	15.41 %	14.88 %	14.02 %	14.75 %	14.86 %
Return on average tangible assets (non-GAAP)[(4)]	0.24 %	1.21 %	1.22 %	1.23 %	1.20 %	1.16 %	1.23 %	1.44 %
Efficiency ratio[(5)]	47.47 %	46.33 %	47.81 %	47.66 %	46.35 %	48.92 %	47.71 %	45.23 %
Net interest margin	2.99 %	2.96 %	3.02 %	3.00 %	2.99 %	2.87 %	2.88 %	2.77 %

(1) Noninterest income for the quarter ended December 31, 2017 included $4.3 million related to the gains on sale of real estate. Noninterest income for the quarter ended March 31, 2016 included investment securities gains, net of $22.7 million related to the sale of Visa Class B restricted shares.

(2) Noninterest expense for the quarter ended December 31, 2017 included $3.7 million related to salaries and benefits to employees due to the benefits from the Tax Act being passed in December 2017. Noninterest expense for the quarter ended March 31, 2016 included $2.5 million related to one-time expenses incurred in connection with our IPO.

(3) Provision for income taxes for the quarter ended December 31, 2017 included $47.6 million due to the impact of the Tax Act that was signed into law in December 2017.

(4) Return on average tangible stockholders' equity and return on average tangible assets are non-GAAP financial measures. For a reconciliation to the most directly comparable GAAP financial measures for return on average tangible stockholders' equity and return on average tangible assets, see "Item 6. Selected Financial Data - GAAP to Non-GAAP Reconciliation".

(5) Subsequent to the issuance of the Company's interim consolidated financial statements as of September 30, 2017, the Company's management determined that certain expenses related to the card rewards program were incorrectly offset against credit and debit card fee income and credit card interchange assessment fees were incorrectly classified in card

rewards program expenses versus credit and debit card fee income in the interim condensed consolidated statements of income for September 30, 2017, June 30, 2017, March 31, 2017 and each of the quarterly periods in the year ended December 31, 2016. Certain noninterest income and noninterest expense amounts have been revised from the amounts previously reported to correct the classification errors. There was no change to net income or earnings per share as previously reported as a result of these errors. Management has evaluated the materiality of these errors on its prior period financial statements from a quantitative and qualitative perspective, and has concluded that these errors were not material to any prior annual or interim period. For further information, see Note 1 to the Company's consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

The amounts on prior period financial information that have been revised are summarized below:

	2017 Quarters Ended			**2016 Quarters Ended**			
(dollars in thousands)	**9/30**	**6/30**	**3/31**	**12/31**	**9/30**	**6/30**	**3/31**
Income Statement Data:[(a)]							
Noninterest income as previously reported	**$ 48,535**	**$ 48,870**	**$ 49,407**	$ 49,021	$ 48,690	$ 46,371	$ 73,519
Reclassification	**1,129**	**1,688**	**1,652**	1,963	2,044	2,137	2,292
Noninterest income as revised	**$ 49,664**	**$ 50,558**	**$ 51,059**	$ 50,984	$ 50,734	$ 48,508	$ 75,811
Noninterest expense as previously reported	**$ 83,655**	**$ 85,241**	**$ 84,339**	$ 82,503	$ 82,804	$ 78,473	$ 85,064
Reclassification	**1,129**	**1,688**	**1,652**	1,963	2,044	2,137	2,292
Noninterest expense as revised	**$ 84,784**	**$ 86,929**	**$ 85,991**	$ 84,466	$ 84,848	$ 80,610	$ 87,356
Performance Ratios:[(a)]							
Efficiency ratio as previously reported	**46.00 %**	**47.32 %**	**47.18 %**	45.76 %	48.31 %	47.04 %	44.57 %
Reclassification	**0.33 %**	**0.49 %**	**0.48 %**	0.59 %	0.61 %	0.67 %	0.66 %
Efficiency ratio as revised	**46.33 %**	**47.81 %**	**47.66 %**	46.35 %	48.92 %	47.71 %	45.23 %

(a) For the three months ended December 31, 2017, the reclassification increased both noninterest income and noninterest expense by $1.7 million and increased the efficiency ratio by 48 basis points.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Item 7. MD&A - Risk Governance and Quantitative and Qualitative Disclosures About Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Stockholders and the Board of Directors of
First Hawaiian, Inc.
Honolulu, Hawaii

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Hawaiian, Inc. and Subsidiary (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Honolulu, Hawaii
February 28, 2018

We have served as the Company’s auditor since 2012.

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share amounts)	Year Ended December 31, 2017	2016	2015
Interest income			
Loans and lease financing	**$ 462,675**	$ 428,419	$ 405,702
Available-for-sale securities	**102,272**	83,019	73,615
Other	**5,821**	7,082	4,529
Total interest income	**570,768**	518,520	483,846
Interest expense			
Deposits	**41,944**	26,650	22,314
Short-term borrowings and long-term debt	**20**	198	207
Total interest expense	**41,964**	26,848	22,521
Net interest income	**528,804**	491,672	461,325
Provision for loan and lease losses	**18,500**	8,600	9,900
Net interest income after provision for loan and lease losses	**510,304**	483,072	451,425
Noninterest income			
Service charges on deposit accounts	**35,807**	37,392	40,058
Credit and debit card fees	**64,049**	65,262	64,916
Other service charges and fees	**34,063**	35,355	38,641
Trust and investment services income	**30,485**	29,440	29,671
Bank-owned life insurance	**13,283**	15,021	9,976
Investment securities gains, net	**—**	27,277	12,321
Other	**27,918**	16,290	23,528
Total noninterest income	**205,605**	226,037	219,111
Noninterest expense			
Salaries and employee benefits	**175,351**	169,233	170,233
Contracted services and professional fees	**45,011**	45,345	42,663
Occupancy	**23,485**	21,606	18,401
Equipment	**17,247**	16,912	15,836
Regulatory assessment and fees	**14,907**	12,972	9,490
Advertising and marketing	**6,191**	6,127	5,472
Card rewards program	**23,363**	22,459	23,969
Other	**41,999**	42,626	41,245
Total noninterest expense	**347,554**	337,280	327,309
Income before provision for income taxes	**368,355**	371,829	343,227
Provision for income taxes	**184,673**	141,651	129,447
Net income	**$ 183,682**	$ 230,178	$ 213,780
Basic earnings per share	**$ 1.32**	$ 1.65	$ 1.53
Diluted earnings per share	**$ 1.32**	$ 1.65	$ 1.53
Dividends declared per share	**$ 0.88**	$ 0.62	$ —
Basic weighted-average outstanding shares	**139,560,305**	139,487,762	139,459,620
Diluted weighted-average outstanding shares	**139,656,993**	139,492,608	139,459,620

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

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

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Net income	**$ 183,682**	$ 230,178	$ 213,780
Other comprehensive (loss) income, net of tax:			
Net unrealized gains (losses) on pensions and other benefits	**4,291**	(3,354)	8,986
Net unrealized losses on investment securities	**(14,159)**	(34,852)	(9,573)
Net unrealized gains on cash flow derivative hedges	**1,496**	1,454	785
Other comprehensive (loss) income	**(8,372)**	(36,752)	198
Total comprehensive income	**$ 175,310**	$ 193,426	$ 213,978

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

FIRST HAWAIIAN, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share amount)	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	**$ 367,084**	$ 253,827
Interest-bearing deposits in other banks	**667,560**	798,231
Investment securities	**5,234,658**	5,077,514
Loans held for sale	**556**	—
Loans and leases	**12,277,369**	11,520,378
Less: allowance for loan and lease losses	**137,253**	135,494
Net loans and leases	**12,140,116**	11,384,884
Premises and equipment, net	**289,215**	300,788
Other real estate owned and repossessed personal property	**329**	329
Accrued interest receivable	**47,987**	41,971
Bank-owned life insurance	**438,010**	429,209
Goodwill	**995,492**	995,492
Other intangible assets	**13,196**	16,809
Other assets	**355,258**	362,775
Total assets	**$ 20,549,461**	$ 19,661,829
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	**$ 11,485,269**	$ 10,801,915
Noninterest-bearing	**6,126,853**	5,992,617
Total deposits	**17,612,122**	16,794,532
Short-term borrowings	**—**	9,151
Long-term debt	**34**	41
Retirement benefits payable	**134,218**	132,904
Other liabilities	**270,536**	248,716
Total liabilities	**18,016,910**	17,185,344
Commitments and contingent liabilities (Notes 14 and 18)		
Stockholders' equity		
Common stock ($0.01 par value; authorized 300,000,000 shares; issued/outstanding: 139,599,454 / 139,588,782 as of December 31, 2017; issued and outstanding: 139,530,654 as of December 31, 2016)	**1,396**	1,395
Additional paid-in capital	**2,488,643**	2,484,251
Retained earnings	**139,177**	78,850
Accumulated other comprehensive loss, net	**(96,383)**	(88,011)
Treasury stock (10,672 shares as of December 31, 2017 and nil as of December 31, 2016)	**(282)**	—
Total stockholders' equity	**2,532,551**	2,476,485
Total liabilities and stockholders' equity	**$ 20,549,461**	$ 19,661,829

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

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

(dollars in thousands, except share amounts)	Net Investment	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance as of December 31, 2014	$ 2,726,497	139,459,620	$ —	$ —	$ —	$ (51,457)	$ —	$ 2,675,040
Net income	213,780	—	—	—	—	—	—	213,780
Distributions	(164,228)	—	—	—	—	—	—	(164,228)
Contributions	12,151	—	—	—	—	—	—	12,151
Other comprehensive income, net of tax	—	—	—	—	—	198	—	198
Balance as of December 31, 2015	$ 2,788,200	139,459,620	$ —	$ —	$ —	$ (51,259)	$ —	$ 2,736,941
Net income prior to reorganization on April 1, 2016	65,531	—	—	—	—	—	—	65,531
Distributions prior to reorganization on April 1, 2016	(363,624)	—	—	—	—	—	—	(363,624)
Recapitalization of First Hawaiian, Inc.	(2,490,107)	—	1,395	2,488,712	—	—	—	—
Net income	—	—	—	—	164,647	—	—	164,647
Cash dividends declared ($0.62 per share)	—	—	—	—	(85,797)	—	—	(85,797)
Equity-based awards	—	71,034	—	4,360	—	—	—	4,360
Contributions	—	—	—	61,992	—	—	—	61,992
Distributions	—	—	—	(70,813)	—	—	—	(70,813)
Other comprehensive loss, net of tax	—	—	—	—	—	(36,752)	—	(36,752)
Balance as of December 31, 2016	$ —	139,530,654	$ 1,395	$ 2,484,251	$ 78,850	$ (88,011)	$ —	$ 2,476,485
Net income	**—**	**—**	**—**	**—**	**183,682**	**—**	**—**	**183,682**
Cash dividends declared ($0.88 per share)	**—**	**—**	**—**	**—**	**(122,810)**	**—**	**—**	**(122,810)**
Common stock issued under Employee Stock Purchase Plan	**—**	**15,961**	**—**	**528**	**—**	**—**	**—**	**528**
Equity-based awards	**—**	**42,167**	**1**	**5,982**	**(545)**	**—**	**(282)**	**5,156**
Distributions	**—**	**—**	**—**	**(2,118)**	**—**	**—**	**—**	**(2,118)**
Other comprehensive loss, net of tax	**—**	**—**	**—**	**—**	**—**	**(8,372)**	**—**	**(8,372)**
Balance as of December 31, 2017	**$ —**	**139,588,782**	**$ 1,396**	**$ 2,488,643**	**$ 139,177**	**$ (96,383)**	**$ (282)**	**$ 2,532,551**

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

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

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Cash flows from operating activities			
Net income	$ **183,682**	$ 230,178	$ 213,780
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**18,500**	8,600	9,900
Depreciation, amortization and accretion, net	**62,019**	52,176	25,675
Deferred income taxes	**58,916**	3,318	(15,587)
Stock-based compensation	**5,292**	4,507	—
Net gains on sale of real estate	**(6,922)**	—	—
Other gains	**(210)**	(51)	(2,514)
Originations of loans held for sale	**—**	—	(160,481)
Proceeds from sales of loans held for sale	**—**	—	167,215
Net gains on sales of loans held for sale	**(16)**	—	(3,650)
Net gains on investment securities	**—**	(27,277)	(12,321)
Change in assets and liabilities:			
Net increase in other assets	**(42,359)**	(49,571)	(79,942)
Net (decrease) increase in other liabilities	**(9,128)**	(1,787)	528
Net cash provided by operating activities	**269,774**	220,093	142,603
Cash flows from investing activities			
Available-for-sale securities:			
Proceeds from maturities and principal repayments	**888,700**	1,187,912	1,394,433
Proceeds from sales	**—**	832,891	2,471,753
Purchases	**(1,088,417)**	(3,108,687)	(2,916,767)
Other investments:			
Proceeds from sales	**15,517**	23,203	40,712
Purchases	**(20,487)**	(26,334)	(33,880)
Loans:			
Net increase in loans and leases resulting from originations and principal repayments	**(750,917)**	(801,973)	(704,224)
Proceeds from sales of loans originated for investment	**9,711**	291	—
Purchases of loans	**(26,626)**	—	—
Proceeds from bank-owned life insurance	**4,482**	10,357	—
Purchases of premises, equipment and software	**(10,068)**	(15,541)	(19,119)
Proceeds from sales of premises and equipment	**8,139**	71	3,214
Proceeds from sales of other real estate owned	**929**	1,031	7,620
Other	**(2,044)**	94	90
Net cash (used in) provided by investing activities	**(971,081)**	(1,896,685)	243,832
Cash flows from financing activities			
Net increase in deposits	**817,590**	732,608	1,336,545
Net decrease in short-term borrowings	**(9,151)**	(207,000)	(170,000)
Repayment of long-term debt	**(10)**	(10)	(10)
Dividends paid	**(122,810)**	(85,797)	—
Distributions paid	**(2,118)**	(361,200)	(164,228)
Stock tendered for payment of withholding taxes	**(136)**	(146)	—
Proceeds from employee stock purchase plan	**528**	—	—
Net cash provided by financing activities	**683,893**	78,455	1,002,307
Net (decrease) increase in cash and cash equivalents	**(17,414)**	(1,598,137)	1,388,742
Cash and cash equivalents at beginning of year	**1,052,058**	2,650,195	1,261,453
Cash and cash equivalents at end of year	$ **1,034,644**	$ 1,052,058	$ 2,650,195
Supplemental disclosures			
Interest paid	$ **36,633**	$ 25,870	$ 22,086
Income taxes paid, net of income tax refunds	**145,072**	190,387	187,100
Noncash investing and financing activities:			
Transfers from loans and leases to other real estate owned	**759**	1,056	2,470
Transfers from loans and leases to (from) loans held for sale	**10,251**	(291)	(3,260)
Derivative liability entered into in connection with sale of investment securities	**—**	8,828	—

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

1. Organization and Summary of Significant Accounting Policies

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”). FHI is a majority-owned, indirect subsidiary of BNP Paribas (“BNPP”), a financial institution based in France.

FHB is a state-chartered bank that is not a member of the Federal Reserve System. FHB, the oldest financial institution in Hawaii, was established as Bishop & Company in 1858. As of December 31, 2017, FHB was the largest bank in Hawaii in terms of total assets, loans and leases and deposits. FHB has 62 branches located throughout the State of Hawaii, Guam and Saipan, and offers a comprehensive suite of banking services to consumer and commercial customers including loans, deposit products, wealth management, insurance, trust, retirement planning, credit card and merchant processing services.

The accounting and reporting principles of First Hawaiian, Inc. and Subsidiary (the “Company”) conform to U.S. generally accepted accounting principles (“GAAP”) and prevailing practices within the financial services industry. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reorganization Transactions

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

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

On August 4, 2016, FHI’s common stock began trading on the NASDAQ Global Select Market under the ticker symbol “FHB”. On August 9, 2016, the IPO of 24,250,000 shares of FHI common stock, which included the full exercise of the underwriters’ option to purchase an additional 3,163,043 shares, at $23.00 per share was completed. On February 17, 2017, a secondary offering of 28,750,000 shares of FHI common stock, which included the full exercise of the underwriters’ option to purchase an additional 3,750,000 shares, at $32.00 per share was completed. FHI did not receive any of the proceeds from the sales of shares by BNPP. Following the secondary offering and exercise of the underwriters’ option to purchase additional shares in February 2017, BNPP beneficially owned approximately 62% of FHI’s common stock. BNPP continued to beneficially own approximately 62% of FHI's common stock outstanding as of December 31, 2017.

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.

Variable Interest Entities

A variable interest entity ("VIE") is a legal entity that lacks the ability to financially support its activities or whose equity investors lack the ability to control its activities or absorb profits and losses proportionately with their investment in the entity. The primary beneficiary consolidates the variable interest entity ("VIE"). The primary beneficiary is defined as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

The Company has a limited partnership interest or is a member in a limited liability company ("LLC") in several low-income housing partnerships. These partnerships or LLCs provide funds for the construction and operation of apartment complexes that provide affordable housing to that segment of the population with lower family income. If these developments successfully attract a specified percentage of residents falling in that lower income range, state and/or federal income tax credits are made available to the partners or members. The tax credits are generally recognized over 10 years. In order to continue receiving the tax credits each year over the life of the partnership or LLC, the low-income residency targets must be maintained.

Unfunded commitments to fund these low-income housing partnerships were $35.1 million as of December 31, 2017. These unfunded commitments are unconditional and legally binding and are recorded in other liabilities in the consolidated balance sheet.

These low-income housing partnership and LLC entities meet the definition of a VIE; however, the Company is not the primary beneficiary of the entities, as the general partner or managing member has both the power to direct the activities that most significantly impact the economic performance of the entities and the obligation to absorb losses or the right to receive benefits that could be significant to the entities. While the partnership or LLC agreements allow the limited partners and members, through a majority vote, to remove the general partner or managing member, this right is not deemed to be substantive as the general partner or managing member can only be removed for cause.

Cash and Due from Banks

Cash and due from banks include amounts due from other financial institutions as well as in-transit clearings. Because amounts due from other financial institutions often exceed the Federal Deposit Insurance Corporation ("FDIC") deposit insurance limit, the Company evaluates the credit risk of these institutions through periodic review of their financial condition and regulatory capital position. Under the terms of the Depository Institutions Deregulation and Monetary Control Act, the Company is required to maintain reserves with the Federal Reserve Bank of San Francisco ("FRB") based on the amount of deposits held. The average amount of cash reserves required was $52.5 million, $48.9 million and $38.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. Cash and cash equivalents include cash and due from banks and interest-bearing deposits in other banks. All amounts are readily convertible to cash and have maturities of less than 90 days.

Interest-bearing Deposits in Other Banks

Interest-bearing deposits in other banks include funds held in other financial institutions that are either fixed or variable rate instruments, including certificates of deposits. Interest income is recorded when earned and presented within other interest income in the Company's consolidated statements of income.

Investment Securities

As of December 31, 2017, investment securities were comprised of debt, mortgage-backed securities and collateralized mortgage obligations issued by the U.S. Government, its agencies and government-sponsored enterprises and general obligation bonds issued by municipalities in the State of Hawaii. The Company amortizes premiums and accretes discounts using the interest method over the expected lives of the individual securities. All investment securities transactions are recorded on a trade-date basis. All of the Company's securities were categorized as available-for-sale and consisted of debt securities which the Company has the intent and ability to hold for the foreseeable future but may be sold before maturity in response to changes in the Company's interest rate risk profile, funding needs, demand for collateralized deposits by public entities or other reasons. 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 investment securities are determined using the specific identification method. Investment securities are evaluated for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic and market conditions warrant such an evaluation.

Loans Held for Sale

The Company originates certain loans for individual sale or for sale as a pool of loans to government-sponsored enterprises. Loans held for sale are carried, on an aggregate basis, at the lower of cost or fair value. The fair value of loans held for sale is primarily determined based on quoted prices for similar loans in active markets. Net gains and losses on loan sales are recorded as a component of other noninterest income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in other noninterest income upon sale of the loan.

Loans and Leases

Loans are reported at the principal amount outstanding, net of unearned income including unamortized and unaccreted deferred loan fees and costs, and cumulative net charge-offs. Interest income is recognized on an accrual basis. Loan origination fees, certain direct costs and unearned discounts and premiums, if any, are deferred and are generally accreted or amortized into interest income as yield adjustments using the interest method over the contractual life of the loan. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Direct financing leases are carried at the aggregate of lease payments receivable plus the estimated residual value of leased property, less unearned income. Leveraged leases, which are a form of direct financing leases, are carried net of non-recourse debt. Unearned income on direct financing and leveraged leases is amortized over the lease terms by methods that approximate the interest method. Residual values on leased assets are periodically reviewed for impairment.

Non-Performing 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. A charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. When the Company places a loan or lease on nonaccrual status, previously accrued and uncollected interest is reversed against interest income in the current period. When the Company receives an interest payment on a nonaccrual loan or lease, the payment is applied as a reduction of the principal balance. Nonaccrual loans and leases are generally returned to accrual status when they become current as to principal and interest and have demonstrated a sustained period of payment performance or become both well secured and in the process of collection.

Troubled Debt Restructurings

A restructuring of debt constitutes a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company offers various types of concessions when modifying a loan, including term extensions, temporary deferral of principal and temporary interest rate reductions. However, forgiveness of principal is rarely granted. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for at least six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. However, if the borrower's ability to meet the revised payment terms is uncertain, the loan remains on non-accrual status.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. This evaluation is generally based on delinquency information, an assessment of the borrower's financial condition and the adequacy of collateral, if any. The Company's impaired loans are primarily comprised of commercial and industrial, commercial real estate, residential real estate and any loans modified in a TDR, whether on accrual or nonaccrual status.

The Company individually measures impairment on commercial and industrial loans and commercial real estate loans based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, for residential real estate loans and collateral-dependent loans, based on the fair value of the collateral less disposition costs. On a case-by-case basis, the Company may measure impairment based upon a loan's observable market price. Impaired loans without a related allowance for loan and lease losses are generally collateralized by assets with fair values in excess of the recorded investment in the loans.

Reserve for Credit Losses

The Company's reserve for credit losses is comprised of two components, the allowance for loan and lease losses and the reserve for unfunded commitments.

Allowance for Loan and Lease Losses

The Company maintains the allowance for loan and lease losses (the "Allowance") at a level which, in management's judgment, is adequate to absorb probable credit losses that have been incurred in the Company's loan and lease portfolio as of the balance sheet date. The Company's methodology for determining an adequate and appropriate level of the Allowance takes into account many factors, including:

- Trends in the volume and severity of delinquent loans and leases, nonaccrual loans and leases, troubled debt restructurings and other loan and lease modifications;
- Trends in the quality of risk management and loan administration practices including findings of internal and external reviews of loans and the effectiveness of collection practices;
- Changes in the quality of the Company's risk identification process and loan review system;
- Changes in lending policies and procedures including underwriting standards and collection, charge-off and recovery practices;
- Changes in the nature and volume of the loan and lease portfolio;
- Changes in concentrations within the loan and lease portfolio;
- Changes in national and local economic business conditions, including the condition of various market segments.

While the Company has a formal methodology to determine an adequate and appropriate level of the Allowance, estimates of inherent loan and lease losses involve judgment and assumptions as to various factors, including current economic conditions. Management's determination of the adequacy of the Allowance is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management's ongoing assessment of the adequacy of the Allowance.

The Allowance consists of two components, the allocated and the unallocated allowance. The allocated portion of the Allowance includes reserves that are allocated based on impairment analyses of specific loans or pools of loans. A discussion of evaluating specific loans for impairment is noted in the "Impaired Loans" section above. The Company collectively evaluates large groups or pools of smaller-balance homogeneous loans and leases such as consumer loans, residential real estate loans and small business loans. The risk assessment process includes the use of estimates to determine the inherent loss in these portfolios. The Company considers a variety of factors including, but not limited to historical loss experience, estimated defaults or foreclosures based on portfolio trends and delinquencies, and current and projected economic conditions.

The unallocated component of the Allowance recognizes the imprecision in the loan and lease loss estimation process. While the Company's allocated reserve methodology strives to reflect all risk factors, there may still be certain unidentified risk elements. The purpose of the unallocated reserve is to capture these factors. The relationship of the unallocated component to the total Allowance may fluctuate from period to period. Management evaluates the adequacy of the total Allowance based on the combined total of the allocated and unallocated components of the Allowance.

The Allowance is increased by provisions for loan and lease losses and reduced by charge-offs, net of recoveries. Consumer loans and leases are generally charged off upon reaching a predetermined delinquency status that ranges from 120 to 180 days and varies by product type. Other loans and leases may be charged off to the extent they are classified as loss. Recoveries of amounts that have previously been charged off are credited to the Allowance and are generally recorded only to the extent that cash is received.

Reserve for Unfunded Commitments

The reserve for unfunded commitments (the "Unfunded Reserve") is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include loan commitments, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the Allowance as adjusted for estimated funding probabilities or loan and lease equivalency factors. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense.

Provision for Loan and Lease Losses

The provision for loan and lease losses (the "Provision") represents the amount charged against current period earnings to achieve an Allowance that in management's judgment is adequate to absorb probable credit losses that have been incurred in the Company's loan and lease portfolio as of the consolidated balance sheet date. Accordingly, the Provision will vary from period to period based on management's ongoing assessment of the overall adequacy of the Allowance.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of 10 to 39 years for premises, 4 to 10 years for equipment and the shorter of the lease term or remaining useful life for leasehold improvements.

On a periodic basis, long-lived assets are reviewed for impairment. An impairment loss is recognized if the carrying amount of a long-lived asset exceeds its fair value and is not recoverable. An impairment analysis is performed whenever events or changes in circumstances suggest that the carrying value of an asset or group of assets may not be recoverable.

Operating lease rental income for leased assets, primarily premises, is recognized on a straight-line basis as an offset to rental expense.

Other Real Estate Owned and Repossessed Personal Property

Other real estate owned ("OREO") and repossessed personal property are comprised primarily of properties that the Company acquires through foreclosure proceedings. The Company values these properties at fair value less estimated costs to sell the property upon acquisition, which establishes the new carrying value. The Company charges losses arising upon the acquisition of the property against the Allowance. If the fair value of the property at the time of acquisition exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the Allowance if a charge-off had previously been recorded, or as a gain on initial transfer in other noninterest income. After acquisition, the Company carries such properties at the lower of cost or fair value less estimated selling costs. Any writedowns or losses from the subsequent disposition of such properties are included in other noninterest expense. Gains recognized on the sale of such properties are included in other noninterest income.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of the net assets acquired. The Company performs impairment testing of goodwill, an infinite-lived intangible asset, as required under GAAP on an annual basis or when circumstances change that indicate that a potential impairment may have occurred. The Company has assigned goodwill to its operating segments for impairment testing purposes. The goodwill impairment guidance provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing further impairment tests is unnecessary. However, if an entity concludes otherwise, or does not elect this option, it is required to perform impairment testing. Step 1 of the test identifies potential impairments at the reporting unit level, which for the Company is the same as our operating segments, by comparing the estimated fair value of each identified reporting unit to its carrying amount. If the estimated fair value of a reporting unit exceeds its carrying amount, there is no impairment of goodwill. However, if the carrying amount exceeds the estimated fair value, Step 2 is performed to determine the amount of the potential impairment. Step 2 compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Subsequent reversals of goodwill impairment are prohibited.

Mortgage Servicing Rights

Mortgage servicing rights are recognized as assets when residential real estate loans are sold and the rights to service those loans are retained. Mortgage servicing rights are initially recorded at fair value by using a discounted cash flow model to calculate the present value of estimated future net servicing income, incorporating assumptions that market participants would use in their estimates of fair value.

The Company's mortgage servicing rights are accounted for under the amortization method and periodically assessed for impairment. The Company amortizes the mortgage servicing rights over the period of estimated net servicing income, taking into account prepayment assumptions. Any such indicated impairment is recognized in earnings during the period in which the impairment occurs. Mortgage servicing income, net of the amortization of mortgage servicing rights, is recorded as a component of other noninterest income in the consolidated statements of income and mortgage servicing rights are recorded as a component of other intangible assets on the consolidated balance sheets.

Non-Marketable Equity Securities

The Company is required to own Federal Home Loan Bank ("FHLB") of Des Moines stock as a condition of membership. These securities are accounted for under the cost method, which equals par value, and are included in other assets in the consolidated balance sheets. These securities do not have a readily determinable fair value as ownership is restricted and there is no market for these securities. The Company reviews these securities periodically for impairment. Management considers these securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. No impairment was recognized on non-marketable equity securities for the years ended December 31, 2017, 2016 and 2015.

Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still maintain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated balance sheets, while the securities underlying the securities sold under agreements to repurchase remain in the respective asset accounts.

Pension and Other Postretirement Benefit Plans

The Company has a qualified noncontributory defined benefit pension plan, an unfunded supplemental executive retirement plan, a directors' retirement plan, a non-qualified pension plan for eligible directors and a postretirement benefit plan providing life insurance and healthcare benefits that is offered to directors and employees, as applicable. The qualified noncontributory defined benefit pension plan, the unfunded supplemental executive retirement plan and the directors' retirement plan are all frozen plans. To calculate annual pension costs, management uses 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. For all pension and postretirement benefit plan calculations, the Company uses a December 31st measurement date.

The expected long-term rate of return was based on a calculated rate of return from average rates of return on various asset classes over a 20 year historical time horizon. Using long-term historical data allows the Company to capture multiple economic environments, which management believes is relevant when using historical returns. Net actuarial gains or losses that exceed a 5% corridor of the greater of the projected benefit obligation or the fair value of plan assets as of the beginning of the year are amortized from accumulated other comprehensive income into net periodic pension cost on a straight-line basis over five years.

In estimating the projected benefit obligation, an independent actuary bases assumptions on factors such as mortality rate, turnover rate, retirement rate, disability rate and other assumptions related to the population of individuals in the pension plan. If significant actuarial gains or losses occur, the actuary reviews the demographic and economic assumptions with management, at which time the Company considers revising these assumptions based on actual results.

The Company recognizes an asset in its consolidated balance sheets for a plan's overfunded status or a liability for a plan's underfunded status. The Company also measures the plans' assets and obligations that determine its funded status as of the end of the year and recognizes those changes in other comprehensive income, net of tax.

Income Taxes

Income taxes have been recorded using the separate return method as if the Company were a separate taxpayer for all periods presented. Current income tax expense is recognized for the amount of income taxes expected to be payable or refundable for the current period, and deferred income taxes are provided to reflect the tax effect of temporary differences between financial statement carrying amounts and the corresponding tax basis of assets and liabilities. Deferred income taxes are calculated by applying enacted statutory tax rates and tax laws to future years in which temporary differences are expected to reverse. The impact on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that the tax rate change is enacted. A deferred tax valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized. See Note 16 to the consolidated financial statements for further discussion on the tax rate changes enacted in the Tax Cuts and Jobs Act (the "Tax Act") of 2017.

Interest and penalties, if any, expected to be assessed or refunded by taxing authorities relating to an underpayment or overpayment of income taxes are accrued and recorded as part of income tax expense.

Excise tax credits relating to premises and equipment are accounted for using the flow-through method, and the benefit is recognized in the year the asset is placed in service. General business and excise tax credits generated from the leasing portfolio, except for credits that are passed on to lessees, are recognized over the term of the lease for book purposes, but in the year placed in service for tax purposes.

The Company maintains reserves for unrecognized tax benefits that arise in the normal course of business. As of December 31, 2017, these positions were evaluated based on an assessment of probabilities as to the likelihood of whether a liability had been incurred. Such assessments are reviewed as events occur and adjustments to the reserves are made as appropriate. In evaluating a tax position for recognition, the Company evaluates whether it is more likely than not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, the tax position is measured and recognized in the Company's consolidated financial statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

Derivative Instruments and Hedging Activities

Derivatives are recognized on the consolidated balance sheets at fair value. On the date the Company enters into a derivative contract, the Company designates the derivative instrument as: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"); (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"); or (3) held for trading, customer accommodation or not qualifying for hedge accounting ("free-standing derivative instrument"). For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to interest rate risk are recorded in current period earnings. For a cash flow hedge, to the extent that the hedge is considered highly effective, changes in the fair value of the derivative instrument are recorded in other comprehensive income and subsequently reclassified to net income in the same period that the hedged transaction impacts net income and in the same financial statement category as the hedged item. To the extent the derivative instruments are not effective, any changes in the fair value of the derivatives are immediately recognized in noninterest income. For free-standing derivative instruments, changes in fair values are reported in current period earnings. The Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as hedges to specific assets or liabilities, unrecognized firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of a hedge and on a quarterly basis, whether the derivative instruments used are highly effective in offsetting changes in fair values of, or cash flows related to, hedged items.

Fair Value Measurements

Fair value measurements apply whenever GAAP requires or permits assets or liabilities to be measured at fair value either on a recurring or nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions that management believes market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance established a three-level fair value hierarchy that prioritizes the use of inputs used in valuation methodologies. Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements.

Stock-Based Compensation

The Company grants stock-based awards, including restricted stock, restricted stock units and performance stock units. These awards are issued at no cost to the recipient. The fair value of restricted stock and restricted stock unit awards was based on the closing price of FHI's common stock on the date of grant. Such awards were recognized in the Company's consolidated statements of income on a straight-line basis over the vesting period. Recipients of performance stock units are entitled to receive shares of FHI common stock at no cost, subject to the Company's achievement of specified performance criteria. The grant date fair value of the performance stock units was estimated using a Monte Carlo simulation model. Due to the limited trading history of FHI's common stock, a methodology was developed whereby FHI's expected stock volatility was based on a blending of the average historical volatility of FHI's common stock and the average historical volatility of a group of peer banks. The risk-free interest rate that was used in the valuation was that of a zero coupon U.S. Treasury note that was commensurate with the performance period.

As compensation cost is recognized, a deferred tax asset is established which represents an estimate of the future tax deduction from the release of restrictions or the achievement of performance targets. At the time that restrictions on the stock-based awards are released, the Company may be required to recognize an adjustment to income tax expense, depending on the market price of the Company's common stock at that time.

Treasury Stock

Shares of the Parent's common stock that are repurchased or that are used to satisfy payroll tax withholdings related to stock-based compensation are recorded in treasury stock at cost. On the date of subsequent reissuance, the treasury stock account will be reduced by the cost of such stock on a first-in, first-out basis.

Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of potentially dilutive common stock equivalents.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $6.2 million, $6.1 million and $5.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Correction of an Immaterial Error to the Financial Statements

Subsequent to the issuance of the Company's 2016 consolidated financial statements, the Company's management determined that certain expenses related to card rewards program were incorrectly offset against credit and debit card fee income and credit card interchange assessment fees were incorrectly classified in card rewards program expense versus credit and debit card fee income in the consolidated statements of income for the years ended December 31, 2016 and 2015. For the years ended December 31, 2016 and 2015, income from service charges on deposit accounts were each overstated by $0.8 million, credit and debit card fee income was understated by $9.2 million and $8.5 million, respectively, occupancy expense was understated by $1.5 million and $1.4 million, respectively, and card rewards program expense was understated by $6.9 million and $6.3 million, respectively. As a result, certain noninterest income and noninterest expense amounts have been restated from the amounts previously reported to correct the classification errors. There was no change to net income or earnings per share as previously reported as a result of these errors. Management has evaluated the materiality of these errors on its prior period financial statements from a quantitative and qualitative perspective, and has concluded that these errors were not material to any prior period.

Accounting Standard Adopted in 2017

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

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance amends most of the currently existing revenue recognition principles and requires entities to recognize revenues when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the provisions of ASU No. 2014-09 on January 1, 2018. The Company adopted the new guidance using the modified retrospective transition approach, in which the guidance would only be applied to existing contracts in effect at January 1, 2018 and new contracts entered into after this date. Approximately 72% of the Company's revenue is comprised of net interest income on loans, leases, investment securities and deposits, and is explicitly out of scope of the new revenue recognition guidance. The Company identified the primary contracts in scope of this new guidance as those relating to credit and debit card fees, service charges and fees on deposit accounts, trust and investment services fees and broker dealer fees. Based on management's review of material contracts in scope, the adoption of ASU No. 2014-09 did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This guidance provides that lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements. The Company has lease agreements, such as leases for branch locations, that are currently considered operating leases, and therefore, are not recognized on the Company's consolidated balance sheets. The Company preliminarily expects that the new guidance will require these lease agreements to be recognized on the consolidated balance sheets as a right-of-use asset with a corresponding lease liability. However, the Company continues to evaluate the extent of the potential impact this guidance will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update eliminates the probable recognition threshold for credit losses on financial assets measured at amortized cost. For loans and held-to-maturity debt securities, this update requires a current expected credit loss ("CECL") approach to determine the allowance for credit losses. CECL requires loss estimates for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. In addition, this guidance modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for a reversal of credit losses in future periods. This update requires entities to record a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with earlier adoption permitted. The new guidance will require significant operational changes, particularly in data collection and analysis. The Company has formed a working group comprised of teams from different disciplines, including credit and finance, to evaluate the requirements of the new standard and the impact it will have on the Company's current processes. Management's evaluation includes a review of existing credit models to identify areas where existing credit models used to comply with other regulatory requirements may be leveraged and areas where new impairment models may be required. The Company continues to evaluate the impact this guidance, including the method of implementation, will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. This guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the current two-step goodwill impairment test. This guidance provides that a goodwill impairment test be conducted by comparing the fair value of a reporting unit with its carrying amount. Entities are to recognize an impairment charge for goodwill by the amount by which the carrying amount exceeds the reporting unit's fair value. Entities will continue to have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after

December 15, 2019. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718), Scope of Modification Accounting*. This guidance applies to entities that change the terms or conditions of a share-based payment award. This update clarifies when an entity should account for a change as a modification. Modification accounting will be required only if the fair value, the vesting conditions or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU No. 2017-09 did not have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*. This guidance changes the recognition and presentation requirements of hedge accounting, including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line as the hedged item. This guidance also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged item in fair value hedges of interest rate risk, reducing the complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method, and reducing the risk of material error corrections if a company applies the shortcut method inappropriately. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017-12 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This guidance provided entities with an option to reclassify tax effects that were stranded in accumulated other comprehensive income, pursuant to the newly enacted Tax Act, to retained earnings. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% federal corporate income tax rate. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. This guidance may be early adopted in any interim or annual period for which financial statements have not yet been issued and applied either in the period of adoption or retrospectively to each period in which the effect of the change in the federal corporate income tax rate in the Tax Act is recognized. The Company early adopted the provisions of ASU No. 2018-02 on January 1, 2018. The impact of the adoption was to reclassify a credit balance of $20.1 million from accumulated other comprehensive loss to retained earnings. The adoption of ASU No. 2018-02 did not have a material impact on the Company's regulatory capital ratios and consolidated financial statements.

2. Transactions with Affiliates and Related Parties

In the normal course of business, the Company makes loans to executive officers and directors of the Company and its subsidiary and to entities and individuals affiliated with those executive officers and directors. These loans are made on terms no less favorable to the Company than those prevailing at the time for comparable transactions with unrelated persons or, in the case of certain residential real estate loans, on terms that are widely available to employees of the Company who are not directors or executive officers.

Changes in the loans to such executive officers, directors and affiliates during 2017, 2016 and 2015 were as follows:

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Balance at beginning of year	**$ 94,466**	$ 58,936	$ 95,494
New loans made	**3,762**	36,017	14,540
Repayments	**(36,625)**	(487)	(51,098)
Balance at end of year	**$ 61,603**	$ 94,466	$ 58,936

The Company participates in various transactions with BWC, BOW, BNPP and its affiliates. These transactions are subject to review by the FRB, FDIC and other regulatory authorities. The transactions are required to be on terms at least as favorable to the Company as those prevailing at the time for similar non-affiliate transactions. These transactions may include the provision of services, sales and purchases of assets, foreign exchange activities, financial guarantees, international services, interest rate swaps and intercompany deposits and borrowings.

The Company participates in forward and spot transactions with BOW as the counterparty. These positions as of December 31, 2017, 2016 and 2015 are summarized below along with other transactions with its related parties.

	As of December 31,		
(dollars in thousands)	2017	2016	2015
Cash and due from banks	**$ 41,874**	$ 39,408	$ 24
Other assets	**23,872**	2,765	1,080
Noninterest-bearing demand deposits	**(456)**	(2,990)	(41,137)
Other liabilities	**—**	(18,709)	—
Interest income from affiliates	**—**	—	70
Interest expense to affiliates	**—**	—	(7)
Noninterest income from affiliates	**4,908**	7,757	8,615
Noninterest expense to affiliates	**(47)**	(39)	(54)
Off-balance sheet transactions:			
Commitments to purchase and sell foreign currencies[1]	**—**	74	4,108

(1) Represents the notional amount of derivative financial instruments that are carried on the consolidated balance sheets at fair value.

The Company does not transact in hedging or trading activities on behalf of BOW or BWC.

Expense reimbursements by BWC amounted to $21.4 million and $24.8 million for the years ended December 31, 2017 and 2016, respectively, and nil for the year ended December 31, 2015.

The Company has forward foreign exchange contracts with BOW that represents 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 satisfy customer demand for foreign currencies and are not used for trading purposes. Management does not anticipate any material losses as a result of these transactions.

3. Investment Securities

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

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

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

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

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

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

	2017				2016			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury securities	**$ 404,376**	**$ —**	**$ (12,121)**	**$ 392,255**	$ 405,637	$ —	$ (13,164)	$ 392,473
Government-sponsored enterprises debt securities	**249,712**	**—**	**(7,111)**	**242,601**	249,707	16	(7,056)	242,667
Government agency mortgage-backed securities	**356,858**	**—**	**(5,468)**	**351,390**	190,485	—	(4,822)	185,663
Government-sponsored enterprises mortgage-backed securities	**178,702**	**169**	**(4,130)**	**174,741**	208,034	385	(4,034)	204,385
Non-government asset-backed securities	**—**	**—**	**—**	**—**	12,592	—	(9)	12,583
Collateralized mortgage obligations:								
Government agency	**3,367,173**	**47**	**(76,746)**	**3,290,474**	3,409,822	794	(58,794)	3,351,822
Government-sponsored enterprises	**779,911**	**25**	**(17,218)**	**762,718**	700,338	789	(13,206)	687,921
Debt securities issued by states and political subdivisions	**20,543**	**—**	**(64)**	**20,479**	—	—	—	—
Total available-for-sale securities	**$ 5,357,275**	**$ 241**	**$ (122,858)**	**$ 5,234,658**	$ 5,176,615	$ 1,984	$ (101,085)	$ 5,077,514

Proceeds from calls and sales of investment securities were both nil for the year ended December 31, 2017. Proceeds from calls and sales of investment securities totaled $121.2 million and $825.4 million, respectively, for the year ended December 31, 2016. Proceeds from calls and sales of investment securities totaled $25.0 million and $2.5 billion, respectively, for the year ended December 31, 2015. The Company recorded gross realized gains of nil, $27.4 million and $18.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. The Company recorded gross realized losses of nil, $0.1 million and $6.5 million for the years ended December 31, 2017, 2016, and 2015, respectively. The income tax expense related to the Company's net realized gains on the sale of investment securities was nil, $10.8 million and $4.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Gains and losses realized on sales of securities are determined using the specific identification method.

Interest income from taxable investment securities was $102.3 million, $83.0 million and $73.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. Interest income from non-taxable investment securities was $0.1 million for the year ended December 31, 2017. The Company did not own any non-taxable investment securities during the years ended December 31, 2016 and 2015.

The amortized cost and fair value of debt securities issued by the U.S. Treasury, government-sponsored enterprises and states and political subdivisions as of December 31, 2017, by contractual maturity, are shown below. Mortgage-backed securities and collateralized mortgage obligations are disclosed separately in the table below as remaining expected maturities will differ from contractual maturities as borrowers have the right to prepay obligations.

(dollars in thousands)	December 31, 2017 Amortized Cost	December 31, 2017 Fair Value
Due after one year through five years	$ 356,451	$ 345,162
Due after five years through ten years	297,637	289,694
Due after ten years	20,543	20,479
	674,631	655,335
Government agency mortgage-backed securities	356,858	351,390
Government-sponsored enterprises mortgage-backed securities	178,702	174,741
Collateralized mortgage obligations:		
Government agency	3,367,173	3,290,474
Government-sponsored enterprises	779,911	762,718
Total mortgage-backed securities and collateralized mortgage obligations	4,682,644	4,579,323
Total available-for-sale securities	$ 5,357,275	$ 5,234,658

At December 31, 2017, pledged securities totaled $3.0 billion, of which $2.8 billion was pledged to secure public deposits and $229.2 million was pledged to secure other financial transactions. At December 31, 2016, pledged securities totaled $2.7 billion, of which $2.5 billion was pledged to secure public deposits and repurchase agreements, and $209.1 million was pledged to secure other financial transactions.

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

The following table presents the unrealized gross losses and fair values of securities in the available-for-sale portfolio by length of time that the 196 and 158 individual securities in each category have been in a continuous loss position as of December 31, 2017 and 2016, respectively. The unrealized losses on investment securities were attributable to market conditions.

	Time in Continuous Loss as of December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasury securities	$ (994)	$ 48,182	$ (11,127)	$ 344,073	$ (12,121)	$ 392,255
Government-sponsored enterprises debt securities	(642)	59,358	(6,469)	183,243	(7,111)	242,601
Government agency mortgage-backed securities	(976)	200,963	(4,492)	150,427	(5,468)	351,390
Government-sponsored enterprises mortgage-backed securities	(1)	63	(4,129)	168,342	(4,130)	168,405
Collateralized mortgage obligations:						
Government agency	(23,236)	1,473,170	(53,510)	1,803,338	(76,746)	3,276,508
Government-sponsored enterprises	(3,203)	327,435	(14,015)	403,321	(17,218)	730,756
Debt securities issued by states and political subdivisions	(64)	10,641	—	—	(64)	10,641
Total available-for-sale securities with unrealized losses	$ (29,116)	$ 2,119,812	$ (93,742)	$ 3,052,744	$ (122,858)	$ 5,172,556

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

Other-Than-Temporary Impairment (“OTTI”)

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

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

Visa Class B Restricted Shares

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

During the year ended December 31, 2016, the Company recorded a $22.7 million net realized gain related to the sale of 274,000 Visa Class B restricted shares. Concurrent with the sale of the Visa Class B restricted shares, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank’s Class B conversion ratio to unrestricted Class A common shares. See “Note 17. Derivative Financial Instruments” for more information.

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

4. Loans and Leases

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

(dollars in thousands)	December 31, 2017	December 31, 2016
Commercial and industrial	**$ 3,135,266**	$ 3,239,600
Real estate:		
Commercial	**2,667,597**	2,343,495
Construction	**632,911**	450,012
Residential	**4,090,053**	3,796,459
Total real estate	**7,390,561**	6,589,966
Consumer	**1,586,476**	1,510,772
Lease financing	**165,066**	180,040
Total loans and leases	**$ 12,277,369**	$ 11,520,378

Outstanding loan balances are reported net of unearned income, including net deferred loan costs of $31.2 million and $23.8 million at December 31, 2017 and 2016, respectively.

As of December 31, 2017, residential real estate loans totaling $2.4 billion were pledged to collateralize the Company’s borrowing capacity at the FHLB, and consumer and commercial and industrial loans totaling $914.5 million were pledged to collateralize the borrowing capacity at the FRB. As of December 31, 2016, residential real estate loans totaling $2.1 billion were pledged to collateralize the Company’s borrowing capacity at the FHLB, and consumer and commercial and industrial loans totaling $935.7 million were pledged to collateralize the borrowing capacity at the FRB. Residential real estate loans collateralized by properties that were in the process of foreclosure totaled $3.3 million and $4.1 million at December 31, 2017 and 2016, respectively.

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

The Company’s leasing activities consist primarily of leasing automobiles and commercial equipment. Lessees are responsible for all maintenance, taxes and insurance on the leased property.

The following lists the components of the net investment in financing leases:

(dollars in thousands)	December 31, 2017	December 31, 2016
Total minimum lease payments to be received	**$ 190,669**	$ 205,389
Estimated residual values of leased property	**4,450**	4,509
Unearned income	**(30,053)**	(29,858)
Net investment in financing leases	**$ 165,066**	$ 180,040

At December 31, 2017, the schedule of future minimum lease payments to be received was as follows:

(dollars in thousands)	Minimum Lease Payments
Year ending December 31:	
2018	$ **29,362**
2019	**23,815**
2020	**17,413**
2021	**12,251**
2022	**6,117**
Thereafter	**101,711**
Total	$ **190,669**

The Company is the lessor in various leveraged lease agreements under which light rail equipment with estimated economic lives ranging from 25 to 34 years are leased for terms up to 24 years. The Company's equity investment typically represents approximately 20% of the purchase price, with the remaining percentage being furnished by third-party financing in the form of long-term debt that provides for no recourse against the Company and is secured by a first lien on the asset. The residual value of the asset is estimated at the beginning of the lease based on appraisals and other methods and is reviewed at least annually for impairment. At the end of the lease term, the lessee generally has the option of purchasing the asset or returning the asset to the Company. In some cases, other end-of-lease options may be available. Most of the Company's leveraged leases contain an early buyout option allowing the lessee to purchase the asset and terminate the lease at a specified date during the lease term. For income tax purposes, the Company generally retains the tax benefit of depreciation and amortization on the leased property and interest deductions on the related long-term debt. During the early years of the lease, tax deductions generally exceed lease rental income, resulting in reduced income tax payments. In the later years of the lease, rental income will exceed the deductions, resulting in higher income taxes payable. Deferred taxes are provided to reflect this timing difference in accordance with Accounting Standards Codification ("ASC") 840. As of December 31, 2017, the Company's leveraged leases are commonly referred to as Sale-In, Lease-Out leases for which the Company and the Internal Revenue Service entered into binding settlement agreements in prior years. The effects of the settlements have been accounted for in accordance with ASC 840. In general, the settlement agreement accelerated taxable income into the earlier years of the lease and reduced the taxable income recognized in the later years of the lease, thereby lessening the timing benefit described above.

The Company's net investment in leveraged leases, which is included in lease financing, was comprised of the following:

	December 31,	
(dollars in thousands)	2017	2016
Rentals receivable, net of principal and interest on non-recourse debt	$ **66,026**	$ 91,366
Unearned and deferred income	**(19,638)**	(21,416)
Investment in leveraged leases	**46,388**	69,950
Deferred taxes arising from leveraged leases	**(2,145)**	(21,413)
Net investment in leveraged leases	$ **44,243**	$ 48,537

Pretax income from leveraged leases amounted to $1.8 million, $2.2 million and $3.0 million, and the related income tax benefit was $1.0 million and income tax expense of $0.9 million and $1.2 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

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

(dollars in thousands)	December 31, 2017	2016
Commercial and industrial	**$ 2,406,261**	$ 2,185,810
Real estate:		
Commercial	**78,266**	88,331
Construction	**450,856**	434,406
Residential	**980,792**	953,781
Total real estate	**1,509,914**	1,476,518
Consumer	**1,485,588**	1,459,467
Lease financing	**—**	16
Total loan and lease commitments	**$ 5,401,763**	$ 5,121,811

5. Allowance for Loan and Lease Losses

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

Segmentation

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

Specific Allocation

Commercial

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

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

Residential

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

Consumer

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

Pooled Allocation

Commercial

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

Residential and Consumer

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

Qualitative Adjustments

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

Unallocated Allowance

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

The Allowance was comprised of the following:

	Year Ended December 31, 2017							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of year	$ 33,129	$ 18,448	$ 4,513	$ 847	$ 43,436	$ 28,388	$ 6,733	$ 135,494
Charge-offs	(1,519)	—	—	(147)	(408)	(23,851)	—	(25,925)
Recoveries	844	596	—	—	687	7,057	—	9,184
Increase (decrease) in Provision	1,552	(1,000)	2,304	(89)	(863)	19,655	(3,059)	18,500
Balance at end of year	$ 34,006	$ 18,044	$ 6,817	$ 611	$ 42,852	$ 31,249	$ 3,674	$ 137,253
Individually evaluated for impairment	4	6	—	—	484	—	—	494
Collectively evaluated for impairment	34,002	18,038	6,817	611	42,368	31,249	3,674	136,759
Loans and leases:								
Individually evaluated for impairment	$ 18,183	$ 10,636	$ —	$ —	$ 16,530	$ —	$ —	$ 45,349
Collectively evaluated for impairment	3,117,083	2,656,961	632,911	165,066	4,073,523	1,586,476	—	12,232,020
Balance at end of year	$ 3,135,266	$ 2,667,597	$ 632,911	$ 165,066	$ 4,090,053	$ 1,586,476	$ —	$ 12,277,369

	Year Ended December 31, 2016							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of year	$ 34,025	$ 18,489	$ 3,793	$ 888	$ 46,099	$ 28,385	$ 3,805	$ 135,484
Charge-offs	(348)	—	—	—	(799)	(18,791)	—	(19,938)
Recoveries	251	3,329	—	2	1,358	6,408	—	11,348
Increase (decrease) in Provision	(799)	(3,370)	720	(43)	(3,222)	12,386	2,928	8,600
Balance at end of year	$ 33,129	$ 18,448	$ 4,513	$ 847	$ 43,436	$ 28,388	$ 6,733	$ 135,494
Individually evaluated for impairment	380	7	—	—	705	—	—	1,092
Collectively evaluated for impairment	32,749	18,441	4,513	847	42,731	28,388	6,733	134,402
Loans and leases:								
Individually evaluated for impairment	$ 27,572	$ 12,545	$ —	$ 153	$ 19,158	$ —	$ —	$ 59,428
Collectively evaluated for impairment	3,212,028	2,330,950	450,012	179,887	3,777,301	1,510,772	—	11,460,950
Balance at end of year	$ 3,239,600	$ 2,343,495	$ 450,012	$ 180,040	$ 3,796,459	$ 1,510,772	$ —	$ 11,520,378

	Year Ended December 31, 2015							
	Commercial Lending							
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Residential	Consumer	Unallocated	Total
Allowance for loan and lease losses:								
Balance at beginning of year	$ 31,835	$ 16,320	$ 4,725	$ 1,089	$ 44,858	$ 27,041	$ 8,931	$ 134,799
Charge-offs	(866)	—	—	—	(618)	(18,312)	—	(19,796)
Recoveries	940	1,115	—	3	2,198	6,325	—	10,581
Increase (decrease) in Provision	2,116	1,054	(932)	(204)	(339)	13,331	(5,126)	9,900
Balance at end of year	$ 34,025	$ 18,489	$ 3,793	$ 888	$ 46,099	$ 28,385	$ 3,805	$ 135,484
Individually evaluated for impairment	—	—	—	—	592	—	—	592
Collectively evaluated for impairment	34,025	18,489	3,793	888	45,507	28,385	3,805	134,892
Loans and leases:								
Individually evaluated for impairment	$ 15,845	$ 5,787	$ —	$ 181	$ 22,334	$ —	$ —	$ 44,147
Collectively evaluated for impairment	3,041,610	2,158,661	367,460	198,498	3,510,093	1,401,561	—	10,677,883
Balance at end of year	$ 3,057,455	$ 2,164,448	$ 367,460	$ 198,679	$ 3,532,427	$ 1,401,561	$ —	$ 10,722,030

Credit Quality

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

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

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

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

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

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

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

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

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

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

	December 31, 2017				
(dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Construction	Lease Financing	Total
Grade:					
Pass	**$ 3,035,121**	**$ 2,619,494**	**$ 628,112**	**$ 162,849**	**$ 6,445,576**
Special mention	**43,435**	**26,248**	**2,377**	**1,816**	**73,876**
Substandard	**54,996**	**21,855**	**2,422**	**401**	**79,674**
Doubtful	**1,714**	**—**	**—**	**—**	**1,714**
Total	**$ 3,135,266**	**$ 2,667,597**	**$ 632,911**	**$ 165,066**	**$ 6,600,840**

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

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

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

	December 31, 2017				
(dollars in thousands)	Residential	Consumer	Consumer - Auto	Credit Cards	Total
Performing	**$ 4,073,834**	**$ 231,023**	**$ 1,001,085**	**$ 324,781**	**$ 5,630,723**
Non-performing and delinquent	**16,219**	**3,335**	**22,612**	**3,640**	**45,806**
Total	**$ 4,090,053**	**$ 234,358**	**$ 1,023,697**	**$ 328,421**	**$ 5,676,529**

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

Impaired and Nonaccrual Loans and Leases

The Company evaluates certain loans and leases individually for impairment. A loan or lease is considered to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan or lease. An allowance for impaired commercial loans, including commercial real estate and construction loans, is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. An allowance for impaired residential loans is measured based on the estimated fair value of the collateral, less any selling costs. Management exercises significant judgment in developing these estimates.

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

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

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

	December 31, 2017							
	Accruing Loans and Leases							
(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due	Current	Total Accruing Loans and Leases	Total Non Accruing Loans and Leases	Total Outstanding
Commercial and industrial	$ 156	$ —	$ 220	$ 376	$ 3,131,958	$ 3,132,334	$ 2,932	$ 3,135,266
Commercial real estate	—	1,099	1,400	2,499	2,663,312	2,665,811	1,786	2,667,597
Construction	—	2,001	—	2,001	630,910	632,911	—	632,911
Lease financing	—	—	—	—	165,066	165,066	—	165,066
Residential	8,463	1,289	1,360	11,112	4,073,834	4,084,946	5,107	4,090,053
Consumer	24,379	3,814	1,394	29,587	1,556,889	1,586,476	—	1,586,476
Total	$ 32,998	$ 8,203	$ 4,374	$ 45,575	$ 12,221,969	$ 12,267,544	$ 9,825	$ 12,277,369

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

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

(dollars in thousands)	December 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial and industrial	$ 18,036	$ 18,909	$ —
Commercial real estate	9,745	9,745	—
Residential	8,648	9,006	—
Total	$ 36,429	$ 37,660	$ —
Impaired loans with a related allowance recorded:			
Commercial and industrial	$ 147	$ 147	$ 4
Commercial real estate	891	891	6
Residential	7,882	8,162	484
Total	$ 8,920	$ 9,200	$ 494
Total impaired loans:			
Commercial and industrial	$ 18,183	$ 19,056	$ 4
Commercial real estate	10,636	10,636	6
Residential	16,530	17,168	484
Total	$ 45,349	$ 46,860	$ 494

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

The following table provides information with respect to the Company's average balances, and of interest income recognized from, impaired loans for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31, 2017	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:		
Commercial and industrial	**$ 19,929**	**$ 890**
Commercial real estate	**9,846**	**417**
Lease financing	**61**	**—**
Residential	**8,582**	**567**
Total	**$ 38,418**	**$ 1,874**
Impaired loans with a related allowance recorded:		
Commercial and industrial	**$ 2,572**	**$ 10**
Commercial real estate	**918**	**42**
Residential	**8,897**	**344**
Total	**$ 12,387**	**$ 396**
Total impaired loans:		
Commercial and industrial	**$ 22,501**	**$ 900**
Commercial real estate	**10,764**	**459**
Lease financing	**61**	**—**
Residential	**17,479**	**911**
Total	**$ 50,805**	**$ 2,270**

	Year Ended December 31, 2016	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:		
Commercial and industrial	$ 25,676	$ 925
Commercial real estate	9,304	704
Construction	113	—
Lease financing	170	5
Residential	12,289	756
Total	$ 47,552	$ 2,390
Impaired loans with a related allowance recorded:		
Commercial and industrial	$ 1,430	$ 643
Commercial real estate	381	46
Residential	8,497	415
Total	$ 10,308	$ 1,104
Total impaired loans:		
Commercial and industrial	$ 27,106	$ 1,568
Commercial real estate	9,685	750
Construction	113	—
Lease financing	170	5
Residential	20,786	1,171
Total	$ 57,860	$ 3,494

(dollars in thousands)	Year Ended December 31, 2015 Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:		
Commercial and industrial	$ 16,666	$ 317
Commercial real estate	6,516	444
Lease financing	186	—
Residential	18,518	292
Total	$ 41,886	$ 1,053
Impaired loans with a related allowance recorded:		
Residential	$ 6,889	$ 258
Total	$ 6,889	$ 258
Total impaired loans:		
Commercial and industrial	$ 16,666	$ 317
Commercial real estate	6,516	444
Lease financing	186	—
Residential	25,407	550
Total	$ 48,775	$ 1,311

Modifications

Commercial and industrial loans modified in a troubled debt restructuring ("TDR") often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial real estate and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Lease financing modifications generally involve a short-term forbearance period, usually about three months, after which the missed payments are added to the end of the lease term, thereby extending the maturity date. Interest continues to accrue on the missed payments and as a result, the effective yield on the lease remains unchanged. As the forbearance period usually involves an insignificant payment delay, lease financing modifications typically do not meet the reporting criteria for a TDR. Residential real estate loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower reverts to paying principal and interest per the original terms with the maturity date adjusted accordingly. Generally, consumer loans are not classified as a TDR as they are normally charged off upon reaching a predetermined delinquency status that ranges from 120 to 180 days and varies by product type.

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

The following presents, by class, information related to loans modified in a TDR during the years ended December 31, 2017, 2016 and 2015:

(dollars in thousands)	Year Ended December 31, 2017 Number of Contracts	Recorded Investment[(1)]	Related Allowance
Commercial and industrial	1	$ 1,075	$ —
Residential	2	659	23
Total	3	$ 1,734	$ 23

(dollars in thousands)	Year Ended December 31, 2016 Number of Contracts	Recorded Investment[(1)]	Related Allowance
Commercial and industrial	7	$ 14,933	$ 377
Commercial real estate	6	9,709	7
Residential	12	5,159	234
Total	25	$ 29,801	$ 618

(dollars in thousands)	Year Ended December 31, 2015 Number of Contracts	Recorded Investment[(1)]	Related Allowance
Commercial and industrial	5	$ 11,888	$ —
Commercial real estate	4	5,649	—
Residential	21	11,906	592
Total	30	$ 29,443	$ 592

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

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

The Company had total remaining loan and lease commitments of $5.4 billion as of December 31, 2017 and $5.1 billion as of December 31, 2016. Of the $5.4 billion at December 31, 2017, there were commitments of $1.9 million related to borrowers who had loan terms modified in a TDR. Of the $5.1 billion at December 31, 2016, there were commitments of $6.9 million related to borrowers who had loan terms modified in a TDR.

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

	Year Ended December 31,					
	2017		2016		2015	
(dollars in thousands)	Number of Contracts	Recorded Investment[(1)]	Number of Contracts	Recorded Investment[(1)]	Number of Contracts	Recorded Investment[(1)]
Commercial and industrial[(2)]	1	$ 2,480	—	$ —	3	$ 6,153
Commercial real estate[(3)]	1	1,393	1	1,399	—	—
Residential[(4)]	—	—	—	—	7	2,281
Total	2	$ 3,873	1	$ 1,399	10	$ 8,434

(1) The recorded investment balances reflect all partial paydowns and charge-offs since the modification date and do not include TDRs that have been fully paid off, charged off or foreclosed upon by the end of the period.
(2) In 2017, the maturity date for the commercial and industrial loan that subsequently defaulted was extended. In 2015, all three commercial and industrial loans that subsequently defaulted were refinanced.
(3) In 2017 and 2016, the commercial real estate loan that subsequently defaulted was modified by extending the maturity date.
(4) In 2015, all seven residential real estate loans that subsequently defaulted were modified by reducing interest rates, increasing amortizations and deferring principal payments.

Foreclosure Proceedings

There was one residential mortgage loan of $0.3 million collateralized by real estate property that was modified in a TDR that was in the process of foreclosure at December 31, 2017 and one residential mortgage loan $0.5 million collateralized by real estate property that was in process of foreclosure at December 31, 2016.

Foreclosed Property

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

6. Premises and Equipment

At December 31, 2017 and 2016, premises and equipment were comprised of the following:

(dollars in thousands)	December 31, 2017	December 31, 2016
Buildings	**$ 279,635**	$ 279,563
Furniture and equipment	**80,519**	76,832
Land	**88,031**	89,164
Leasehold improvements	**46,996**	52,657
Total premises and equipment	**495,181**	498,216
Less: Accumulated depreciation and amortization	**205,966**	197,428
Net book value	**$ 289,215**	$ 300,788

Depreciation and amortization expenses included in occupancy and equipment expenses for 2017, 2016 and 2015 were as follows:

(dollars in thousands)	Year Ended December 31, 2017	2016	2015
Occupancy	**$ 8,852**	$ 8,901	$ 9,039
Equipment	**6,426**	5,898	5,507
Total	**$ 15,278**	$ 14,799	$ 14,546

The Company, as a lessor, leases certain properties that it owns. The cost and accumulated depreciation related to leased properties were $289.0 million and $126.0 million, respectively, as of December 31, 2017, and $292.5 million and $122.9 million, respectively, as of December 31, 2016.

7. Other Assets

Goodwill

Goodwill originated from the acquisition of BancWest by BNPP in December 2001. Goodwill generated in that acquisition was recorded on the Company's consolidated balance sheets as a result of push-down accounting treatment.

The carrying amount of goodwill reported in two of the Company's reporting segments as of December 31, 2017 and 2016 were as shown below. The Treasury and Other segment is not assigned goodwill.

(in thousands)	Retail Banking	Commercial Banking	Total
December 31, 2017	**$ 687,492**	**$ 308,000**	**$ 995,492**
December 31, 2016	687,492	308,000	995,492

There was no impairment of the Company's goodwill for the years ended December 31, 2017, 2016 and 2015.

Mortgage Servicing Rights ("MSRs")

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 consumer loans serviced for others was $2.3 billion and $2.7 billion as of December 31, 2017 and 2016, respectively. Servicing fees include contractually specified fees, late charges, and ancillary fees, and were $6.5 million, $7.7 million and $8.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Amortization of MSRs was $3.6 million, $4.7 million and $5.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. The estimated future amortization expense for MSRs over the next five years is as follows:

(dollars in thousands)	Estimated Amortization
Year ending December 31:	
2018	**$ 1,959**
2019	**1,702**
2020	**1,486**
2021	**1,297**
2022	**1,133**

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

(dollars in thousands)	December 31, 2017	December 31, 2016
Gross carrying amount	**$ 56,571**	$ 56,544
Less: accumulated amortization	**43,375**	39,735
Net carrying value	**$ 13,196**	$ 16,809

The following table presents changes in amortized MSRs for the periods indicated:

(dollars in thousands)	Year Ended December 31, 2017	Year Ended December 31, 2016
Balance at beginning of year	**$ 16,809**	$ 21,435
Originations	**27**	65
Amortization	**(3,640)**	(4,691)
Balance at end of year	**$ 13,196**	$ 16,809
Fair value of amortized MSRs at beginning of year	**$ 25,160**	$ 29,676
Fair value of amortized MSRs at end of year	**$ 21,697**	$ 25,160
Balance of loans serviced for others	**$ 2,342,619**	$ 2,702,489

MSRs are evaluated for impairment if events and circumstances indicate a possible impairment. No impairment of MSRs was recorded for the years ended December 31, 2017, 2016 and 2015.

The quantitative assumptions used in determining the lower of cost or fair value of the Company's MSRs were as follows:

	2017		2016	
	Range	Weighted Average	Range	Weighted Average
Conditional prepayment rate	**8.53 % - 19.63 %**	**9.04 %**	8.61 % - 18.01 %	9.16 %
Life in years (of the MSR)	**3.29 - 7.15**	**6.76**	3.75 - 7.26	6.19
Weighted-average coupon rate	**3.97 % - 6.79 %**	**4.04 %**	3.99 % - 6.87 %	4.06 %
Discount rate	**10.50 % - 10.52 %**	**10.50 %**	10.46 % - 10.52 %	10.50 %

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

Other

The Company had $52.3 million and $12.9 million in affordable housing and other tax credit investment partnership interest as of December 31, 2017 and 2016, respectively, included in other assets on the consolidated balance sheets. The amount of amortization of such investments reported in the provision for income taxes was $3.5 million, $3.5 million and $3.3 million during the years ended December 31, 2017, 2016 and 2015, respectively. The affordable housing tax credits and other benefits recognized during the years ended December 31, 2017, 2016 and 2015 were $4.5 million, $4.8 million and $4.7 million, respectively.

Nonmarketable equity securities include FHLB stock, which the Company holds to meet regulatory requirements. As a member of the FHLB system, the Company is required to maintain a minimum level of investment in FHLB non-publicly traded stock based on specific percentages of the Company's total assets and outstanding advances in accordance with the FHLB's capital plan which may be amended or revised periodically. Amounts in excess of the required minimum may be transferred at par to another member institution subject to prior approval of the FHLB. Excess stock may also be sold to the FHLB subject to a 5-year redemption notice period and at the sole discretion of the FHLB. These securities are accounted for under the cost method. These investments are considered long-term investments by management and accordingly, the ultimate recoverability of its par value is considered rather than considering temporary declines in value. The investment in FHLB stock at both December 31, 2017 and 2016 was $10.1 million and was included in other assets on the consolidated balance sheets.

8. Transfers of Financial Assets

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

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

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

(dollars in thousands)	2017	2016
Public deposits	**$ 2,800,690**	$ 2,521,761
Federal Home Loan Bank	**2,388,702**	2,097,233
Federal Reserve Bank	**914,454**	935,672
Repurchase agreements	**—**	10,066
ACH transactions	**151,526**	152,394
Interest rate swaps	**27,502**	30,399
Total	**$ 6,282,874**	$ 5,747,525

As the Company did not enter into reverse repurchase agreements, no collateral was accepted as of December 31, 2017 and 2016. In addition, no debt was extinguished by in-substance defeasance.

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

	December 31, 2016			
	Remaining Contractual Maturity of the Agreements			
(dollars in thousands)	Up to 30 days	30-90 days	Greater than 90 days	Total
Government agency collateralized mortgage obligations	$ 1,200	$ —	$ 4,951	$ 6,151
Government-sponsored enterprises mortgage-backed securities	—	2,000	1,000	3,000
Gross amount of recognized liabilities for repurchase agreements in Note 10	$ 1,200	$ 2,000	$ 5,951	$ 9,151

9. Deposits

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

(dollars in thousands)	2017	2016
U.S.:		
Interest-bearing	**$ 10,800,140**	$ 10,129,958
Noninterest-bearing	**5,494,803**	5,399,212
Foreign:		
Interest-bearing	**685,129**	671,957
Noninterest-bearing	**632,050**	593,405
Total deposits	**$ 17,612,122**	$ 16,794,532

The following table presents the maturity distribution of time certificates of deposits as of December 31, 2017:

(dollars in thousands)	Under $250,000	$250,000 or More	Total
Three months or less	**$ 327,392**	**$ 1,732,230**	**$ 2,059,622**
Over three through six months	**274,728**	**662,539**	**937,267**
Over six through twelve months	**215,994**	**273,157**	**489,151**
2019	**139,981**	**157,655**	**297,636**
2020	**103,416**	**45,984**	**149,400**
2021	**99,475**	**39,564**	**139,039**
2022	**62,351**	**39,290**	**101,641**
Thereafter	**126**	**—**	**126**
Total	**$ 1,223,463**	**$ 2,950,419**	**$ 4,173,882**

Time certificates of deposit in denominations of $250,000 or more, in the aggregate, were $3.0 billion and $2.5 billion as of December 31, 2017 and 2016, respectively. Overdrawn deposit accounts are classified as loans and totaled $2.7 million and $1.5 million at December 31, 2017 and 2016, respectively.

10. Short-Term Borrowings

At December 31, 2017 and 2016, short-term borrowings were comprised of the following:

(dollars in thousands)	2017	2016
Federal funds purchased	**$ —**	$ —
Securities sold under agreements to repurchase	**—**	9,151
Total short-term borrowings	**$ —**	$ 9,151

The table below provides selected information for short-term borrowings for the years ended December 31, 2017, 2016 and 2015:

(dollars in thousands)	Year Ended December 31, 2017	2016	2015
Federal funds purchased:			
Weighted-average interest rate at December 31,	**— %**	— %	— %
Highest month-end balance	**$ 6,000**	$ —	$ 8,000
Average outstanding balance	**$ 1,280**	$ 610	$ 4,727
Weighted-average interest rate paid	**0.97 %**	0.25 %	0.05 %
Securities sold under agreements to repurchase:			
Weighted-average interest rate at December 31,	**— %**	0.54 %	0.11 %
Highest month-end balance	**$ 5,951**	$ 235,451	$ 520,740
Average outstanding balance	**$ 893**	$ 112,937	$ 376,902
Weighted-average interest rate paid	**0.55 %**	0.17 %	0.05 %

The Company treats securities sold under agreements to repurchase as collateralized financings. The Company reflects the obligations to repurchase the same or similar securities sold as liabilities, with the dollar amount of securities underlying the agreements remaining in the asset accounts. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount borrowed. As such, the collateral pledged may be increased or decreased over time to meet contractual obligations. The securities underlying the agreements to repurchase are held in collateral accounts with a third-party custodian.

At December 31, 2017, the Company had $1.8 billion and $688.7 million in lines of credit available from the FHLB and the FRB, respectively. None of the lines available were drawn upon as of December 31, 2017.

11. Long-Term Debt

Long-term debt consisted of the following at December 31, 2017 and 2016:

(dollars in thousands)	December 31, 2017	2016
Capital lease[(1)]	**$ 34**	$ 41
Total long-term debt	**$ 34**	$ 41

(1) Interest is payable monthly.

At December 31, 2017 and 2016, the Company had a capital lease obligation with a 6.78% interest rate that matures in 2021.

At December 31, 2017, future contractual principal payments on long-term debt were as follows:

(dollars in thousands)	Principal Payments
Year ending December 31:	
2018	**$ 8**
2019	**8**
2020	**9**
2021	**9**
Total	**$ 34**

12. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is defined as the change in stockholders' equity from all transactions other than those with stockholders, and is comprised of net income and other comprehensive income (loss). The Company's significant items of accumulated other comprehensive income (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 income (loss) for the years ended December 31, 2017, 2016 and 2015 are presented below:

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2016	$ (145,472)	$ 57,461	$ (88,011)
Year ended December 31, 2017			
Pension and other benefits:			
Net actuarial losses arising during the year	**(1,104)**	**436**	**(668)**
Prior service credit	**(429)**	**170**	**(259)**
Amortization of net loss included in net income	**8,625**	**(3,407)**	**5,218**
Net change in pension and other benefits	**7,092**	**(2,801)**	**4,291**
Investment securities:			
Unrealized net losses arising during the year	**(23,516)**	**9,357**	**(14,159)**
Net change in unrealized losses on investment securities	**(23,516)**	**9,357**	**(14,159)**
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the year	**2,473**	**(977)**	**1,496**
Net change in unrealized gains on cash flow derivative hedges	**2,473**	**(977)**	**1,496**
Other comprehensive loss	**(13,951)**	**5,579**	**(8,372)**
Accumulated other comprehensive loss at December 31, 2017	**$ (159,423)**	**$ 63,040**	**$ (96,383)**

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2015	$ (84,722)	$ 33,463	$ (51,259)
Year ended December 31, 2016			
Pension and other benefits:			
Net actuarial losses arising during the year	(12,666)	5,004	(7,662)
Prior service credit	(429)	169	(260)
Amortization of net loss included in net income	7,629	(3,012)	4,617
Change due to Reorganization Transactions	(81)	32	(49)
Net change in pension and other benefits	(5,547)	2,193	(3,354)
Investment securities:			
Unrealized net losses arising during the year	(30,323)	11,974	(18,349)
Reclassification of net gains to net income:			
Investment securities gains, net	(27,277)	10,774	(16,503)
Net change in unrealized losses on investment securities	(57,600)	22,748	(34,852)
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the year	2,397	(943)	1,454
Net change in unrealized gains on cash flow derivative hedges	2,397	(943)	1,454
Other comprehensive loss	(60,750)	23,998	(36,752)
Accumulated other comprehensive loss at December 31, 2016	$ (145,472)	$ 57,461	$ (88,011)

(dollars in thousands)	Pre-tax Amount	Income Tax Benefit (Expense)	Net of Tax
Accumulated other comprehensive loss at December 31, 2014	$ (85,048)	$ 33,591	$ (51,457)
Year ended December 31, 2015			
Pension and other benefits:			
Net actuarial gains arising during the year	5,322	(2,102)	3,220
Prior service credit	(429)	169	(260)
Amortization of net loss included in net income	9,960	(3,934)	6,026
Net change in pension and other benefits	14,853	(5,867)	8,986
Investment securities:			
Unrealized net losses arising during the year	(3,503)	1,384	(2,119)
Reclassification of net gains to net income:			
Investment securities gains, net	(12,321)	4,867	(7,454)
Net change in unrealized losses on investment securities	(15,824)	6,251	(9,573)
Cash flow derivative hedges:			
Unrealized net gains on cash flow derivative hedges arising during the year	1,684	(665)	1,019
Reclassification of net realized gains included in net income	(387)	153	(234)
Net change in unrealized gains on cash flow derivative hedges	1,297	(512)	785
Other comprehensive income	326	(128)	198
Accumulated other comprehensive loss at December 31, 2015	$ (84,722)	$ 33,463	$ (51,259)

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

(dollars in thousands)	Pensions and Other Benefits	Unrealized Losses on Investment Securities	Unrealized Gains (Losses) on Cash Flow Derivative Hedges	Total Accumulated Other Comprehensive Loss
Year Ended December 31, 2017				
Balance at beginning of year	**$ (30,237)**	**$ (59,958)**	**$ 2,184**	**$ (88,011)**
Other comprehensive income (loss)	**4,291**	**(14,159)**	**1,496**	**(8,372)**
Balance at end of year	**$ (25,946)**	**$ (74,117)**	**$ 3,680**	**$ (96,383)**
Year Ended December 31, 2016				
Balance at beginning of year	$ (26,883)	$ (25,106)	$ 730	$ (51,259)
Other comprehensive income (loss)	(3,354)	(34,852)	1,454	(36,752)
Balance at end of year	$ (30,237)	$ (59,958)	$ 2,184	$ (88,011)
Year Ended December 31, 2015				
Balance at beginning of year	$ (35,869)	$ (15,533)	$ (55)	$ (51,457)
Other comprehensive income (loss)	8,986	(9,573)	785	198
Balance at end of year	$ (26,883)	$ (25,106)	$ 730	$ (51,259)

At December 31, 2017 and 2016, there were no non-credit other-than-temporary impairment losses on securities available for sale.

13. Regulatory Capital Requirements

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

The Company and the Bank are subject to various regulatory capital requirements imposed by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's operating activities and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and

Bank must meet specific capital guidelines that involve quantitative measures of its assets and certain off-balance-sheet items. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

The following provides definitions for the regulatory risk-based capital ratios and leverage ratio, which are calculated as per standard regulatory guidance:

Risk-Weighted Assets — Assets are weighted for risk according to a formula used by the Federal Reserve to conform to capital adequacy guidelines. On- and off-balance sheet items are weighted for risk, with off-balance sheet items converted to balance sheet equivalents, using risk conversion factors, before being allocated a risk-adjusted weight. The off-balance sheet items comprise a minimal part of the overall calculation.

Common Equity Tier 1 Risk-Based Capital Ratio — The CET1 risk-based capital ratio is calculated as CET1 capital, divided by risk-weighted assets. CET1 is the sum of equity, adjusted for ineligible goodwill as well as certain other comprehensive income items as follows: net unrealized gains/losses on securities and derivatives, and net unrealized pension and other benefit losses.

Tier 1 Risk-Based Capital Ratio — The Tier 1 capital ratio is calculated as Tier 1 capital divided by risk-weighted assets.

Total Risk-Based Capital Ratio — The total risk-based capital ratio is calculated as the sum of Tier 1 capital and an allowable amount of the reserve for credit losses (limited to 1.25 percent of risk-weighted assets), divided by risk-weighted assets.

Tier 1 Leverage Ratio — The Tier 1 leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets.

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

	First Hawaiian, Inc. and Subsidiary		**First Hawaiian Bank**		**Minimum Capital**	**Well-Capitalized**
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Ratio[(1)]**	**Ratio[(1)]**
December 31, 2017:						
Common equity tier 1 capital to risk-weighted assets	**$ 1,633,442**	**12.45 %**	**$ 1,623,455**	**12.37 %**	**4.50 %**	**6.50 %**
Tier 1 capital to risk-weighted assets	**1,633,442**	**12.45 %**	**1,623,455**	**12.37 %**	**6.00 %**	**8.00 %**
Total capital to risk-weighted assets	**1,771,295**	**13.50 %**	**1,761,308**	**13.42 %**	**8.00 %**	**10.00 %**
Tier 1 capital to average assets (leverage ratio)	**1,633,442**	**8.52 %**	**1,623,455**	**8.47 %**	**4.00 %**	**5.00 %**
December 31, 2016:						
Common equity tier 1 capital to risk-weighted assets	$ 1,569,004	12.75 %	$ 1,533,056	12.51 %	4.50 %	6.50 %
Tier 1 capital to risk-weighted assets	1,569,004	12.75 %	1,533,063	12.51 %	6.00 %	8.00 %
Total capital to risk-weighted assets	1,705,098	13.85 %	1,669,157	13.62 %	8.00 %	10.00 %
Tier 1 capital to average assets (leverage ratio)	1,569,004	8.36 %	1,533,063	8.19 %	4.00 %	5.00 %

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

A new capital conservation buffer, comprised of common equity Tier 1 capital, was established above the regulatory minimum capital requirements. This capital conservation buffer was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. As of December 31, 2017, under the bank regulatory capital guidelines, the Company and Bank were both classified as well-capitalized. Management is not aware of any conditions or events that have occurred since December 31, 2017, to change the capital category of the Company or the Bank.

14. Leases

Operating lease rental income for leased assets is recognized on a straight-line basis and amounted to $8.3 million, $9.7 million and $9.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. Related depreciation expense for owned properties is recorded in occupancy expense on a straight-line basis over the properties' estimated useful lives.

The following table sets forth future minimum rental income under noncancelable operating leases with terms in excess of one year as of December 31, 2017:

(dollars in thousands)	Minimum Rental Income
Year ending December 31:	
2018	**$ 5,642**
2019	**5,642**
2020	**5,638**
2021	**5,564**
2022	**4,550**
Thereafter	**11,072**
Total	**$ 38,108**

The Company, as lessee, is obligated under a number of noncancelable operating leases for premises and equipment with terms, including renewal options, up to 46 years, many of which provide for periodic adjustment of rent payments based on changes in various economic indicators. Under the premises leases, the Company is usually required to pay real property taxes, insurance and maintenance.

Rental expense, net of sublease income, was as follows:

	Year Ended December 31,		
(dollars in thousands)	2017	2016	2015
Rental expense charged to occupancy	**$ 8,620**	$ 8,689	$ 8,698
Less: sublease income	**1,342**	1,303	1,588
Net rental expense charged to occupancy	**7,278**	7,386	7,110
Rental expense charged to equipment expense	**285**	326	383
Total	**$ 7,563**	$ 7,712	$ 7,493

The following table presents future minimum rental expense under leases with terms in excess of one year as of December 31, 2017:

(dollars in thousands)	Operating Lease Payments	Less Sublease Income	Net Lease Payments
Year ending December 31:			
2018	**$ 7,694**	**$ 893**	**$ 6,801**
2019	**7,449**	**893**	**6,556**
2020	**6,823**	**893**	**5,930**
2021	**5,184**	**881**	**4,303**
2022	**2,557**	**—**	**2,557**
Thereafter	**18,004**	**—**	**18,004**
Total	**$ 47,711**	**$ 3,560**	**$ 44,151**

15. Benefit Plans

Qualified Pension Plan

The Company's employees participated in BancWest's employee retirement plan ("BancWest's ERP"), a qualified noncontributory defined benefit pension plan that was frozen as of December 31, 1995. As a result of that freeze, there are no further benefit accruals for the Company's employees. However, employees retained rights to the benefits accrued as of the date of the freeze. During 2016, the board of directors of BancWest agreed to spin off the assets and liabilities attributable to BOW participants under BancWest's ERP to another qualified noncontributory defined benefit pension plan sponsored by BOW. To meet the requirements of Section 414(I) of the Internal Revenue Code, the ratio of assets to liabilities after the spinoff must be the same for each plan. As a result, the Company made a contribution to BancWest's ERP of $26.0 million prior to the spinoff of the assets and liabilities attributable to the BOW participants in December 2016. BancWest's ERP was renamed as the Employees' Retirement Plan of First Hawaiian, Inc. ("FHI ERP").

No contributions to the pension trust are expected to be made during 2018 for the Company's participants in the FHI ERP. However, should contributions be required in accordance with the funding rules under the Employee Retirement Income Security Act of 1974 ("ERISA"), including the impact of the Pension Protection Act of 2006, the Company would make those required contributions.

Nonqualified Pension and Other Postretirement Benefit Plans

The Company also sponsors an unfunded supplemental executive retirement plan for certain key executives ("SERP"). In addition, the Company sponsors a directors' retirement plan ("Directors' Plan"), a non-qualified pension plan for eligible FHI and FHB directors that qualify for retirement benefits based on their years of service as a director. Both the SERP and the Directors' Plan were frozen as of January 1, 2005 to new participants.

A postretirement benefit plan is also offered to eligible employees that provides life insurance and healthcare benefits upon retirement. The Company provides access to medical coverage for eligible retirees under age 65 at active employee premium rates and a monthly stipend to both retiree and retiree's spouse after age 62.

The Company previously covered the full cost of life insurance benefits for employees that retired on or before December 31, 2014 but discontinued providing this benefit effective January 1, 2015.

The Company expects to contribute $8.9 million to its pension plans, the SERP and Directors' Plan, and $1.3 million to its postretirement medical and life insurance plans in 2018. These contributions reflect the estimated benefit payments for the unfunded plans and may vary depending on retirements during 2018.

Defined Contribution Plans:

401(k) Savings Plan

The Company matched employee contributions to the First Hawaiian, Inc. 401(k) Savings Plan, a qualified defined contribution plan, up to 5% of the employee's pay in 2017 and 2016. The plan covers all employees who satisfy eligibility requirements. A select group of key executives who participate in an unqualified grandfathered supplemental executive retirement plan may participate in the 401(k) plan but are not eligible to receive the matching contribution.

The matching employer contributions to the 401(k) plan for the years ended December 31, 2017, 2016 and 2015 were $4.6 million, $4.3 million and $4.1 million, respectively, and are included in salaries and employee benefits within the consolidated statements of income.

Annual Incentive Awards for Key Executives

The Company makes cash-based annual incentive awards under the First Hawaiian, Inc. Bonus Plan (the "Bonus Plan") and, prior to 2016, made such awards under the Incentive Plan for Key Executives (the "IPKE"). The Bonus Plan and the IPKE limit the aggregate and individual value of the awards that could be issued in any one fiscal year. The Bonus Plan and the IPKE expenses totaled $13.3 million, $13.3 million and $12.7 million for the years ended December 31, 2017, 2016 and 2015, respectively, and are included in salaries and employee benefits within the consolidated statements of income.

Long-Term Incentive Plan

The Company has a Long-Term Incentive Plan (the "LTIP") designed to reward selected key executives for their individual performance and the Company's performance measured over multi-year performance cycles. Awards related to the three-year performance prior to January 1, 2016 were paid and settled in cash. However, the LTIP was amended and restated during the year ended December 31, 2016 to provide for awards to be equity-based effective with the three-year performance period beginning on January 1, 2016.

LTIP expense of $6.7 million, $9.3 million and $5.6 million was recognized in the years ended December 31, 2017, 2016 and 2015, respectively, and are included in salaries and employee benefits within the consolidated statements of income. See "Note 20, Stock-Based Compensation," for more information related to the equity-based awards under the amended and restated LTIP.

The following table details the amounts recognized in other comprehensive income during the years presented. Pension benefits include benefits from the qualified and non-qualified plans. Other benefits include life insurance and healthcare benefits from the postretirement benefit plan.

	Pension Benefits			Other Benefits		
(dollars in thousands)	**2017**	2016	2015	**2017**	2016	2015
Amounts arising during the year:						
Net loss (gain) on pension assets	**$ (8,619)**	$ 3,350	$ 3,700	**$ —**	$ —	$ —
Net loss (gain) on pension obligations	**9,757**	9,653	(8,004)	**(34)**	(337)	(1,018)
Change due to the Reorganization Transactions	**—**	81	—	**—**	—	—
Reclassification adjustments recognized as components of net periodic benefit cost during the year:						
Net loss	**(8,625)**	(7,629)	(9,928)	**—**	—	(32)
Prior service credit	**—**	—	—	**429**	429	429
Amount recognized in other comprehensive income	**$ (7,487)**	$ 5,455	$ (14,232)	**$ 395**	$ 92	$ (621)

The following table shows the amounts within accumulated other comprehensive loss that had not yet been recognized as components of net periodic benefit cost as of December 31, 2017 and 2016:

	Pension Benefits		Other Benefits	
(dollars in thousands)	**2017**	2016	**2017**	2016
Net actuarial loss	**$ 43,547**	$ 51,034	**$ 248**	$ 282
Prior service credit	**—**	—	**(909)**	(1,338)
Total, pretax effect	**43,547**	51,034	**(661)**	(1,056)
Tax impact	**(17,201)**	(20,158)	**261**	417
Ending balance in accumulated other comprehensive loss	**$ 26,346**	$ 30,876	**$ (400)**	$ (639)

The following table provides the amounts within accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost during 2018:

(dollars in thousands)	**Pension Benefits**	**Other Benefits**
Amortization of prior service credit	**$ —**	**$ (429)**
Amortization of net actuarial loss	**6,440**	**—**
Total to be recognized in 2018	**$ 6,440**	**$ (429)**

The following tables summarize the changes to projected benefit obligation ("PBO") and fair value of plan assets for pension benefits and accumulated postretirement benefit obligation ("APBO") and fair value of plan assets for other benefits:

(dollars in thousands)	Pension Benefits 2017	Pension Benefits 2016	Other Benefits 2017	Other Benefits 2016
Benefit obligation at beginning of year	**$ 209,407**	$ 203,384	**$ 20,429**	$ 19,687
Service cost	**629**	944	**738**	697
Interest cost	**8,297**	8,784	**776**	812
Actuarial (gain) loss	**9,757**	9,653	**(34)**	(337)
Benefit payments	**(15,109)**	(14,061)	**(460)**	(430)
Change due to the Reorganization Transactions	**—**	703	**—**	—
Benefit obligation at end of year	**$ 212,981**	$ 209,407	**$ 21,449**	$ 20,429

(dollars in thousands)	Pension Benefits 2017	Pension Benefits 2016	Other Benefits 2017	Other Benefits 2016
Fair value of plan assets at beginning of year	**$ 108,550**	$ 89,161	$ **—**	$ —
Actual return on plan assets	**13,623**	1,348	**—**	—
Contributions by the employer	**—**	25,953	**—**	—
Benefit payments from trust	**(7,953)**	(7,912)	**—**	—
Fair value of plan assets at end of year	**$ 114,220**	$ 108,550	$ **—**	$ —

The following table summarizes the funded status of the Company's plans and amounts recognized in the Company's consolidated balance sheets as of December 31, 2017 and 2016:

(dollars in thousands)	Pension Benefits 2017	Pension Benefits 2016	Other Benefits 2017	Other Benefits 2016
Pension assets for overfunded plans	**$ 14,008**	$ 11,618	**$ —**	$ —
Pension liabilities for underfunded plans	**(112,769)**	(112,475)	**(21,449)**	(20,429)
Funded status	**$ (98,761)**	$ (100,857)	**$ (21,449)**	$ (20,429)

The following table provides information regarding the PBO, accumulated benefit obligation ("ABO"), and fair value of plan assets as of December 31, 2017 and 2016:

(dollars in thousands)	Funded Pension Plan 2017	Funded Pension Plan 2016	Unfunded Pension Plans 2017	Unfunded Pension Plans 2016	Total Pension Plans 2017	Total Pension Plans 2016
Projected benefit obligation	**$ 100,212**	$ 96,859	**$ 112,769**	$ 112,548	**$ 212,981**	$ 209,407
Accumulated benefit obligation	**100,212**	96,859	**110,039**	110,298	**210,251**	207,157
Fair value of plan assets	**114,220**	108,550	**—**	—	**114,220**	108,550
Overfunded (underfunded) portion of PBO/ABO	**14,008**	11,691	**(112,769)**	(112,548)	**(98,761)**	(100,857)

The Company recognizes the overfunded and underfunded status of its pension plans as an asset and liability in the consolidated balance sheets.

Unrecognized net gains or losses that exceed 5% of the greater of the PBO or the market value of plan assets as of the beginning of the year are amortized on a straight-line basis over five years in accordance with ASC 715. Amortization of the unrecognized net gain or loss is included as a component of net periodic pension cost. If amortization results in an amount less than the minimum amortization required under GAAP, the minimum required amount is recorded.

The following table summarizes the change in net actuarial loss and amortization for the years ended December 31, 2017 and 2016:

(dollars in thousands)	Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**
Net actuarial loss at beginning of year	**$ 51,034**	$ 45,579	**$ 282**	$ 619
Amortization cost	**(8,625)**	(7,629)	**—**	—
Liability loss (gain)	**9,757**	9,653	**(34)**	(337)
Asset (gain) loss	**(8,619)**	3,350	**—**	—
Change due to the Reorganization Transactions	**—**	81	**—**	—
Net actuarial loss at end of year	**$ 43,547**	$ 51,034	**$ 248**	$ 282

The following table sets forth the components of net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015, respectively, recorded as a component of salaries and employee benefits in the consolidated statements of income:

(dollars in thousands)	Pension Benefits			Other Benefits		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Service cost	**$ 629**	$ 944	$ 809	**$ 738**	$ 697	$ 734
Interest cost	**8,297**	8,784	8,681	**776**	812	770
Expected return on plan assets	**(5,003)**	(4,698)	(4,178)	**—**	—	—
Prior service credit	**—**	—	—	**(429)**	(429)	(429)
Recognized net actuarial loss	**8,625**	7,629	9,928	**—**	—	32
Total net periodic benefit cost	**$ 12,548**	$ 12,659	$ 15,240	**$ 1,085**	$ 1,080	$ 1,107

The funded pension benefit amounts included in pension benefits for the years ended December 31, 2017, 2016 and 2015 were as follows:

(dollars in thousands)	Funded Pension Benefits		
	2017	**2016**	**2015**
Interest cost	**$ 3,922**	$ 4,182	$ 4,252
Expected return on plan assets	**(5,003)**	(4,698)	(4,178)
Recognized net actuarial loss	**4,316**	3,443	4,225
Total net periodic benefit cost	**$ 3,235**	$ 2,927	$ 4,299

Assumptions

The following weighted-average assumptions were used to determine benefit obligations at December 31, 2017 and 2016:

	FHI ERP Pension Benefits		SERP Pension Benefits		Other Benefits	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Discount rate	**3.51 %**	4.05 %	**3.51 %**	4.05 %	**3.51 %**	4.05 %
Rate of compensation increase	**NA**	NA	**4.00 %**	4.00 %	**NA**	NA

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015 were as follows:

	FHI ERP Pension Benefits			SERP Pension Benefits			Other Benefits		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	**4.05 %**	4.40 %	4.15 %	**4.05 %**	4.40 %	4.15 %	**4.05 %**	4.40 %	4.15 %
Expected long-term return on plan assets	**4.75 %**	5.50 %	4.50 %	**NA**	NA	NA	**NA**	NA	NA
Rate of compensation increase	**NA**	NA	NA	**4.00 %**	4.00 %	4.00 %	**NA**	NA	NA

To select the discount rate, the Company reviews the yield on high quality corporate bonds. This rate is adjusted to convert the yield to an annual discount rate basis and may be adjusted for the population of plan participants to reflect the expected duration of the benefit payments of the plan.

Assumed healthcare cost trend rates were as follows at December 31, 2017, 2016 and 2015:

	2017	2016	2015
Healthcare cost trend rate assumed for next year	**7.00 %**	7.25 %	7.00 %
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.00 %**	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	**2026**	2026	2023

A one percentage-point change in the assumed healthcare cost trend rates would have had the following pre-tax effect:

(dollars in thousands)	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on 2017 total of service and interest cost components	**$ 76**	**$ (69)**
Effect on postretirement benefit obligation at December 31, 2017	**482**	**(446)**

Plan Assets

The Company's pension plan assets were allocated as follows as of December 31, 2017 and 2016:

	Asset Allocation	
	2017	2016
Equity securities	**32 %**	28 %
Debt securities	**66 %**	62 %
Other securities	**2 %**	10 %
Total	**100 %**	100 %

There were no FHI or BNPP stock included in equity securities at December 31, 2017 and 2016.

The assets within the pension plan are managed in accordance with ERISA. The objective of the plan is to achieve, over full market cycles, a compounded annual rate of return equal to or greater than the pension plan's expected long-term rate of return. The pension plan's participants recognize that capital markets can be unpredictable and that any investment could result in periods where the market value of the pension plan's assets will decline in value. Asset allocation is likely to be the primary determinant of the pension plan's return and the associated volatility of returns for the pension plan. The Company estimated the long-term rate of return for 2017 net periodic pension cost to be 4.75%. The return was selected based on a model of U.S. capital market assumptions with expected returns reflecting the anticipated asset allocation of the pension plan.

The target asset allocation for the pension plan at December 31, 2017, was as follows:

	Target Allocation
Equity securities	**30 %**
Debt securities	**68 %**
Other securities	**2 %**

Estimated Future Benefit Payments

The following table presents benefit payments that are expected to be paid over the next ten years, giving consideration to expected future service as appropriate:

(dollars in thousands)	Pension Benefits	Other Benefits
2018	$ 16,926	$ 1,292
2019	16,630	1,355
2020	16,359	1,434
2021	16,014	1,458
2022	15,539	1,525
2023 to 2027	72,013	8,546

Fair Value Measurement of Plan Assets

The Company's overall investment strategy includes a wide diversification of asset types, fund strategies and fund managers. Investments in mutual funds and exchange-traded funds consist primarily of investments in large-cap companies located in the United States. Fixed income securities include U.S. government agencies and corporate bonds of companies from diversified industries.

The fair values of the Company's pension plans assets at December 31, 2017 and 2016, by asset class, were as follows:

	December 31, 2017			
(dollars in thousands)	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset classes:				
Cash and cash equivalents	$ 1,942	$ —	$ —	$ 1,942
Fixed income - U.S. Treasury securities	—	4,533	—	4,533
Fixed income - U.S. government agency securities	—	4,072	—	4,072
Fixed income - U.S. corporate securities	—	59,786	—	59,786
Fixed income - municipal securities	—	474	—	474
Fixed income - mutual funds	7,044	—	—	7,044
Equity - large-cap mutual funds	10,645	—	—	10,645
Equity - large-cap exchange-traded funds	13,048	—	—	13,048
Equity - mid-cap exchange-traded funds	3,436	—	—	3,436
Equity - small-cap exchange-traded funds	1,618	—	—	1,618
Equity - international funds	7,622	—	—	7,622
Total	$ 45,355	$ 68,865	$ —	$ 114,220

(dollars in thousands)	December 31, 2016 Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset classes:				
Cash and cash equivalents	$ 11,333	$ —	$ —	$ 11,333
Fixed income - U.S. Treasury securities	—	3,902	—	3,902
Fixed income - U.S. government agency securities	—	4,750	—	4,750
Fixed income - U.S. corporate securities	—	51,322	—	51,322
Fixed income - municipal securities	—	438	—	438
Fixed income - mutual funds	6,678	—	—	6,678
Equity - large-cap mutual funds	16,346	—	—	16,346
Equity - large-cap exchange-traded funds	3,605	—	—	3,605
Equity - mid-cap exchange-traded funds	3,013	—	—	3,013
Equity - small-cap exchange-traded funds	1,420	—	—	1,420
Equity - international funds	5,743	—	—	5,743
Total	$ 48,138	$ 60,412	$ —	$ 108,550

No fair value measurements used Level 3 inputs as of December 31, 2017 and 2016.

The plan's investments in fixed income securities represent approximately 66.5% and 61.8% of total plan assets as of December 31, 2017 and 2016, respectively, which is the most significant concentration of risk in the plan.

Valuation Methodologies

Cash and cash equivalents — includes investments in money market funds. Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.

U.S. Treasury securities — includes securities issued by the U.S. government valued at fair value based on observable market prices for similar securities or other market observable inputs.

U.S. government agency securities — includes investment-grade debt securities issued by U.S. government-sponsored agencies. These securities are valued at fair value based upon the quoted market values of the underlying net assets.

U.S. corporate securities — includes investment-grade debt securities issued by U.S. corporations. These securities are valued at fair value based on observable market prices for similar securities or other market observable inputs.

Municipal securities — includes bonds issued by a city or other local government, or their agencies. Potential issuers of municipal bonds includes cities, counties, redevelopment agencies, special-purpose districts, school districts, public utility districts, publicly owned airports and seaports, and any other governmental entity (or group of governments) below the state level. Municipal bonds may be general obligations of the issuer or secured by specified revenues. These securities are valued at fair value based on observable market prices for similar securities or other market observable inputs.

Mutual funds — includes an open-end fixed-income fund benchmarked to the Barclay's Capital U.S. Government/Credit Bond Index. At least 80% of its assets are high-grade corporate bonds and U.S. government debt obligations. The fair value is based upon the quoted market values of the underlying net assets.

Exchange-traded fund — includes an exchange-traded fund which invests in U.S. Treasury Inflation Protected Securities. The fund tracks the Barclays Capital U.S. Treasury Inflation Notes Index. The fair value is based upon the quoted market values of the underlying net assets.

Large-cap mutual funds — includes open-end equity funds holding a diversified portfolio of large-cap domestic equity securities. The portfolio has a bias towards stocks with growth characteristics and stocks with high cash flow and growing dividends. The fair value is based upon the quoted market values of the underlying net assets.

Large-cap exchange-traded fund — includes an exchange-traded fund which invests mainly in U.S. large-cap stocks such as those in the S&P 500 index and in depositary receipts representing stocks in the S&P 500 index. The fair value is based upon the quoted market values of the underlying net assets.

Mid-cap exchange-traded funds — includes broadly-diversified exchange-traded funds which invest in U.S. mid-cap stocks such as those in the S&P 400 Mid Cap index. The fair value is based upon the quoted market values of the underlying net assets.

Small-cap exchange-traded funds — includes broadly-diversified exchange-traded funds which invest in U.S. small-cap stocks such as those in the S&P 600 Small Cap index. The fair value is based upon the quoted market values of the underlying net assets.

International funds — includes well-diversified open-ended mutual funds and exchange-traded funds tracking broad-based international equity indexes. The fair value is based upon the quoted market values of the underlying net assets.

16. Income Taxes

On December 22, 2017, President Trump signed into law the Tax Act. The Tax Act makes many significant amendments to the Internal Revenue Code of 1986, as amended (the "Code"), including reducing the corporate tax rate from 35% to 21%, effective January 1, 2018. GAAP requires that companies record and reflect the impact of the Tax Act in their financial statements for the quarter during which the Tax Act becomes law, even if provisions of the Tax Act become effective at a future date. Accordingly, the Company reported the impact of the Tax Act on its results of operations in its consolidated financial statements for the fourth quarter and year ended December 31, 2017. The reduction in the corporate tax rate under the Tax Act required a one-time revaluation of certain tax-related assets, which resulted in the Company recording $47.6 million in additional income tax expense in our consolidated statements of income in the fourth quarter of 2017.

For the years ended December 31, 2017, 2016 and 2015, the provision for income taxes was comprised of the following:

	Year Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Current:			
Federal	**$ 101,162**	$ 118,080	$ 120,134
State and local	**24,595**	20,253	24,900
Total current	**125,757**	138,333	145,034
Deferred:			
Federal	**58,732**	2,211	(10,386)
State and local	**184**	1,107	(5,201)
Total deferred	**58,916**	3,318	(15,587)
Total provision for income taxes	**$ 184,673**	$ 141,651	$ 129,447

The Company files Federal and state income tax returns with its subsidiaries. The Company's subsidiaries also file income tax returns in Guam and Saipan. The Company had a current income tax receivable due from various jurisdictions of $53.2 million and $39.8 million as of December 31, 2017 and 2016, respectively, for its share of consolidated and combined tax overpayments that had not yet been received.

The components of net deferred income tax assets and liabilities at December 31, 2017 and 2016, were as follows:

(dollars in thousands)	December 31, 2017	December 31, 2016
Assets:		
Deferred compensation expense	**$ 51,169**	$ 86,327
Allowance for loan and lease losses and nonperforming assets	**37,185**	54,310
Investment securities	**35,819**	47,453
Deferred expense	**—**	435
State income taxes	**5,155**	14,293
Total deferred income tax assets before valuation allowance	**129,328**	202,818
Valuation allowance	**(1,834)**	—
Total deferred income tax assets after valuation allowance	**127,494**	202,818
Liabilities:		
Leases	**(13,634)**	(39,397)
Deferred income	**(6,262)**	—
Intangible assets	**(969)**	(1,792)
Other	**(8,130)**	(9,793)
Total deferred income tax liabilities	**(28,995)**	(50,982)
Net deferred income tax assets	**$ 98,499**	$ 151,836

Net deferred income tax assets were included in other assets in the consolidated balance sheets as of December 31, 2017 and 2016.

Management evaluated the deferred income tax assets for recoverability by considering negative and positive evidence. Negative evidence included the uncertainty of generating future capital gains and restrictions on the ability to sell low-income housing investments during periods when carrybacks of capital losses are allowed. Positive evidence included the generation of capital gains in the current year and carryback years. Based on the weight of all available evidence, management determined a valuation allowance to offset deferred tax assets related to investments in low-income housing projects that can only be utilized to offset capital gains was required. Management further concluded it is more likely than not that the remaining deferred tax assets will be realized through carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and projected future taxable income. Consequently, the remaining deferred income tax assets are not subject to a valuation allowance.

The following analysis reconciles the Federal statutory income tax rate to the effective income tax rate for the years ended December 31, 2017, 2016 and 2015:

(dollars in thousands)	2017 Amount	2017 Percent	2016 Amount	2016 Percent	2015 Amount	2015 Percent
Federal statutory income tax expense and rate	**$128,924**	**35.00 %**	$130,140	35.00 %	$120,129	35.00 %
State and local taxes, net of federal income tax benefit	**16,106**	**4.37**	13,884	3.73	12,804	3.73
Impact of Tax Reform	**47,598**	**12.92**	—	—	—	—
Nontaxable income	**(4,974)**	**(1.35)**	(4,628)	(1.24)	(3,570)	(1.04)
Other	**(2,981)**	**(0.81)**	2,255	0.61	84	0.02
Income tax expense and effective income tax rate	**$184,673**	**50.13 %**	$141,651	38.10 %	$129,447	37.71 %

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

A reconciliation of the amount of unrecognized tax benefits is as follows for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,								
	2017			2016			2015		
(dollars in thousands)	Tax	Interest and Penalties	Total	Tax	Interest and Penalties	Total	Tax	Interest and Penalties	Total
Balance at beginning of year	**$ 127,085**	**$ 9,965**	**$ 137,050**	$ 5,903	$ 2,935	$ 8,838	$ 5,748	$ 2,972	$ 8,720
Additions for current year tax positions	**2,727**	**—**	**2,727**	490	—	490	680	—	680
Additions for Reorganization Transactions	**—**	**226**	**226**	121,401	7,017	128,418	—	—	—
Additions for prior years' tax positions:									
Accrual of interest and penalties	**—**	**621**	**621**	—	301	301	—	178	178
Other	**1,152**	**—**	**1,152**	—	—	—	97	25	122
Reductions for prior years' tax positions:									
Expiration of statute of limitations	**(345)**	**(152)**	**(497)**	(709)	(288)	(997)	(622)	(240)	(862)
Balance at December 31,	**$ 130,619**	**$ 10,660**	**$ 141,279**	$ 127,085	$ 9,965	$ 137,050	$ 5,903	$ 2,935	$ 8,838

Included in the balance of unrecognized tax benefits for the years ended December 31, 2017, 2016 and 2015, was $14.9 million, $10.6 million and $6.6 million, respectively, of unrecognized tax benefits that, if recognized, would impact the effective tax rate.

In connection with the Reorganization Transactions discussed below, the Company recorded unrecognized tax benefits and interest and penalties of $121.4 million and $7.0 million, respectively. Included in the balance of the unrecognized tax benefits as of December 31, 2017, was $93.9 million attributable to tax refund claims with respect to tax years 2005 through 2012 in the State of California. Such refund claims were filed by the Company in 2015, on behalf of the Company and its affiliates, including BOW, concerning the determination of taxes for which no benefit is currently recognized. It is reasonably possible that the amount of unrecognized tax benefits could decrease within the next 12 months by as much as $107.6 million of taxes and $5.4 million of accrued interest and penalties as a result of settlements and the expiration of the statute of limitations in various states.

The Company recognizes interest and penalties attributable to both unrecognized tax benefits and undisputed tax adjustments in the provision for income taxes. For the years ended December 31, 2017, 2016 and 2015, the Company recorded $0.7 million, $0.8 million and nil, respectively, of net expense attributable to interest and penalties. The Company had a liability of $12.8 million and $12.1 million as of December 31, 2017 and 2016, respectively, accrued for interest and penalties, of which $10.7 million and $10.0 million as of December 31, 2017 and 2016, respectively, were attributable to unrecognized tax benefits and the remainder was attributable to tax adjustments which are not expected to be in dispute.

Prior to the Reorganization Transactions, the Company filed consolidated U.S. Federal and combined state tax returns that incorporated the tax receivables and unrecognized tax benefits of FHB and BOW. The consummation of the Reorganization Transactions did not relieve the Company of the pre-Reorganization Transactions tax receivables and unrecognized tax benefits recognized by BOW that were included in the Company's consolidated and combined tax returns. As a result, on April 1, 2016, the Company recorded $72.8 million related to current tax receivables, $116.6 million related to unrecognized tax benefits, and an indemnification payable of $28.6 million. As of December 31, 2017, the Company maintained balances of $93.9 million related to current tax receivables, $116.5 million related to unrecognized tax benefits, and an indemnification receivable of $22.6 million. Additionally, in connection with the Reorganization Transactions, the Company has incurred certain tax-related liabilities related to the distribution of its interest in BWHI amounting to $95.4 million. The amount necessary to pay the distribution taxes (net of the expected federal tax benefit of $33.4 million) was paid by BNPP to the Company on April 1, 2016. The Company reported total distribution taxes of $92.1 million in the 2016 tax returns of various state and local jurisdictions, and reimbursed BWHI approximately $2.1 million pursuant to a tax sharing agreement entered into on April 1, 2016 and pursuant to certain tax allocation agreements entered into among the parties. The Company expects that any future adjustment to such taxes will be similarly reimbursed to, or funded by, BWHI or its affiliates. Accordingly, the assumption of the pre-Reorganization Transactions tax receivables, unrecognized tax benefits and distribution tax liabilities and the offsetting indemnification receivables or payables were reflected as equity contributions and distributions on April 1, 2016. The reimbursement of distribution taxes to BWHI was also reflected as an adjustment to equity. If there are any future adjustments to the indemnified tax receivables or unrecognized tax benefits, an offsetting adjustment to the indemnification receivables or payables will be recorded to the provision for income taxes and other noninterest income or expense. In 2017, the Company recorded $3.9 million of such adjustments through the provision for income taxes and noninterest income.

Effective July 1, 2016, the Company entered into a new tax allocation agreement with its affiliates that generally supersedes the prior tax allocation agreements. The execution of such agreement did not have a material impact to the consolidated financial statements.

17. Derivative Financial Instruments

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

The following table summarizes notional amounts and fair values of derivatives held by the Company as of December 31, 2017 and 2016:

	December 31, 2017			**December 31, 2016**		
		Fair Value			**Fair Value**	
(dollars in thousands)	**Notional Amount**	**Asset Derivatives(1)**	**Liability Derivatives(2)**	**Notional Amount**	**Asset Derivatives(1)**	**Liability Derivatives(2)**
Derivatives designated as hedging instruments:						
Interest rate swaps	**$ 194,687**	**$ —**	**$ (2,032)**	$ 200,504	$ —	$ (5,296)
Derivatives not designated as hedging instruments:						
Interest rate swaps	**1,820,442**	**14,658**	**(13,017)**	1,297,101	15,982	(18,299)
Funding swap	**43,113**	**—**	**(5,439)**	37,143	—	(7,460)
Foreign exchange contracts	**3,658**	**24**	**—**	3,664	—	(147)

(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 derivative contracts noted above, are cleared through clearinghouses, rather than directly with counterparties. Those transactions cleared through a clearinghouse require initial margin collateral and variation margin payments depending on the contracts being in a net asset or liability position. The amount of initial margin collateral posted by the Company was $2.9 million and $1.2 million at December 31, 2017 and 2016, respectively.

Effective January 3, 2017, the Chicago Mercantile Exchange ("CME") amended its rulebook to legally characterize variation margin payments, for derivative contracts that are referred to as settled-to-market ("STM"), as settlements of the derivative's mark-to-market exposure and not collateral. Based on these changes, the Company has treated the CME variation margin as a settlement, which has resulted in a decrease in our cash collateral, and a corresponding decrease in our derivative asset and liability. As of December 31, 2017, the CME variation margin was $3.1 million. The change was applied prospectively effective January 3, 2017 and as a result prior period balances have not been adjusted. Variation margin on derivative contracts not treated as settlements continue to represent collateral posted or received by the Company.

As of December 31, 2017, the Company pledged $22.6 million in financial instruments and $4.9 million in cash as collateral for interest rate swaps. The cash collateral represents the excess initial margin and the variation margin on derivative contracts not treated as settlements and continues to represent collateral posted by the Company. As of December 31, 2016, the Company pledged $12.1 million in financial instruments and $18.3 million in cash as collateral for interest rate swaps.

Fair Value Hedges

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

At December 31, 2017, the Company carried interest rate swaps with notional amounts totaling $44.7 million with a positive fair value of nil and a negative fair value of $0.5 million that were categorized as fair value hedges for commercial and industrial loans and commercial real estate loans. The Company received 6-month London Interbank Offered Rate ("LIBOR") and paid fixed rates ranging from 2.59% to 3.44%. The swaps mature between 2019 and 2023. At December 31, 2016, the Company carried interest rate swaps with notional amounts totaling $50.5 million with a positive fair value of nil and a negative fair value of $1.5 million that were categorized as fair value hedges for commercial and industrial loans and commercial real estate loans.

The following table shows the net gains and losses recognized in income related to derivatives in fair value hedging relationships for the years ended December 31:

	December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Interest expense recorded in net interest income	**$ (644)**	$ (1,226)	$ (2,472)
Gains (losses) recorded in noninterest income:			
Recognized on derivatives	**846**	956	1,803
Recognized on hedged item	**(841)**	(1,166)	(1,733)
Net gains (losses) recognized on fair value hedges (ineffective portion)	**5**	(210)	70
Net losses recognized on fair value hedges	**$ (639)**	$ (1,436)	$ (2,402)

Cash Flow Hedges

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

The interest rate swaps are designated and qualify as cash flow hedges. The effective portion of the gain or loss on the interest rate swaps is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The Company recognized expenses related to the ineffective portion of the change in fair value of derivatives designated as a hedge of $0.1 million, $0.3 million and $0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the Company carried two interest rate swaps with notional amounts totaling $150.0 million, with a negative fair value of $1.5 million as of December 31, 2017 and a negative fair value of $3.8 million as of December 31, 2016, in order to reduce exposure to interest rate increases associated with short-term fixed-rate liabilities. The swaps mature in 2018. The Company received 6-month LIBOR and paid fixed rates ranging from 2.98% to 3.03%. The interest rate swaps resulted in net interest expense of $2.4 million, $3.2 million and $3.9 million during the years ended December 31, 2017, 2016 and 2015, respectively.

The following table summarizes the effect of cash flow hedging relationships for the years ended December 31:

(dollars in thousands)	December 31, 2017	2016	2015
Pretax gains recognized in other comprehensive income on derivatives (effective portion)	**$ 2,473**	$ 2,397	$ 1,684
Pretax gain reclassified from accumulated other comprehensive income	**—**	—	(387)

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 consolidated statements of income for the years ended December 31:

(dollars in thousands)	Net gains (losses) recognized in the consolidated statements of income line item	Year Ended December 31, 2017	2016	2015
Derivatives Not Designated As Hedging Instruments:				
Interest rate swaps	Other noninterest income	**$ 819**	$ 901	$ 510
Funding swap	Other noninterest income	**(169)**	25	—
Foreign exchange contracts	Other noninterest income	**171**	(240)	93

As of December 31, 2017, the Company carried multiple interest rate swaps with notional amounts totaling $1.8 billion, including $1.7 billion related to the Company's customer swap program, with a positive fair value of $14.7 million and a negative fair value of $13.0 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 1.36% to 5.33%. The swaps mature between 2018 and 2037. As of December 31, 2016, the Company carried multiple interest rate swaps with notional amounts totaling $1.3 billion, including $1.2 billion related to the Company's customer swap program, with a positive fair value of $16.0 million and a negative fair value of $18.3 million. The Company received 1-month and 3-month LIBOR and paid fixed rates ranging from 0.77% to 4.90%. The swaps mature between 2018 and 2035. These swaps resulted in net interest expense of $0.9 million, $1.1 million and $1.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company's customer swap program is designed by offering customers a variable-rate loan that is swapped to fixed-rate through an interest-rate swap. The Company simultaneously executes an offsetting interest-rate swap with a swap dealer. Upfront fees on the dealer swap are recorded in other noninterest income and totaled $6.7 million, $7.3 million and $3.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Interest rate swaps related to the program had asset fair values of $14.7 million and $16.0 million as of December 31, 2017 and 2016, respectively, and liability fair values of $11.7 million and $16.0 million as of December 31, 2017 and 2016, respectively.

In conjunction with the 2016 sale of Class B restricted shares of common stock issued by Visa, the Company entered into a funding swap agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion ratio to unrestricted Class A common shares. A derivative liability ("Visa derivative") of $5.4 million and $7.5 million was included in the consolidated balance sheets at December 31, 2017 and 2016, respectively, to provide for the fair value of this liability. Under the terms of the funding swap agreement, the Company will make monthly payments to the buyer based on Visa's Class A stock price and the number of Visa Class B restricted shares that were sold until the date on which the covered litigation is settled. There were no sales of these shares prior to 2016. See "Note 21. Fair Value" for more information.

Counterparty Credit Risk

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

The Company's interest rate swap agreements include bilateral collateral agreements with collateral requirements which begin with exposures in excess of $0.5 million. For each counterparty, the Company reviews the interest rate swap collateral daily. Collateral for customer interest rate swap agreements, calculated as pledged property less loan balance, requires valuation of the property pledged. Counterparty credit risk adjustments of $0.1 million, nil and $0.2 million were recognized for the years ended December 31, 2017, 2016 and 2015, respectively.

Credit-Risk Related Contingent Features

Certain of our derivative contracts contain provisions whereby if the Company's credit rating were to be downgraded by certain major credit rating agencies as a result of a merger or material adverse change in the Company's financial condition, the counterparty could require an early termination of derivative instruments in a net liability position. The aggregate fair value of all derivative instruments with such credit-risk related contingent features that are in a net liability position was $4.5 million and $8.8 million at December 31, 2017 and 2016, respectively, for which we posted $4.8 million and $12.1 million, respectively, in collateral in the normal course of business. If the Company's credit rating had been downgraded on December 31, 2017 or December 31, 2016, we would have been required to settle the contract in an amount equal to its fair value.

18. Commitments and Contingent Liabilities

Contingencies

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

This lawsuit is similar to lawsuits filed against other financial institutions pertaining to available balance overdraft fee disclosures and continuing negative balance overdraft fees. Because of the many questions of fact and law that may arise in the future, the outcome of this legal proceeding is uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of potential loss, if any, for this action because, among other things, its potential liability depends on whether a class is certified and, if so, the composition and size of any such class, the applicable time period at issue, as well as an assessment of the appropriate measure of damages if the Company were to be found liable. Accordingly, the Company has not recognized any liability associated with this action. Management disputes any wrongdoing and the case is being vigorously defended.

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

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby and commercial letters of credit which are not reflected in the 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 $49.1 million and $94.5 million at December 31, 2017 and 2016, respectively.

Standby and Commercial Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. Standby letters of credit are reported net of participations sold to other institutions of $17.8 million and $19.0 million at December 31, 2017 and 2016, respectively. The Company also had commitments for commercial and similar letters of credit. Commercial letters of credit are issued specifically to facilitate commerce whereby the commitment is typically drawn upon when the underlying transaction between the customer and a third party is consummated. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held supports those commitments for which collateral is deemed necessary. The commitments outstanding as of December 31, 2017 have maturities ranging from January 2018 to March 2021. Substantially all fees received from the issuance of such commitments are deferred and amortized on a straight-line basis over the term of the commitment.

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

	December 31,	
(dollars in thousands)	**2017**	**2016**
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 5,401,763**	$ 5,121,811
Standby letters of credit	**161,798**	60,848
Commercial letters of credit	**5,540**	6,813

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.

Lease Commitments

The Company's lease commitments are discussed in "Note 14. Leases".

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 17. Derivative Financial Instruments" for more information.

Reorganization Transactions

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

19. Earnings per Share

The Company made no adjustments to net income for the purposes of computing earnings per share and there were no antidilutive securities. For the year ended December 31, 2016, basic and diluted earnings per share were computed using the number of shares of common stock outstanding immediately following the Reorganization Transactions on April 1, 2016, as if such shares were outstanding for the entire period prior to the Reorganization Transactions, plus the weighted average number of such shares outstanding following the Reorganization Transactions through December 31, 2016. For the year ended December 31, 2015, basic and diluted earnings per share were computed using the number of shares of common stock outstanding immediately following the Reorganization Transactions, as if the Company had operated as a stand-alone entity for the period presented.

The computations of basic and diluted earnings per share were as follows for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
(dollars in thousands, except shares and per share amounts)	**2017**	**2016**	**2015**
Numerator:			
Net income	**$ 183,682**	$ 230,178	$ 213,780
Denominator:			
Basic: weighted-average shares outstanding	**139,560,305**	139,487,762	139,459,620
Add: weighted-average equity-based awards	**96,688**	4,846	—
Diluted: weighted-average shares outstanding	**139,656,993**	139,492,608	139,459,620
Basic earnings per share	**$ 1.32**	$ 1.65	$ 1.53
Diluted earnings per share	**$ 1.32**	$ 1.65	$ 1.53

20. Stock-Based Compensation

The Company has several stock-based compensation plans that were implemented in 2016 and allow for grants of restricted stock, performance share units and restricted stock units to its employees and non-employee directors. The Company's stock-based compensation plans are administered by the Compensation Committee of the Board of Directors. For the years ended December 31, 2017 and 2016, stock-based compensation expense was $3.1 million and $4.5 million, respectively, and the related income tax benefit was $1.6 million and $0.7 million, respectively. For the years ended December 31, 2017 and 2016, all common stock issuances in connection with stock-based compensation arrangements were issued from unissued shares.

Restricted Stock

Restricted stock provides grantees with rights to shares of common stock upon completion of a service period. During the restriction period, all shares are considered outstanding and dividends are paid on the restricted stock. Restricted stock and dividends may be forfeited if an employee terminates prior to vesting. The fair value of restricted stock is determined based on the closing price of FHI's common stock on the date of grant. The Company recognizes compensation expense related to restricted stock on a straight-line basis over the vesting period for service-based awards.

The following presents the Company's restricted stock activity for the year ended December 31, 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2015	—	$ —
Granted	77,037	24.41
Vested	(77,037)	24.41
Forfeited	—	—
Unvested as of December 31, 2016	**—**	**$ —**

There were no shares of restricted stock granted for the year ended December 31, 2017. For the year ended December 31, 2016, the Company granted 77,037 shares of restricted stock with a weighted-average grant date fair value of $24.41 to key employees. These shares were fully vested on the grant date. The total grant date fair value of restricted stock that vested for the year ended December 31, 2016 was $1.9 million. However, there are transfer restrictions on these shares with restrictions for 50% of the restricted stock lapsing six months following the vesting date and the restrictions for the remaining 50% of the restricted stock lapsing 18 months following the vesting date.

Performance Share Units

Performance share units ("PSU") are an award of units in which the recipient's rights in the units are contingent on the achievement of pre-established performance goals. At the end of the performance period, the Company will determine if the performance goals originally outlined when the PSUs were granted have been achieved. If these goals are met or exceeded, the Company will issue one share of FHI common stock for each vested PSU. Employees must be continuously employed by the Company from the grant date through the applicable vesting date with any unvested PSUs being forfeited upon termination of employment. The fair value of PSUs is estimated based on the use of a Monte Carlo simulation or based on the closing price of FHI's common stock on the date of grant and is amortized on a straight-line basis over the vesting period. As noted above, the Company's LTIP was amended and restated during the year ended December 31, 2016 and now provides for awards to be equity-based effective with the three-year performance period which began on January 1, 2016.

The following presents the Company's PSU activity for the years ended December 31, 2017 and 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2015	—	$ —
Granted	321,612	29.11
Vested	—	—
Forfeited	—	—
Unvested as of December 31, 2016	321,612	$ 29.11
Granted	**244,218**	**30.44**
Vested	**(38,522)**	**24.41**
Forfeited	**(21,257)**	**33.20**
Unvested as of December 31, 2017	**506,051**	**$ 30.82**

For the year ended December 31, 2017, the Company granted 209,374 PSUs to key employees with a weighted average grant date fair value of $29.98. The Company granted these PSUs related to its LTIP for the three year performance period which began on January 1, 2017. This award has performance conditions that are based on the Company's profitability and market conditions that are based on the Company's performance relative to peer groups. For the year ended December 31, 2016, the Company granted 356,456 PSUs to key employees with a weighted-average grant date fair value of $30.91. The Company granted 115,566 PSUs in connection with its IPO. One-third of these PSUs will vest on each of the first, second and third anniversaries of the IPO date. However, transfer restrictions will remain on these shares for six months following the vesting date. The performance condition related to these PSUs is based on the Company's profitability in the fiscal years immediately preceding the vesting dates. The Company also granted 240,890 PSUs related to its LTIP for the three year performance period which began on January 1, 2016. The Company's stock-based compensation expense related to PSUs was $2.9 million and $2.6 million for the years ended December 31, 2017 and 2016, respectively. Unrecognized compensation expense related to unvested PSUs was $4.3 million and $6.8 million as of December 31, 2017 and 2016, respectively. The unrecognized compensation expense as of December 31, 2017 is expected to be recognized over a weighted average vesting period of 1.5 years. As of December 31, 2017, total shares authorized under the plan from which the restricted stock, PSUs and restricted stock units were issued were 5.6 million shares, of which 5.0 million shares were available for future grants. The total grant date fair value of PSUs that vested for the year ended December 31, 2017 was $0.9 million.

Restricted Stock Units

Restricted stock units ("RSU") are an award of units that correspond in number and value to a specified number of shares of FHI's common stock that are subject to vesting requirements and transferability restrictions. RSUs do not represent actual ownership of common stock. Upon vesting, the Company will issue one share of FHI common stock for each vested RSU. The fair value of RSUs is valued based on the closing price of FHI's common stock on the date of grant and is amortized on a straight-line basis over the vesting period.

The following presents the Company's RSU activity for the years ended December 31, 2017 and 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2015	—	$ —
Granted	5,379	24.41
Vested	—	—
Forfeited	—	—
Unvested as of December 31, 2016	5,379	$ 24.41
Granted	**14,506**	**29.74**
Vested	**(8,379)**	**26.77**
Forfeited	**—**	**—**
Unvested as of December 31, 2017	**11,506**	**$ 29.74**

For the year ended December 31, 2017, the Company granted 9,006 RSUs to non-employee directors with a weighted-average grant date fair value of $30.19. The Company also issued 5,500 RSUs to employees with a weighted average grant date fair value of $28.97. The awards will vest on various dates. The total grant date fair value of RSUs that vested during 2017 was $0.2 million. For the year ended December 31, 2016, the Company granted 5,379 RSUs to non-employee directors with a weighted-average grant date fair value of $24.41. The RSUs vested in one year from the date of grant. The grantee must continuously serve as a non-employee director or employee from the grant date through the vesting date with any unvested RSUs being forfeited upon termination of the grantee's service as a non-employee director or employee. The Company's share-based compensation expense related to RSUs was $0.3 million for the year ended December 31, 2017 and was not material for the year ended December 31, 2016. Unrecognized compensation expense related to unvested RSUs was $0.2 million and $0.1 million as of December 31, 2017 and 2016, respectively. The unrecognized compensation expense as of December 31, 2017 is expected to be recognized over a weighted average vesting period of 0.66 years. As of December 31, 2017, total shares authorized under the 2016 Non-Employee Director Plan were 75,000 shares, of which 60,615 shares were available for future grants.

For all awards of restricted stock, PSUs and RSUs, the Company, upon delivery of the common stock, will also pay to each grantee a cash amount equal to the product of all cash dividends paid on a share of common stock from the grant date to such delivery date and the number of common stock delivered to the grantee on such delivery date.

Employee Stock Purchase Plan ("ESPP")

The Company also introduced an employee stock purchase plan ("ESPP") which permits employees to periodically purchase Company stock on a payroll deduction basis, effective October 1, 2016. The first such offering period of the Company's ESPP was from October 1, 2016 through December 31, 2016. Participant purchases through the ESPP received a discount of 5% from the closing price of FHI's common stock on the exercise date. Participants are required to adhere to a two year holding period with regards to shares purchased through the ESPP. The ESPP has been determined to be non-compensatory in nature. As a result, the Company expects that expenses related to the ESPP will not be material. As of December 31, 2017, total shares authorized under the Company's ESPP were 600,000 shares. The Company issued 12,341 shares and 15,961 shares of common stock to employee participants in January 2018 and 2017, respectively, which resulted in 571,698 shares of common stock authorized for future purchases.

21. Fair Value

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

Fair Value Hierarchy

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

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

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

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

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

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

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

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

Available-for-sale securities

Available-for-sale debt securities are recorded at fair value on a recurring basis. Fair value measurement is based on quoted prices, including estimates by third-party pricing services, if available. If quoted prices are not available, fair values are measured using proprietary valuation models that utilize market observable parameters from active market makers and inter-dealer brokers whereby securities are valued based upon available market data for securities with similar characteristics. Management reviews the pricing information received from the Company's third-party pricing service to evaluate the inputs and valuation methodologies used to place securities into the appropriate level of the fair value hierarchy and transfers of securities within the fair value hierarchy are made if necessary. On a monthly basis, management reviews the pricing information received from the third-party pricing service which includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the third-party pricing service. Management also identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. As of December 31, 2017 and 2016, management did not make adjustments to prices provided by the third-party pricing services as a result of illiquid or inactive markets. The Company's third-party pricing service has also established processes for the Company to submit inquiries regarding quoted prices. Periodically, the Company will challenge the quoted prices provided by the third-party pricing service. The Company's third-party pricing service will review the inputs to the evaluation in light of the new market data presented by the Company. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis. The Company classifies all available-for-sale securities as Level 2.

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 in 2016, the Company entered into an agreement with the buyer that requires payment to the buyer in the event Visa reduces each member bank's Class B conversion ratio to unrestricted Class A common shares. The Visa derivative of $5.4 million and $7.5 million was included in the consolidated balance sheets at December 31, 2017 and 2016, respectively, to provide for the fair value of this liability. The potential liability related to the conversion rate swap agreement was determined based on management's estimate of the timing and the amount of Visa litigation settlement and the resulting payments due to the counterparty under the terms of the contract. As such, the conversion rate swap agreement is classified as Level 3. The significant unobservable inputs used in the fair value measurement of the Company's derivative liability are the potential future changes in the conversion factor, expected term and growth rate of the market price of Visa Class A common shares. Material increases or (decreases) in any of those inputs may result in a significantly higher or (lower) fair value measurement.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	Fair Value Measurements as of December 31, 2017			
(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
U.S. Treasury securities	$ —	$ 392,255	$ —	$ 392,255
Government-sponsored enterprises debt securities	—	242,601	—	242,601
Government agency mortgage-backed securities[1]	—	351,390	—	351,390
Government-sponsored enterprises mortgage-backed securities[1]	—	174,741	—	174,741
Non-government asset-backed securities	—	—	—	—
Collateralized mortgage obligations:				
Government agency	—	3,290,474	—	3,290,474
Government-sponsored enterprises	—	762,718	—	762,718
Debt securities issued by states and political subdivisions	—	20,479	—	20,479
Total available-for-sale securities	—	5,234,658	—	5,234,658
Other assets[2]	—	14,682	—	14,682
Liabilities				
Other liabilities[3]	—	(15,049)	(5,439)	(20,488)
Total	$ —	$ 5,234,291	$ (5,439)	$ 5,228,852

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

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

Changes in Fair Value Levels

For any transfers in and out of the levels of the fair value hierarchy, the Company discloses the fair value measurement at the beginning of the reporting period during which the transfer occurred. During the years ended December 31, 2017 and 2016, there were no transfers between levels.

The changes in Level 3 liabilities measured at fair value on a recurring basis for the years ended December 31, 2017 and 2016 are summarized in the table below.

	Visa Derivative	
(dollars in thousands)	**2017**	**2016**
Year Ended December 31,		
Balance as of January 1,	**$ (7,460)**	$ —
Total net (losses) gains included in other noninterest income	**(168)**	25
Purchases	**—**	(8,875)
Settlements	**2,189**	1,390
Balance as of December 31,	**$ (5,439)**	$ (7,460)
Total net (losses) gains included in net income attributable to the change in unrealized gains or losses related to liabilities still held as of December 31,	**$ (168)**	$ 25

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

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

Cash and cash equivalents

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

Loans held for sale

Residential loans held for sale 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 loans held for sale is based on current quoted prices or rates in secondary markets for portfolios with similar characteristics. As such, the Company classifies these loans as Level 2.

Loans

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

Deposits

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

Short-term borrowings

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

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.

	December 31, 2017				
		Fair Value Measurements			
(dollars in thousands)	Book Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	**$ 1,034,644**	**$ 367,084**	**$ 667,560**	**$ —**	**$ 1,034,644**
Loans held for sale	**556**	**—**	**559**	**—**	**559**
Loans[1]	**12,112,303**	**—**	**—**	**12,426,506**	**12,426,506**
Financial liabilities:					
Deposits	**$ 17,612,122**	**$ 13,438,240**	**$ 4,160,393**	**$ —**	**$ 17,598,633**

(1) Excludes financing leases of $165.1 million at December 31, 2017.

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

(1) Excludes financing leases of $180.0 million at December 31, 2016.

Unfunded loan and lease commitments and letters of credit are not included in the tables above. As of December 31, 2017 and 2016, the Company had $5.6 billion and $5.2 billion, respectively, of unfunded loan and lease commitments and letters of credit. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related reserve for unfunded commitments, which totaled $11.7 million and $11.0 million at December 31, 2017 and 2016, respectively. No active trading market exists for these instruments, and the estimated fair value does not include value associated with the borrower relationship. The Company does not estimate the fair values of certain unfunded loan and lease commitments that can be canceled by providing notice to the borrower. As Company-level data is incorporated into the fair value measurement, unfunded loan and lease commitments and letters of credit are classified as Level 3.

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

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

Mortgage servicing rights

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

Impaired loans

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

Other real estate owned

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

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

The following table summarizes the balances as of the measurement date of the assets measured at fair value on a nonrecurring basis, and still held as of the reporting date as of December 31, 2017 and 2016:

(dollars in thousands)	Level 1	Level 2	Level 3
December 31, 2017			
Impaired loans	**$ —**	**$ —**	**$ 87**
December 31, 2016			
Impaired loans	$ —	$ —	$ 1,567

Total losses of impaired loans for the years ended December 31, 2017, 2016 and 2015 were $0.7 million, $0.4 million and $0.3 million, respectively.

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

December 31, 2017 and 2016, the significant unobservable inputs used in the fair value measurements were as follows:

	Quantitative Information about Level 3 Fair Value Measurements at December 31, 2017			
(dollars in thousands)	**Fair value**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted Average)**
Impaired loans	**$ 87**	**Appraisal Value**	**Appraisal Value**	**n/m[(1)]**
Other liabilities	**$ (5,439)**	**Discounted Cash Flow**	**Expected Conversion Factor**	**1.6483**
			Expected Term	**4 years**
			Growth Rate	**15%**

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

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

22. 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 loan and lease losses to each segment based on management’s estimate of the inherent loss content in each of the specific loan and lease portfolios.

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

Business Segments

Retail Banking

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

Commercial Banking

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

Treasury and Other

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

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

The following table presents selected business segment financial information for the periods indicated:

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other[(1)]	Total
Year Ended December 31, 2017				
Net interest income (expense)	$ 430,379	$ 111,109	$ (12,684)	$ 528,804
Provision for loan and lease losses	(6,837)	(11,663)	—	(18,500)
Net interest income (expense) after provision for loan and lease losses	423,542	99,446	(12,684)	510,304
Noninterest income	90,702	74,236	40,667	205,605
Noninterest expense	(223,652)	(68,167)	(55,735)	(347,554)
Income (loss) before (provision) benefit for income taxes	290,592	105,515	(27,752)	368,355
(Provision) benefit for income taxes	(138,786)	(49,201)	3,314	(184,673)
Net income (loss)	$ 151,806	$ 56,314	$ (24,438)	$ 183,682
Total assets as of December 31, 2017	$ 7,003,724	$ 5,462,370	$ 8,083,367	$ 20,549,461

(1) Includes $6.9 million gains on the sale of real estate.

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Year Ended December 31, 2016				
Net interest income (expense)	$ 415,964	$ 115,455	$ (39,747)	$ 491,672
Provision for loan and lease losses	(3,150)	(5,450)	—	(8,600)
Net interest income (expense) after provision for loan and lease losses	412,814	110,005	(39,747)	483,072
Noninterest income[1]	91,583	73,264	61,190	226,037
Noninterest expense[1]	(211,762)	(63,193)	(62,325)	(337,280)
Income (loss) before (provision) benefit for income taxes	292,635	120,076	(40,882)	371,829
(Provision) benefit for income taxes	(110,192)	(45,172)	13,713	(141,651)
Net income (loss)	$ 182,443	$ 74,904	$ (27,169)	$ 230,178
Total assets as of December 31, 2016	$ 6,963,701	$ 4,680,512	$ 8,017,616	$ 19,661,829

(1) Certain prior period noninterest income and noninterest expense amounts have been revised from the amounts previously reported to conform with the current year's presentations. For the year ended December 31, 2016, noninterest income and noninterest expense for Commercial banking were both understated by $6.9 million and both noninterest income and noninterest expense for Treasury and Other were understated by $1.5 million.

(dollars in thousands)	Retail Banking	Commercial Banking	Treasury and Other	Total
Year Ended December 31, 2015				
Net interest income (expense)	$ 399,153	$ 113,466	$ (51,294)	$ 461,325
Provision for loan and lease losses	(4,643)	(5,257)	—	(9,900)
Net interest income (expense) after provision for loan and lease losses	394,510	108,209	(51,294)	451,425
Noninterest income[1]	97,934	78,500	42,677	219,111
Noninterest expense[1]	(199,308)	(61,463)	(66,538)	(327,309)
Income (loss) before (provision) benefit for income taxes	293,136	125,246	(75,155)	343,227
(Provision) benefit for income taxes	(99,764)	(43,181)	13,498	(129,447)
Net income (loss)	$ 193,372	$ 82,065	$ (61,657)	$ 213,780
Total assets as of December 31, 2015	$ 6,725,665	$ 4,120,805	$ 8,506,211	$ 19,352,681

(1) Certain prior period noninterest income and noninterest expense amounts have been revised from the amounts previously reported to conform with the current year's presentations. For the year ended December 31, 2015, noninterest income and noninterest expense for Commercial banking were both understated by $6.3 million and both noninterest income and noninterest expense for Treasury and Other were understated by $1.4 million.

23. Parent Company

The following tables present Parent Company-only condensed financial statements.

Condensed Statements of Comprehensive Income

(dollars in thousands)	Year Ended December 31, 2017	2016	2015
Income			
Dividends from FHB	**$ 105,400**	$ 479,692	$ 175,600
Other income	**3,937**	368	—
Total income	**109,337**	480,060	175,600
Noninterest expense			
Salaries and employee benefits	**5,949**	6,820	10,930
Contracted services and professional fees	**3,643**	5,424	5,791
Equipment	**55**	—	—
Advertising and marketing	**1**	4	—
Other	**570**	999	2,076
Total noninterest expense	**10,218**	13,247	18,797
Income before (provision) benefit for income taxes and equity in undistributed income (excess distributions) of FHB	**99,119**	466,813	156,803
(Provision) benefit for income taxes	**(642)**	3,175	7,425
Equity in undistributed income (excess distributions) of FHB	**85,205**	(239,810)	49,552
Net income	**$ 183,682**	$ 230,178	$ 213,780
Comprehensive income	**$ 175,310**	$ 193,426	$ 213,978

Condensed Statements of Condition

(dollars in thousands)	December 31, 2017	2016
Assets		
Cash and cash equivalents	**$ 14,337**	$ 5,994
Investment in FHB	**2,522,624**	2,440,596
Other assets	**23,912**	50,831
Total assets	**$ 2,560,873**	$ 2,497,421
Liabilities and Stockholders' Equity		
Retirement benefits payable	**$ 780**	$ 736
Other liabilities	**27,542**	20,200
Total liabilities	**28,322**	20,936
Stockholders' Equity		
Stockholders' equity	**2,532,551**	2,476,485
Total stockholders' equity	**2,532,551**	2,476,485
Total liabilities and stockholders' equity	**$ 2,560,873**	$ 2,497,421

Condensed Statements of Cash Flows

(dollars in thousands)	Year Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net income	**$ 183,682**	$ 230,178	$ 213,780
Adjustments to reconcile net income to net cash provided by operating activities:			
(Equity in undistributed income) excess distributions of FHB	**(85,205)**	239,810	(49,552)
Deferred income taxes	**(274)**	191	—
Stock-based compensation	**244**	55	—
Change in assets and liabilities:			
Net decrease (increase) in other assets	**36,467**	(18,729)	—
Net decrease in other liabilities	**(2,058)**	(8,368)	—
Net cash provided by operating activities	**132,856**	443,137	164,228
Cash flows from investing activities			
Other, net	**7**	—	—
Net cash provided by investing activities	**7**	—	—
Cash flows from financing activities			
Dividends paid	**(122,810)**	(85,797)	—
Distributions paid	**(2,118)**	(361,200)	(164,228)
Stock tendered for payment of withholding taxes	**(120)**	(146)	—
Proceeds from employee stock purchase plan	**528**	—	—
Net cash used in financing activities	**(124,520)**	(447,143)	(164,228)
Net increase (decrease) in cash and cash equivalents	**8,343**	(4,006)	—
Cash and cash equivalents at beginning of year	**5,994**	10,000	10,000
Cash and cash equivalents at end of year	**$ 14,337**	$ 5,994	$ 10,000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2017. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2017. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, the Chief Executive Officer and Chief Financial Officer assert that the Company maintained effective internal control over financial reporting as of December 31, 2017 based on the specified criteria.

Attestation Report of the Company's Independent Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Deloitte & Touche LLP's attestation report on the Company's internal control over financial reporting appears on the following page and is incorporated by reference herein.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Stockholders and the Board of Directors of
First Hawaiian, Inc.
Honolulu, Hawaii

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of First Hawaiian, Inc. and Subsidiary (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Company's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 28, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Honolulu, Hawaii
February 28, 2018

ITEM 9B. OTHER INFORMATION

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

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

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

Legacy agreements: In the past, BNPP has issued and participates in legacy guarantees and other financing arrangements that supported various projects, including the construction of petrochemical plants in Iran. Some of these financing arrangements had counterparties that were entities or instrumentalities of the Government of Iran, involved Iranian banks that were subsequently sanctioned pursuant to Executive Orders 13224 or 13382, or involved a Syrian entity that was subsequently sanctioned pursuant to Executive Order 13382. BNPP continues to have obligations under these arrangements and has made efforts to close the positions which remain outstanding in accordance with applicable law. In 2017, BNPP received gross revenues of approximately EUR 32.8 million for the year ended December 31, 2017 in connection with these projects, with a net profit of less than that amount, which mainly comprised of repayments and fees on these legacy guarantees and other financing arrangements.

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

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

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

Amendment of Bylaws

On February 28, 2018, the Board of Directors of FHI amended and restated FHI's Bylaws (as so amended and restated, the "Bylaws") to implement proxy access. The Bylaws include a new Section 1.13 that permits a shareholder, or a group of up to twenty shareholders, owning at least three percent of FHI's outstanding shares of common stock continuously for at least three years to nominate and include in FHI's annual meeting proxy materials director nominees constituting the greater of two directors or twenty percent of the total number of directors of FHI, provided that the shareholder(s) and nominee(s) satisfy the requirements specified in the Bylaws. The Bylaws also include changes to Section 1.12 to account for proxy access.

The foregoing description is qualified in its entirety by reference to the full text of the Bylaws, a copy of which is attached hereto as Exhibit 3.2 and is incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

For information relating to the directors and executive officers of the Company, the section captioned "Directors and Executive Officers" in the Company's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the SEC within 120 days after the end of the Company's fiscal year is incorporated herein by reference. For information regarding procedures for stockholder nominations, the section captioned "Stockholder Proposals for the 2019 Annual Meeing" in the Proxy Statement is incorporated herein by reference.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

For information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement is incorporated herein by reference.

Disclosure of Code of Ethics

For information concerning The Company's Code of Ethics, the information contained under the section captioned "Board of Directors, Committees and Governance—Corporate Governance Guidelines and Code of Conduct and Ethics" in the Company's Proxy Statement is incorporated herein by reference.

Corporate Governance

For information regarding the Audit Committee and its composition and the audit committee financial experts, the section captioned "Board of Directors, Committees and Governance — Committees of Our Board of Directors — Audit Committee" in the Company's Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

For information regarding executive and director compensation, the sections captioned "Executive Compensation" and "Director Compensation" in the Company's Proxy Statement are incorporated herein by reference.

For information regarding compensation committee interlocks and insider participation, the section captioned "Board of Directors, Committees and Governance — Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

For information regarding Security Ownership of Certain Beneficial Owners and Management, the section captioned "Security Ownership of Certain Beneficial Owners, Directors and Management" in the Company's Proxy Statement is incorporated herein by reference.

The following table sets forth information about the Company common stock that may be issued upon the exercise of stock options, warrants and rights under all of the Company's equity compensation plans as of December 31, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding awards	Weighted average exercise price of outstanding awards	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	517,557	$ —	5,011,890
Equity compensation plans not approved by security holders	—	—	—
Total	517,557	$ —	5,011,890

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

For information regarding transactions with related persons, promoters and certain control persons, the section captioned "Our Relationship with BNPP and Certain Other Related Party Transactions" in the Company's Proxy Statement is incorporated herein by reference.

For information regarding director independence, the section captioned "Board of Directors, Committees and Governance — Status as a Controlled Company" in the Company's Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

For information regarding transactions with related persons, promoters and certain control persons, the section captioned "Principal Accountant Fees" in the Company's Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following consolidated financial statements of First Hawaiian, Inc. and Subsidiary are included in Item 8 of this report:

Consolidated Statements of Income – For the years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income – For the years ended December 31, 2017, 2016, and 2015

Consolidated Balance Sheets – As of December 31, 2017 and 2016

Consolidated Statements of Stockholders' Equity – For the years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows – For the years ended December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules are omitted since the required information is either not applicable, not deemed material, or is disclosed in the Company's consolidated financial statements.

3. Exhibits

The list of exhibits required to be filed as exhibits to this Annual Report on Form 10-K is listed below in the "Exhibit Index".

ITEM 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

Exhibit Number	
3.1	Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
3.2	Third Amended and Restated Bylaws of First Hawaiian, Inc., effective as of February 28, 2018
10.1	Stockholder Agreement, by and between BNP Paribas and First Hawaiian, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.2	Transitional Services Agreement, by and among BNP Paribas, BancWest Holding Inc., Bank of the West, First Hawaiian, Inc. and First Hawaiian Bank (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.3	Registration Rights Agreement, by and among BNP Paribas, BancWest Corporation and First Hawaiian, Inc. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.4	First Hawaiian Bank Long-Term Incentive Plan, as amended and restated as of January 1, 2013 (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.5	Certification Regarding Amendment and Restatement of the First Hawaiian Bank Incentive Plan for Key Employees, dated February 24, 2014 (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.6	Employment Agreement, dated as of October 20, 2011, by and among Robert S. Harrison, First Hawaiian Bank and BancWest Corporation (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.7	Master Reorganization Agreement, dated as of April 1, 2016, by and among BancWest Corporation (to be renamed First Hawaiian, Inc.), BancWest Holding Inc., BWC Holding Inc. and BNP Paribas (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.8	Tax Sharing Agreement, dated as of April 1, 2016, by and among BNP Paribas, BancWest Corporation (to be renamed First Hawaiian, Inc.) and BancWest Holding Inc. (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.9	Expense Reimbursement Agreement, effective as of July 1, 2016, by and between First Hawaiian, Inc. and BancWest Corporation (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.10	First Hawaiian, Inc. 2016 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 filed by First Hawaiian, Inc. on August 8, 2016 (File No. 333-212996))
10.11	First Hawaiian, Inc. 2016 Non-Employee Director Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 filed by First Hawaiian, Inc. on August 8, 2016 (File No. 333-212996))
10.12	First Hawaiian, Inc. Bonus Plan (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.13	First Hawaiian, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 filed by First Hawaiian, Inc. on August 8, 2016 (File No. 333-212996))

Exhibit Number	
10.14	Agreement for Allocation and Settlement of Income Tax Liabilities, effective as of July 1, 2016, by and among BNP Paribas, BNP Paribas Fortis, BNP Paribas USA, Inc., BancWest Corporation, BancWest Holding Inc., Bank of the West, First Hawaiian, Inc. and First Hawaiian Bank (incorporated by reference to Exhibit 10.17 to Amendment No. 1 the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 26, 2016 (File No. 333-212451))
10.15	License Agreement, by and among First Hawaiian, Inc., First Hawaiian Bank, BancWest Holding Inc., BancWest Corporation and Bank of the West (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.16	Insurance Agreement, by and among BNP Paribas, BNP Paribas USA, Inc. and First Hawaiian, Inc. (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.17	Executive Change-in-Control Retention Plan of First Hawaiian Bank (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.18	First Hawaiian, Inc. Long-Term Incentive Plan, as amended and restated effective August 9, 2016 (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.19	Form of First Hawaiian, Inc. 2016 Omnibus Incentive Compensation Plan IPO Restricted Share Award Agreement (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.20	Form of First Hawaiian, Inc. 2016 Omnibus Incentive Compensation Plan IPO Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.23 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.21	Form of First Hawaiian, Inc. Long-Term Incentive Plan Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.24 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.22	Form of First Hawaiian, Inc. 2016 Non-Employee Director Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.25 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 8, 2016 (File No. 333-212451))
10.23	First Hawaiian, Inc. Role-Based Allowance Award Agreement for Robert S. Harrison (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on August 10, 2016 (File No. 001-14585))
10.24	BancWest Corporation Deferred Compensation Plan Part B (2016 Restatement) (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 filed by First Hawaiian, Inc. on December 13, 2016 (File No. 333-215068))
10.25	BancWest Corporation Supplemental Executive Retirement Plan (2008 Restatement), as amended (incorporated by reference to Exhibit 10.28 to Amendment No. 1 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on July 26, 2016 (File No. 333-212451))
10.26	Consulting Agreement, dated as of December 13, 2016, by and between First Hawaiian Bank and Albert M. Yamada (incorporated by reference to Exhibit 10.29 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on January 24, 2017 (File No. 333-215676))

Exhibit Number	
10.27	Offer Letter, dated as of June 15, 2015, from Robert S. Harrison on behalf of First Hawaiian Bank to Eric K. Yeaman (incorporated by reference to Exhibit 10.30 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on January 24, 2017 (File No. 333-215676))
10.28	First Hawaiian Bank Deferred Compensation Plan, as amended and restated effective January 1, 2017 (incorporated by reference to Exhibit 10.31 to Amendment No. 1 to the Registration Statement on Form S-1 filed by First Hawaiian, Inc. on January 30, 2017 (File No. 333-215676))
10.29	Separation Agreement Including Release of Claims; Exhibit 1 between Michael Ching, First Hawaiian, Inc. and First Hawaiian Bank, dated January 8, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on January 9, 2018 (File No. 001-14585))
10.30	Form of Consulting Agreement between Michael Ching, First Hawaiian, Inc. and First Hawaiian Bank (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by First Hawaiian, Inc. on January 9, 2018 (File No. 001-14585))
21.1	Subsidiaries of First Hawaiian, Inc.
23.1	Consent of Deloitte & Touche LLP
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended, Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

Date: February 28, 2018

First Hawaiian, Inc.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 28, 2018

/s/ Robert S. Harrison Robert S. Harrison Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	/s/ Eric K. Yeaman Eric K. Yeaman President, Chief Operating Officer and Acting Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Matthew Cox Matthew Cox, Director	/s/ W. Allen Doane W. Allen Doane, Director
/s/ Thibault Fulconis Thibault Fulconis, Director	/s/ Gérard Gil Gérard Gil, Director
/s/ Jean-Milan Givadinovitch Jean-Milan Givadinovitch, Director	/s/ J. Michael Shepherd J. Michael Shepherd, Director
/s/ Allen B. Uyeda Allen B. Uyeda, Director	Michel Vial, Director

THIRD AMENDED AND RESTATED BYLAWS

OF

FIRST HAWAIIAN, INC.

ARTICLE I

Stockholders

Section 1.1. *Annual Meetings*. An annual meeting of stockholders shall be held for the election of directors at such date, time and place either within or without the State of Delaware, or may instead be held solely by means of remote communication, as may be designated by the Board of Directors of the Corporation (the "Board") from time to time. Any other proper business may be transacted at the annual meeting.

Section 1.2. *Special Meetings*. Special meetings of stockholders may be called at any time only by the Chairperson of the Board, the Chief Executive Officer, the President, the Board or, prior to the time at which BNPP Paribas ("BNPP") ceases to beneficially own at least 25% of an aggregate amount of the Corporation's outstanding Common Stock, par value $0.01 per share, and the Corporation's outstanding Non-Voting Common Stock, par value $0.01 per share (the Common Stock and the Non-Voting Common Stock together, the "Common Stock"), BNPP (unless it shall have earlier waived this right), to be held at such date, time and place either within or without the State of Delaware, or may instead be held by means of remote communication, as may be stated in the notice of such meeting.

Section 1.3. *Notice of Meetings*. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation. In addition, if stockholders have consented to receive notices by a form of electronic transmission, then such notice, by facsimile telecommunication, or by electronic mail, shall be deemed to be given when directed to a facsimile number or an electronic mail address, respectively, at which the stockholder has consented to receive notice. If such notice is transmitted by a posting on an electronic network together with separate notice to the stockholder of such specific posting, such notice shall be deemed to be given upon the later of (a) such posting and (b) the giving of such separate notice. If such notice is transmitted by any other form of electronic transmission, such notice shall be deemed to be given when directed to the stockholder. Notice shall be deemed to have been given to all stockholders of record who share an address if notice is given in accordance with the "householding" rules set forth in the rules of the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 233 of the Delaware General Corporation Law (the "DGCL"). For purposes of these Bylaws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form through an automated process.

Section 1.4. *Adjournments*. Any meeting of stockholders, annual or special, may be adjourned from time to time, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time, place thereof, if any, and the means of remote communications, if any, thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at such meeting.

Section 1.5. *Quorum*. At each meeting of stockholders, except where otherwise provided by law, the Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation") or these Bylaws, the holders of a majority of the outstanding shares of stock entitled to vote on a matter at the meeting, present in person or represented by proxy, shall constitute a quorum. For purposes of the foregoing, where a separate vote by class or classes is required for any matter, the holders of a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum to take action with respect to that vote on that matter. Two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. In the absence of a quorum of the holders of any class of stock entitled to vote on a matter, either (a) the holders of such class so present or represented may, by majority vote, adjourn the meeting of such class from time to time in the manner provided by Section 1.4 of these Bylaws until a quorum of such class shall be so present or represented or (b) the chairperson of the meeting may, on his or her own motion and without the approval of the stockholders who are present in person or represented by proxy and entitled to vote at such meeting, adjourn the meeting from time to time in the manner provided by Section 1.4 of these Bylaws until a quorum of such class shall be so present and represented, without notice other than announcement at the meeting. Shares of capital stock of the Corporation (i) belonging to the Corporation or (ii) held by another corporation if the Corporation owns, directly or indirectly, a sufficient number of shares entitled to elect a majority of the directors of such other corporation, shall not be counted in determining the total number of outstanding shares at any given time. Notwithstanding the foregoing, shares held by the Corporation in a fiduciary capacity shall be counted in determining the total number of outstanding shares at any given time.

Section 1.6. *Organization*.

(a) Meetings of stockholders shall be presided over by the Chairperson of the Board, or in the absence of the Chairperson of the Board by the Chief Executive Officer, or in the absence of the Chief Executive Officer by the President, or in the absence of the President by a Vice Chairman or an Executive Vice President, or in the absence of the foregoing persons by a chairperson designated by the Board, or in the absence of such designation by a chairperson chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, or in the absence of an Assistant Secretary, any person appointed by the chairperson of the meeting, shall act as secretary of the meeting.

(b) The order of business at each such meeting shall be as determined by the chairperson of the meeting. The chairperson of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the voting polls for each item on which a vote is to be taken.

Section 1.7. *Inspectors*.

(a) Prior to any meeting of stockholders, the Board, the Chief Executive Officer, the President or any other officer designated by the Board shall appoint one or more inspectors to act at such meeting and make a written report thereof and may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at the meeting of stockholders, the chairperson of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to faithfully execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the number of shares represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and (v) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons to assist them in the performance of their duties.

(b) The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxy or vote, nor any revocation thereof or change thereto, shall be accepted by the inspectors after the closing of the polls.

(c) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted therewith, any information provided by a stockholder who submits a proxy by telegram, cablegram or other electronic transmission from which it can be determined that the proxy was authorized by the stockholder, any written ballot or, if authorized by the Board, a ballot submitted by electronic transmission together with any information from which it can be determined that the electronic transmission was authorized by the stockholder, any information provided in a record of a vote if such vote was taken at the meeting by means of remote communication along with any information used to verify that any person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder, ballots and the regular books and records of the Corporation, and they may also consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for such purpose, they shall, at the time they make their certification, specify the precise information considered by them, including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

Section 1.8. *Voting*.

(a) Unless otherwise provided in the Certificate of Incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question.

(b) Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. In all other matters, unless otherwise provided by law or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Where a separate vote by class or classes is required, the affirmative vote of the holders of a majority of the shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class or classes, except as otherwise provided by law or by the Certificate of Incorporation or these Bylaws. For purposes of this Section 1.8, votes cast "for" or "against" and "abstentions" with respect to such matter shall be counted as shares of stock of the Corporation entitled to vote on such matter, while "broker non-votes" (or other shares of stock of the Corporation similarly not entitled to vote) shall not be counted as shares entitled to vote on such matter.

(c) Voting at meetings of stockholders need not be by written ballot unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or represented by proxy at such meeting shall so determine.

(d) Shares of capital stock of the Corporation (i) belonging to the Corporation or (ii) held by another corporation if the Corporation owns, directly or indirectly, a sufficient number of shares entitled to elect a majority of the directors of such other corporation, shall not be voted directly or indirectly at any meeting. Notwithstanding the foregoing, shares held by the Corporation in a fiduciary capacity may be voted at any given time.

Section 1.9. *Proxies*. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power, regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation.

Section 1.10. *Fixing Date for Determination of Stockholders of Record*.

(a) In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If the Board so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day immediately preceding the day on which notice is given, or, if notice is waived, at the close of business on the day immediately preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided*, *however*, that the Board may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with this Section 1.10(a) at the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

Section 1.11. *List of Stockholders Entitled to Vote*. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided*, *however*, if the record date for determining the stockholders entitled to vote is less than ten days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing in this Section 1.11 shall require the Corporation to include electronic mail addresses or other electronic content information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, *provided* that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then a list of stockholders entitled to vote at the meeting shall be produced and kept at the time and place of the meeting during the whole time thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then such list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 1.12. *Advance Notice of Stockholder Nominees for Director and Other Stockholder Proposals*.

(a) The matters to be considered and brought before any annual or special meeting of stockholders shall be limited to only such matters, including the nomination and election of directors, as shall be brought properly before such meeting in compliance with the procedures set forth in this Section 1.12 and (as applicable) in Section 1.13 of these Bylaws.

(b) For any matter to be brought properly before the annual meeting of stockholders, the matter must be (i) specified in the notice of the annual meeting given by or at the direction of the Board, (ii) otherwise brought before the annual meeting by or at the direction of the Board or (iii) brought before the annual meeting by a stockholder who (1) (x) is a stockholder of record of the Corporation on the date the Stockholder Notice (as defined below) is delivered to the Secretary of the Corporation, (y) is entitled to vote at the annual meeting and (z) complies with the procedures set forth in this Section 1.12 or (2) is an Eligible Holder (as defined in Section 1.13(c) of these Bylaws) who meets the requirements of and complies with the procedures set forth in Section 1.13 and whose Nominee (as defined in Section 1.13(a)(i) of these Bylaws) is included in the Corporation's proxy materials for the relevant annual meeting.

(c) In addition to any other requirements under applicable law and the Certificate of Incorporation and these Bylaws, including Section 1.13 of these Bylaws, written notice (the "Stockholder Notice") of any nomination or other proposal must be timely and any proposal, other than a nomination, must constitute a proper matter for stockholder action. To be timely, the Stockholder Notice must be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not less than 90 nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year; *provided*, *however*, that if (and only if) the annual meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends within 60 days after such anniversary date (an annual meeting date outside such period being referred to herein as an "Other Meeting Date"), the Stockholder Notice shall be given in the manner provided herein by the later of the close of business on (i) the date 90 days prior to such Other Meeting Date or (ii) the tenth day following the date such Other Meeting Date is first publicly announced or disclosed. A Stockholder Notice must contain the following information: (i) whether the stockholder is providing the notice at the request of a beneficial holder of shares, whether the stockholder, any such beneficial holder or any nominee has any agreement, arrangement or understanding with, or has received any financial assistance, funding or other consideration from, any other person with respect to the investment by the stockholder or such beneficial holder in the Corporation or the matter the Stockholder Notice relates to, and the details thereof, including the name of such other person (the stockholder, any beneficial holder on whose behalf the notice is being delivered, any nominees listed in the notice and any persons with whom such agreement, arrangement or understanding exists or from whom such assistance has been obtained are hereinafter collectively referred to as "Interested Persons"), (ii) the name and address of all Interested Persons, (iii) a complete listing of the record and beneficial ownership positions (including number or amount) of all equity securities and debt instruments, whether held in the form of loans or capital market instruments, of the Corporation or any of its subsidiaries held by all Interested Persons, (iv) whether and the extent to which any hedging, derivative or other transaction is in place or has been entered into within the prior six months preceding the date of delivery of the Stockholder Notice by or for the benefit of any Interested Person with respect to the Corporation or its subsidiaries or any of their respective securities, debt instruments or credit ratings, the effect or intent of which transaction is to give rise to gain or loss as a result of changes in the trading price of such securities or debt instruments or changes in the credit ratings for the Corporation, its subsidiaries or any of their respective securities or debt instruments (or, more generally, changes in the perceived creditworthiness of the Corporation or its subsidiaries), or to increase or decrease the voting power of such Interested Person, and if so, a summary of the material terms thereof, and (v) a representation that the stockholder is a holder of record of stock of the Corporation that would be entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to propose the matter set forth in the Stockholder Notice. As used herein, "beneficially owned" has the meaning provided in Rules 13d-3 and 13d-5 under the Exchange Act. The Stockholder Notice shall be updated not later than 10 days after the record date for the determination of stockholders entitled to vote at the meeting to provide any material changes in the foregoing information as of the record date. Any Stockholder Notice relating to the nomination of directors must also contain (1) the information regarding each nominee required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the SEC (or the corresponding provisions of any successor regulation), (2) each nominee's signed consent to serve as a director of the Corporation if elected and (3) whether each nominee is eligible for consideration as an independent director under the relevant standards contemplated by Item 407(a) of Regulation S-K (or the corresponding provisions of any successor regulation). The Corporation may also require any proposed nominee to furnish such other information, including completion of the Corporation's director questionnaire, as it may reasonably require to determine whether the nominee would be considered "independent" as a director or as a member of any applicable committee of the Board under the various rules and standards applicable to the Corporation. Any Stockholder Notice with respect to a matter other than the nomination of directors must contain (x) the text of the proposal to be presented, including the text of any resolutions to be proposed for consideration by stockholders and (y) a brief written statement of the reasons why such stockholder favors the proposal. Notwithstanding anything in this Section 1.12(c) to the contrary, in the event that the number of directors to be elected to the Board of the Corporation is increased and either all of the nominees for director or the size of the increased Board is not publicly announced or disclosed by the Corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder Notice shall also be considered timely hereunder, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the tenth day following the first date all of such nominees or the size of the increased Board shall have been publicly announced or disclosed.

(d) For any matter to be brought properly before a special meeting of stockholders, the matter must be set forth in the Corporation's notice of the meeting given by or at the direction of the Board. In the event that the Corporation calls a special meeting of stockholders for the purpose of electing one or more persons to the Board, any stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of the meeting, if the Stockholder Notice required by Section 1.12(c) shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not later than the close of business on the tenth day following the day on which the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting is publicly announced or disclosed.

(e) For purposes of this Section 1.12, a matter shall be deemed to have been "publicly announced or disclosed" if such matter is disclosed in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the SEC.

(f) Only persons who are nominated in accordance with the procedures set forth in this Section 1.12 and (as applicable) in Section 1.13 of these Bylaws shall be eligible for election by stockholders as directors of the Corporation. In no event shall the postponement or adjournment of an annual meeting already publicly noticed, or any announcement of such postponement or adjournment, commence a new period (or extend any time period) for the giving of notice as provided in this Section 1.12. This Section 1.12 shall not apply to (i) stockholder proposals made pursuant to Rule 14a-8 under the Exchange Act or (ii) the election of directors selected by or pursuant to the provisions of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock of the Corporation having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances.

(g) The chairperson of any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether notice of nominees and other matters proposed to be brought before a meeting has been duly given in the manner provided in this Section 1.12 and, if not so given, shall direct and declare at the meeting that such nominees and other matters are not properly before the meeting and shall not be considered. Notwithstanding the foregoing provisions of this Section 1.12, if the stockholder or a qualified representative of the stockholder does not appear at the annual or special meeting of stockholders of the Corporation to present any such nomination, or make any such proposal, such nomination or proposal shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

Section 1.13. *Stockholder Nominations Included in the Corporation's Proxy Materials*.

(a) Inclusion of Nominees in Proxy Statement. Subject to the provisions of this Section 1.13, if expressly requested in the relevant Nomination Notice (as defined below), the Corporation shall include in its proxy statement for any annual meeting of stockholders:

(i) the name of any person nominated for election (each, a "Nominee"), which shall also be included on the Corporation's form of proxy and ballot, by any Eligible Holder (as defined below) or group of up to 20 Eligible Holders that has (individually and collectively, in the case of a group) satisfied, as determined by the Board of Directors, all applicable conditions and complied with all applicable procedures set forth in this Section 1.13 (such Eligible Holder or group of Eligible Holders being a "Nominating Stockholder");

(ii) disclosure about each Nominee and the Nominating Stockholder required under the rules of the SEC or other applicable law to be included in the proxy statement;

(iii) any statement included by the Nominating Stockholder in the Nomination Notice for inclusion in the proxy statement in support of each Nominee's election to the Board of Directors (subject, without limitation, to Section 1.13(e)(ii)), if such statement does not exceed 500 words and fully complies with Section 14 of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations thereunder, including Rule 14a-9 (the "Supporting Statement"); and

(iv) any other information that the Corporation or the Board of Directors determines, in their discretion, to include in the proxy statement relating to the nomination of each Nominee, including, without limitation, any statement in opposition to the nomination, any of the information provided pursuant to this Section and any solicitation materials or related information with respect to a Nominee.

For purposes of this Section 1.13, any determination to be made by the Board of Directors may be made by the Board of Directors, a committee of the Board of Directors or any officer of the Corporation designated by the Board of Directors or a committee of the Board of Directors, and any such determination shall be final and binding on the Corporation, any Eligible Holder, any Nominating Stockholder, any Nominee and any other person so long as made in good faith (without any further requirements). The chairman of any annual meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether a Nominee has been nominated in accordance with the requirements of this Section 1.13 and, if not so nominated, shall direct and declare at the meeting that such Nominee shall not be considered.

(b) Maximum Number of Nominees.

(i) The Corporation shall not be required to include in the proxy statement for an annual meeting of stockholders more Nominees than that number of directors constituting the greater of (i) two or (ii) 20% of the total number of directors of the Corporation on the last day on which a Nomination Notice may be submitted pursuant to this Section 1.13 (rounded down to the nearest whole number) (the "Maximum Number"). The Maximum Number for a particular annual meeting shall be reduced by: (1) Nominees who the Board of Directors itself decides to nominate for election at such annual meeting; (2) Nominees who cease to satisfy, or Nominees of Nominating Stockholders that cease to satisfy, the eligibility requirements in this Section 1.13, as determined by the Board of Directors; (3) Nominees whose nomination is withdrawn by the Nominating Stockholder or who become unwilling to serve on the Board of Directors; and (4) the number of incumbent directors who had been Nominees with respect to any of the preceding three annual meetings of stockholders and whose reelection at the upcoming annual meeting is being recommended by the Board of Directors. In the event that one or more vacancies for any reason occurs on the Board of Directors after the deadline for submitting a Nomination Notice as set forth in Section 1.13(d) below but before the date of the annual meeting, and the Board of Directors resolves to reduce the size of the board in connection therewith, the Maximum Number shall be calculated based on the number of directors in office as so reduced.

(ii) If the number of Nominees pursuant to this Section 1.13 for any annual meeting of stockholders exceeds the Maximum Number then, promptly upon notice from the Corporation, each Nominating Stockholder will select one Nominee for inclusion in the proxy statement until the Maximum Number is reached, going in order of the amount (largest to smallest) of the ownership position as disclosed in each Nominating Stockholder's Nomination Notice, with the process repeated if the Maximum Number is not reached after each Nominating Stockholder has selected one Nominee. If, after the deadline for submitting a Nomination Notice as set forth in Section 1.13(d), a Nominating Stockholder or a Nominee ceases to satisfy the eligibility requirements in this Section 1.13, as determined by the Board of Directors, a Nominating Stockholder withdraws its nomination or a Nominee becomes unwilling to serve on the Board of Directors, whether before or after the mailing or other distribution of the definitive proxy statement, then the nomination shall be disregarded, and the Corporation: (1) shall not be required to include in its proxy statement or on any ballot or form of proxy the disregarded Nominee or any successor or replacement nominee proposed by the Nominating Stockholder or by any other Nominating Stockholder and (2) may otherwise communicate to its stockholders, including without limitation by amending or supplementing its proxy statement or ballot or form of proxy, that a Nominee will not be included as a nominee in the proxy statement or on any ballot or form of proxy and will not be voted on at the annual meeting.

(c) Eligibility of Nominating Stockholder.

(i) An "Eligible Holder" is a person who has either (1) been a record holder of the shares of common stock used to satisfy the eligibility requirements in this Section 1.13(c) continuously for the three-year period specified in Subsection (ii) below or (2) provides to the Secretary of the Corporation, within the time period referred to in Section 1.13(d), evidence of continuous ownership of such shares for such three-year period from one or more securities intermediaries in a form that the Board of Directors determines would be deemed acceptable for purposes of a shareholder proposal under Rule 14a-8(b)(2) under the Exchange Act (or any successor rule).

(ii) An Eligible Holder or group of up to 20 Eligible Holders may submit a nomination in accordance with this Section 1.13 only if the person or group (in the aggregate) has continuously owned at least the Minimum Number (as defined below) of shares of the Corporation's common stock throughout the three-year period preceding and including the date of submission of the Nomination Notice, and continues to own at least the Minimum Number through the date of the annual meeting. Two or more funds that are (x) under common management and investment control, (y) under common management and funded primarily by a single employer or (z) a "group of investment companies," as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended, shall be treated as one Eligible Holder if such Eligible Holder shall provide together with the Nomination Notice documentation reasonably satisfactory to the Corporation that demonstrates that the funds meet the criteria set forth in (x), (y) or (z) hereof. For the avoidance of doubt, in the event of a nomination by a group of Eligible Holders, any and all requirements and obligations for an individual Eligible Holder that are set forth in this Section 1.13, including the minimum holding period, shall apply to each member of such group; *provided*, *however*, that the Minimum Number shall apply to the ownership of the group in the aggregate. Should any stockholder cease to satisfy the eligibility requirements in this Section 1.13, as determined by the Board of Directors, or withdraw from a group of Eligible Holders at any time prior to the annual meeting of stockholders, the group of Eligible Holders shall only be deemed to own the shares held by the remaining members of the group.

(iii) The "Minimum Number" of shares of the Corporation's common stock means 3% of the number of outstanding shares of common stock as of the most recent date for which such amount is given in any filing by the Corporation with the SEC prior to the submission of the Nomination Notice.

(iv) For purposes of this Section 1.13, an Eligible Holder "owns" only those outstanding shares of the Corporation as to which the Eligible Holder possesses both:

(A) the full voting and investment rights pertaining to the shares; and

(B) the full economic interest in (including the opportunity for profit and risk of loss on) such shares;

provided that the number of shares calculated in accordance with clauses (A) and (B) shall not include any shares: (1) purchased or sold by such Eligible Holder or any of its affiliates in any transaction that has not been settled or closed, (2) sold short by such Eligible Holder, (3) borrowed by such Eligible Holder or any of its affiliates for any purpose or purchased by such Eligible Holder or any of its affiliates pursuant to an agreement to resell or subject to any other obligation to resell to another person, or (4) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such Eligible Holder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of outstanding shares of the Corporation, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of: (x) reducing in any manner, to any extent or at any time in the future, such Eligible Holder's or any of its affiliates' full right to vote or direct the voting of any such shares, and/or (y) hedging, offsetting, or altering to any degree, gain or loss arising from the full economic ownership of such shares by such Eligible Holder or any of its affiliates.

An Eligible Holder "owns" shares held in the name of a nominee or other intermediary so long as the Eligible Holder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has delegated any voting power by means of a proxy, power of attorney, or other similar instrument or arrangement that is revocable at any time by the Eligible Holder. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has loaned such shares provided that the Eligible Holder has the power to recall such loaned shares on five business days' notice, has recalled such loaned shares as of the date of the Nomination Notice and continues to hold such shares through the date of the annual meeting. The terms "owned," "owning" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of the Corporation are "owned" for these purposes shall be determined by the Board.

(v) No Eligible Holder shall be permitted to be in more than one group constituting a Nominating Stockholder, and if any Eligible Holder appears as a member of more than one group, it shall be deemed to be a member of the group that has the largest ownership position as reflected in the Nomination Notice.

(d) Nomination Notice. To nominate a Nominee, the Nominating Stockholder must, not less than 90 nor more than 120 days prior to the first anniversary date of the annual meeting for the preceding year, submit to the Secretary of the Corporation at the principal executive office of the Corporation all of the following information and documents (collectively, the "<u>Nomination Notice</u>"); *provided*, *however*, that if (and only if) the annual meeting is scheduled to be held on an Other Meeting Date (as defined in Section 1.12(c) of these Bylaws), the Nomination Notice shall be given in the manner provided herein by the later of the close of business on (i) the date that is 90 days prior to such Other Meeting Date or (ii) the tenth day following the date such Other Meeting Date is first publicly announced or disclosed:

(i) A Schedule 14N (or any successor form) relating to each Nominee, completed and filed with the SEC by the Nominating Stockholder as applicable, in accordance with SEC rules;

(ii) A written notice, in a form deemed satisfactory by the Board of Directors, of the nomination of each Nominee that includes the following additional information, agreements, representations and warranties by the Nominating Stockholder (including each group member):

(A) the information required with respect to the nomination of directors pursuant to Section 1.12 of these Bylaws;

(B) the details of any relationship that existed within the past three years and that would have been described pursuant to Item 6(e) of Schedule 14N (or any successor item) if it existed on the date of submission of the Schedule 14N;

(C) a representation and warranty that the Nominating Stockholder acquired the securities of the Corporation in the ordinary course of business and did not acquire, and is not holding, securities of the Corporation for the purpose or with the effect of influencing or changing control of the Corporation;

(D) a representation and warranty that each Nominee's candidacy or, if elected, Board membership would not violate applicable state or federal law or the rules of any stock exchange on which the Corporation's securities are traded;

(E) a representation and warranty that each Nominee:

(1) does not have any direct or indirect relationship with the Corporation that would cause the Nominee to be considered not independent pursuant to the Corporation's Corporate Governance Guidelines as most recently published on its website and otherwise qualifies as independent under the rules of the primary stock exchange on which the Corporation's shares of common stock are traded;

(2) meets the audit committee and compensation committee independence requirements under the rules of the primary stock exchange on which the Corporation's shares of common stock are traded;

(3) is a "non-employee director" for the purposes of Rule 16b-3 under the Exchange Act (or any successor rule);

(4) is an "outside director" for the purposes of Section 162(m) of the Internal Revenue Code (or any successor provision); and

(5) is not and has not been subject to any event specified in Rule 506(d)(1) of Regulation D (or any successor rule) under the Securities Act of 1933 or Item 401(f) of Regulation S-K (or any successor rule) under the Exchange Act, without reference to whether the event is material to an evaluation of the ability or integrity of such Nominee;

(F) a representation and warranty that the Nominating Stockholder satisfies the eligibility requirements set forth in Section 1.13(c) and has provided evidence of ownership to the extent required by Section 1.13(c)(i);

(G) a representation and warranty that the Nominating Stockholder intends to continue to satisfy the eligibility requirements described in Section 1.13(c) through the date of the annual meeting and intends to continue to hold the Minimum Number of shares for at least one year following the annual meeting if its Nominee is elected;

(H) details of any position of a Nominee as an officer or director of any competitor (that is, any entity that produces products, provides services or engages in business activities that compete with or are alternatives to the services provided or business activities engaged in by the Corporation or its affiliates) of the Corporation, within the three years preceding the submission of the Nomination Notice;

(I) a representation and warranty that the Nominating Stockholder will not engage in a "solicitation" within the meaning of Rule 14a-1(l) (without reference to the exception in Section 14a-1(l)(2)(iv)) (or any successor rules) with respect to the annual meeting, other than with respect to a Nominee or any nominee of the Board;

(J) a representation and warranty that the Nominating Stockholder will not use any proxy card other than the Corporation's proxy card in soliciting stockholders in connection with the election of a Nominee at the annual meeting;

(K) if desired, a Supporting Statement; and

(L) in the case of a nomination by a group, the designation by all group members of one group member that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination;

(iii) An executed agreement, in a form deemed satisfactory by the Board of Directors, pursuant to which the Nominating Stockholder (including each group member) agrees:

(A) to comply with all applicable laws, rules and regulations in connection with the nomination, solicitation and election;

(B) to file any written solicitation or other written communication with the Corporation's stockholders relating to one or more of the Corporation's directors or director nominees or any Nominee with the Securities and Exchange Commission, regardless of whether any such filing is required under rule or regulation or whether any exemption from filing is available for such materials under any rule or regulation;

(C) to assume all liability stemming from an action, suit or proceeding concerning any actual or alleged legal or regulatory violation arising out of any communication by the Nominating Stockholder or any of its Nominees with the Corporation, its stockholders or any other person in connection with the nomination or election of directors, including, without limitation, the Nomination Notice;

(D) to indemnify and hold harmless the Corporation and each of its directors, officers and employees individually against any liability, loss, damages, expenses or other costs (including attorneys' fees) incurred in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its directors, officers or employees arising out of or relating to a failure or alleged failure of the Nominating Stockholder or any of its Nominees to comply with, or any breach or alleged breach of, its or their obligations, agreements or representations under this Section 1.13;

(E) in the event that any information included in the Nomination Notice, or any other communication by the Nominating Stockholder (including with respect to any group member), with the Corporation, its stockholders or any other person in connection with the nomination or election ceases to be true and accurate in all material respects (or omits a material fact necessary to make the statements made not misleading), or that the Nominating Stockholder (including any group member) has failed to continue to satisfy the eligibility requirements described in Section 1.13(c), to promptly (and in any event within 48 hours of discovering such misstatement, omission or failure) notify the Corporation and any other recipient of such communication of (A) the misstatement or omission in such previously provided information and of the information that is required to correct the misstatement or omission or (B) such failure; and

(iv) An executed agreement, in a form deemed satisfactory by the Board of Directors, by each Nominee:

(A) to provide to the Corporation such other information and certifications, including completion of the Corporation's director questionnaire, as it may reasonably request;

(B) at the reasonable request of the Corporate Governance and Nominating Committee, to meet with the Corporate Governance and Nominating Committee to discuss matters relating to the nomination of such Nominee to the Board of Directors, including the information provided by such Nominee to the Corporation in connection with his or her nomination and such Nominee's eligibility to serve as a member of the Board of Directors;

(C) that such Nominee has read and agrees, if elected, to serve as a member of the Board of Directors, to adhere to the Corporation's Corporate Governance Guidelines, Code of Business Conduct and Ethics, Related Party Transaction Policy and any other Corporation policies and guidelines applicable to directors; and

(D) that such Nominee is not and will not become a party to (i) any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity in connection with his or her nomination, service or action as a director of the Corporation that has not been disclosed to the Corporation, (ii) any agreement, arrangement or understanding with any person or entity as to how such Nominee would vote or act on any issue or question as a director (a "Voting Commitment") that has not been disclosed to the Corporation or (iii) any Voting Commitment that could limit or interfere with such Nominee's ability to comply, if elected as a director of the Corporation, with its fiduciary duties under applicable law.

The information and documents required by this Section 1.13(d) to be provided by the Nominating Stockholder shall be: (i) provided with respect to and executed by each group member, in the case of information applicable to group members; and (ii) provided with respect to the persons specified in Instruction 1 to Items 6(c) and (d) of Schedule 14N (or any successor item) in the case of a Nominating Stockholder or group member that is an entity. The Nomination Notice shall be deemed submitted on the date on which all the information and documents referred to in this Section 1.13(d) (other than such information and documents contemplated to be provided after the date the Nomination Notice is provided) have been delivered to or, if sent by mail, received by the Secretary of the Corporation.

(e) Exceptions.

(i) Notwithstanding anything to the contrary contained in this Section 1.13, the Corporation may omit from its proxy statement any Nominee and any information concerning such Nominee (including a Nominating Stockholder's Supporting Statement) and no vote on such Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the Corporation), and the Nominating Stockholder may not, after the last day on which a Nomination Notice would be timely, cure in any way any defect preventing the nomination of such Nominee, if:

(A) the Corporation receives a notice pursuant to Section 1.12 of these Bylaws that a stockholder intends to nominate a candidate for director at the annual meeting, whether or not such notice is subsequently withdrawn or made the subject of a settlement with the Corporation;

(B) the Nominating Stockholder or the designated lead group member, as applicable, or any qualified representative thereof, does not appear at the meeting of stockholders to present the nomination submitted pursuant to this Section 1.13, the Nominating Stockholder withdraws its nomination or the chairman of the annual meeting declares that such nomination was not made in accordance with the procedures prescribed by this Section 1.13 and shall therefore be disregarded;

(C) the Board of Directors determines that such Nominee's nomination or election to the Board of Directors would result in the Corporation violating or failing to be in compliance with the Corporation's bylaws or certificate of incorporation or any applicable law, rule or regulation to which the Corporation is subject, including any rules or regulations of the primary stock exchange on which the Corporation's common stock is traded;

(D) such Nominee was nominated for election to the Board of Directors pursuant to this Section 1.13 at one of the Corporation's three preceding annual meetings of stockholders and either withdrew or became ineligible or received a vote of less than 15% of the shares of common stock entitled to vote for such Nominee;

(E) (1) such Nominee has been, within the past three years, an officer or director of a competitor, as defined for purposes of Section 8 of the Clayton Antitrust Act of 1914, as amended, or (2) the Nominee's election as a member of the Board of Directors would cause the Corporation to seek, or assist in the seeking of, advance approval or to obtain, or assist in the obtaining of, an interlock waiver pursuant to the rules or regulations of the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency;

(F) the Corporation is notified, or the Board of Directors determines, that the Nominating Stockholder or the Nominee has failed to continue to satisfy the eligibility requirements described in Section 1.13(c), any of the representations and warranties made in the Nomination Notice ceases to be true and accurate in all material respects (or omits a material fact necessary to make the statements made not misleading), such Nominee becomes unwilling or unable to serve on the Board of Directors or any material violation or breach occurs of the obligations, agreements, representations or warranties of the Nominating Stockholder or such Nominee under this Section 1.13;

(ii) Notwithstanding anything to the contrary contained in this Section 1.13, the Corporation may omit from its proxy statement, or may supplement or correct, any information, including all or any portion of the Supporting Statement or any other statement in support of a Nominee included in the Nomination Notice, if the Board of Directors determines that:

(A) such information is not true in all material respects or omits a material statement necessary to make the statements made not misleading;

(B) such information directly or indirectly impugns the character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to, any person; or

(C) the inclusion of such information in the proxy statement would otherwise violate the SEC proxy rules or any other applicable law, rule or regulation.

The Corporation may solicit against, and include in the proxy statement its own statement relating to, any Nominee.

ARTICLE II

Board of Directors

Section 2.1. *Powers; Number; Qualifications*. The business and affairs of the Corporation shall be managed by or under the direction of the Board, except as may be otherwise provided by law or in the Certificate of Incorporation. The Board shall consist of at least five members, each of whom shall be a natural person but need not, except as otherwise determined by the Board, be a stockholder. There shall initially be nine directors, and the number of directors may be designated from time to time by resolution of the Board; provided that, prior to the time at which BNPP ceases to beneficially own at least 25% of the Corporation's outstanding Common Stock, the number of Directors shall not be increased or decreased without the approval of a majority of the directors designated by BNPP (unless earlier waived). This Section 2.1 may not be amended, modified or repealed except by the affirmative vote of not less than fifty percent (50%) of the directors present at a meeting at which a quorum is present.

Section 2.2. *Election; Term of Office; Resignation; Removal; Vacancies*.

(a) Each director shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign at any time upon notice given in writing or by electronic transmission to the Board or to the Chairperson of the Board, the Chief Executive Officer, the President or the Secretary of the Corporation. Such resignation shall take effect at the time it is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board may be removed, with cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors shall, except as otherwise required by law, be filled solely by a majority of the directors then in office, although less than a quorum, or by the sole remaining director.

(b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by the sole remaining director so elected. Any director appointed to fill a vacancy shall hold office until and his or her successor is elected and qualified, unless such director resigns or is removed prior to such time.

Section 2.3. *Regular Meetings*. Regular meetings of the Board may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine, and if so determined notice thereof need not be given.

Section 2.4. *Special Meetings*. Special meetings of the Board may be held at any time or place within or without the State of Delaware whenever called by the Chairperson of the Board, by the Chief Executive Officer, by the President or by any two directors. Reasonable notice thereof shall be given by the person or persons calling the meeting.

Section 2.5. *Participation in Meetings by Conference Telephone Permitted*. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 2.5 shall constitute presence in person at such meeting.

Section 2.6. *Quorum; Vote Required for Action*. At all meetings of the Board a majority of the entire Board shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board unless the Certificate of Incorporation or these Bylaws shall require a vote of a greater number. In case at any meeting of the Board a quorum shall not be present, the members of the Board present may adjourn the meeting from time to time until a quorum shall be present.

Section 2.7. *Organization*. Meetings of the Board shall be presided over by the Chairperson of the Board, or in the absence of the Chairperson of the Board by the Chief Executive Officer, or in their absence by a chairperson chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairperson of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8. *Action by Directors Without a Meeting*. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.9. *Compensation of Directors*. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors.

ARTICLE III

Committees

Section 3.1. *Committees*. The Board may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board creating the committee, in the charter adopted by the Board for the committee or in these Bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (a) approving or adopting, or recommending to the stockholders, any action or matter (other than the election or removal of directors) expressly required by law to be submitted to stockholders for approval, (b) adopting, amending or repealing these Bylaws or (c) indemnifying directors.

Section 3.2. *Committee Rules*. Unless the Board otherwise provides by board resolution or committee charter, each committee designated by the Board may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article II. In addition, any committee may appoint one or more subcommittees of its members.

ARTICLE IV

Officers

Section 4.1. *Officers; Election and Appointment*. The Board of Directors shall take such action as may be necessary from time to time to ensure that the Corporation has a Chief Executive Officer, a President, a Chief Financial Officer and a Secretary, and it may, if it so determines, elect from among its members a Chairperson of the Board . The Board may also elect or authorize the appointment of one or more Vice Chairmen, Vice Presidents (which will have such designations as the Board shall deem appropriate, and which may include Executive Vice President or Senior Vice President), one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person unless the Certificate of Incorporation or these Bylaws otherwise provide.

Section 4.2. *Term of Office; Resignation; Removal; Vacancies*. Unless otherwise provided in the resolution of the Board electing or authorizing the appointment of any officer, each officer shall hold office until his or her successor is elected or appointed and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice or electronic transmission to the Board, the Chief Executive Officer, the President or the Secretary of the Corporation. Such resignation shall take effect at the time it is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, may be filled by the Board at any annual or special meeting.

Section 4.3. *Chairperson of the Board*. The Chairperson of the Board, if one is selected, shall preside at all meetings of the Board and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.4. *Chief Executive Officer*. The Chief Executive Officer shall have general charge and supervision of the business of the Corporation and, in general, shall perform all duties incident to the office of chief executive officer of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or as may be provided by law. The Chief Executive Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by resolution of the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed. In the absence of the Chairperson of the Board and Vice Chairperson of the Board, the Chief Executive Officer shall preside at all meetings of the Board and of the stockholders at which he or she shall be present.

Section 4.5. *President*. The President shall, subject to the oversight of the Chief Executive Officer, have general charge and supervision of the business of the Corporation and, in general, shall perform all duties incident to the office of president of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or as may be provided by law. In the absence of the Chief Executive Officer or in the event of his death or inability or refusal to act, the President, if one has been elected, shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by resolution of the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed. In the absence of the Chairperson of the Board, Vice Chairperson of the Board and the Chief Executive Officer, the President shall preside at all meetings of the Board and of the stockholders at which he or she shall be present.

Section 4.6. *Chief Financial Officer*. The Chief Financial Officer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation and shall deposit or cause to be deposited, in the name of the Corporation, all moneys or other valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority of the Board. If required by the Board, the Chief Financial Officer shall give a bond for the faithful discharge of his or her duties, with such surety or sureties as the Board may determine. The Chief Financial Officer shall keep or cause to be kept full and accurate records of all receipts and disbursements in books of the Corporation, shall render to the Chief Executive Officer, the President and to the Board, whenever requested, an account of the financial condition of the Corporation, and, in general, shall perform all the duties incident to the offices of chief financial officer and treasurer of a corporation (including the authority of the treasurer to execute stock certificates on behalf of the Corporation under the DGCL) and such other duties as may, from time to time, be assigned to him or her by the Board or the Chief Executive Officer or as may be provided by law. The Chief Financial Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by resolution of the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed

Section 4.7. *Vice Chairmen and Vice Presidents*. The Vice Chairmen or Vice Presidents shall perform such duties and exercise such powers as are assigned by law, these Bylaws, the Board or the Chief Executive Officer. The seniority in rank of all Vice Chairmen and all Vice Presidents, including Executive and Senior Vice Presidents, may be designated by the Board. Any Vice Chairman, or any two Vice Presidents acting together, may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by resolution of the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed.

Section 4.8. *Secretary*. The Secretary shall have the duty to record the proceedings of the meetings of the stockholders, the Board and any committees in a book to be kept for that purpose, shall see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law, shall be custodian of the records of the Corporation, may affix the corporate seal, if any, to any document the execution of which, on behalf of the

Corporation, is duly authorized, and when so affixed may attest the same, and, in general, shall perform all duties incident to the office of secretary of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or the Chief Executive Officer or as may be provided by law. The Secretary may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall be expressly delegated by resolution of the Board or by these Bylaws to some other officer or agent of the Corporation, or shall be required by applicable law otherwise to be signed or executed.

Section 4.9. *Other Officers*. The other officers, if any, of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in a resolution of the Board which is not inconsistent with these Bylaws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

ARTICLE V

Stock

Section 5.1. *Stock Certificates and Uncertificated Shares*.

(a) The shares of stock of the Corporation may be either represented by certificates or as provided by resolution of the Board some or all of the shares of any or all classes or series of stock may be uncertificated shares. The provisions of this Bylaw relating to uncertificated stock shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairperson of the Board or the President, a Vice Chairman or a Vice President, and by the Treasurer or an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Corporation, representing the number of shares of stock registered in certificate form owned by such holder. Such certificate shall be in such form as the Board may determine, to the extent consistent with applicable law, the Certificate of Incorporation and these Bylaws. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The Corporation may not issue stock certificates in bearer form.

(b) Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required by law to be set forth or stated on certificates or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. If shares are issued that are represented by a certificate, such information shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock; *provided* that, except as otherwise provided by law, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

(c) Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

Section 5.2. *Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates*. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, confirmed by the holder to have been lost, stolen or destroyed by an affidavit or other instrument in form and substance acceptable to the Corporation and executed by the holder, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond or a written indemnity in form and substance satisfactory to the Corporation to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 5.3. *Transfer of Shares*. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation, which books may be maintained by a registered stock transfer agent.

ARTICLE VI

Indemnification

Section 6.1. *Indemnification*.

(a) Except as expressly provided in this Article VI, the Corporation shall indemnify Indemnitees against all Expenses, liability and loss (including judgments, fines, penalties and amounts paid in settlement) arising in connection with any Proceeding to the full extent permitted by Delaware law, as it now exists and as it may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment). Expenses reasonably incurred by Indemnitee in defending any Proceeding, as described in this Article VI, shall be paid or reimbursed by the Corporation promptly in advance of the final disposition of the Proceeding upon receipt by it of an undertaking of Indemnitee to repay such Expenses if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation. Indemnitee's obligation to reimburse the Corporation shall be unsecured and no interest shall be charged thereon. The Corporation shall not indemnify Indemnitee or advance or reimburse Indemnitee's Expenses if such indemnification or payment would constitute a "prohibited indemnification payment" under applicable regulations of the Federal Deposit Insurance Corporation (or any successor provisions) or any other applicable laws, rules or regulations.

(b) No claim for indemnification shall be paid by the Corporation unless the Corporation has determined that Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interest of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. Unless ordered by a court, such determinations shall be made by (1) a majority vote of the directors who are not parties to the action, suit or proceeding for which indemnification is sought, even though less than a quorum, or (2) by a committee of such directors designated by a majority vote of directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by stockholders. Indemnitee shall be presumed to have met the relevant standard and, if a determination to the contrary is not made by the Corporation within thirty (30) days of a demand by such Indemnitee for indemnification, such Indemnitee shall be deemed to have met such standard.

(c) Indemnitee shall promptly notify the Corporation in writing upon the sooner of (1) becoming aware of a Proceeding where indemnification or the advance payment or reimbursement of Expenses may be sought or (2) being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification or the advance payment or reimbursement of Expenses covered hereunder. The failure of Indemnitee to so notify the Corporation shall not relieve the Corporation of any obligation which it may have to Indemnitee pursuant to this Article VI.

(d) As a condition to indemnification or the advance payment or reimbursement of Expenses, any demand for payment by Indemnitee hereunder shall be in writing and shall provide reasonable accounting for the Expenses to be paid by the Corporation.

(e) For the purposes of this Article VI,

(i) the term "Indemnitee" shall mean any person made or threatened to be made a party, or otherwise involved in any Proceeding by reason of the fact that such person or such person's testator or intestate is or was a director, officer, employee or agent of the Corporation or serves or served at the request of the Corporation any other enterprise as a director, officer, manager, employee or agent;

(ii) the term "Corporation" shall include any predecessor of the Corporation and any constituent corporation (including any constituent of a constituent) absorbed by the Corporation in a consolidation or merger; the term "other enterprise" shall include any corporation, association, limited liability company, public limited company, partnership, joint venture, trust, employee benefit plan, fund or other enterprise;

(iii) service "at the request of the Corporation" shall include service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and action by a person with respect to an employee benefit plan which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Corporation;

(iv) the term "Expenses" shall include all reasonable out of pocket fees, costs and expenses, including without limitation, attorney's fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, ERISA excise taxes or penalties assessed on Indemnitee with respect to an employee benefit plan, Federal, state, local or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Article VI, penalties and all other disbursements or expenses of the types customarily incurred in connection with defending, preparing to defend, or investigating an actual or threatened action, suit or proceeding (including Indemnitee's counterclaims that directly respond to and negate the affirmative claim made against Indemnitee ("Permitted Counterclaims") in such action, suit or proceeding, whether civil, criminal, administrative or investigative, but shall exclude the costs of any of Indemnitee's counterclaims, other than Permitted Counterclaims; and

(v) the term "Proceeding" means any civil, criminal, administrative, investigative (administrative, judicial or administrative) or other action, suit, arbitration, inquiry, hearing or other form of pending or threatened proceeding.

(f) If a claim for indemnification or advancement of Expenses under this Article VI is not paid in full within sixty (60) days (in the case of a request for indemnification) or thirty (30) days (in the case of a request for advancement of Expenses), as applicable, after a written claim thereof by the Indemnitee has been received by the Corporation, the Indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the Expenses of prosecuting such claim. In any such action, the Corporation shall have the burden of proving that the Indemnitee is not entitled to the requested indemnification or advancement of Expenses under this Article VI.

(g) Any action, suit or proceeding regarding indemnification or advance payment or reimbursement of Expenses arising out of the Bylaws or otherwise shall only be brought and heard in Delaware Court of Chancery. In the event of any payment under this Article VI, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee (under any insurance policy or otherwise), who shall execute all papers required and shall do everything necessary to secure such rights, including the execution of such documents necessary to enable the Corporation to effectively bring suit to enforce such rights. Except as required by law or as otherwise becomes public, Indemnitee will keep confidential any information that arises in connection with this Article VI, including but not limited to, claims for indemnification or the advance payment or reimbursement of Expenses, amounts paid or payable under this Article VI and any communications between the parties. No amendment, modification or repeal of the Certificate of Incorporation of the Corporation or of this Article VI shall impair the rights of any Indemnitee arising at any time with respect to events occurring prior to such amendment, modification or repeal.

(h) The indemnification and advancement of Expenses provided in this Article VI shall not be deemed exclusive of any other rights to which any person may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors, statute, provision of the Certificate of Incorporation, or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such official capacity (including, without limitation, rights to indemnification or advancement of Expenses incurred in connection with an action, suit or proceeding commenced by such person to enforce a right to indemnification or advancement, to the extent such person is successful in such action, suit or proceeding).

(i) The indemnification and advancement of Expenses provided by, or granted pursuant to, this Article VI shall continue as to a person who has ceased to be an officer, director or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6.2. *Permissive Supplementary Benefits*. The Corporation may, but shall not be required to, supplement the right to indemnification against liability and advancement of Expenses under Section 6.1 by (a) purchasing insurance on behalf of any one or more of such Indemnitees, whether or not the Corporation would be obligated to indemnify or advance Expenses to such Indemnitee under Section 6.1, and/or (b) entering into individual or group indemnification agreements with any one or more of such Indemnitees.

Section 6.3. *Non-Exclusivity of Rights*. The rights to indemnification and to the advancement of Expenses conferred on any Indemnitee by this Article VI are not exclusive of other rights arising under any statute, provision of the Certificate of Incorporation, provision of these Bylaws, agreement, vote of stockholders or of disinterested directors or otherwise, and shall inure to the benefit of the estate, heirs, legatees, distributees, executors, administrators and other comparable legal representatives of such person.

Section 6.4. *Severability*. If any portion of this Article VI shall be invalidated or held to be unenforceable on any ground by any court of competent jurisdiction, the decision of which shall not have been reversed on appeal, the provisions of this Article VI shall be deemed to be modified to the minimum extent necessary to avoid a violation of law and, as so modified, shall remain valid and enforceable in accordance with their terms to the fullest extent permitted by law.

ARTICLE VII

Miscellaneous

Section 7.1. *Fiscal Year*. The fiscal year of the Corporation shall be determined by the Board.

Section 7.2. *Seal*. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 7.3. *Waiver of Notice of Meetings of Stockholders, Directors and Committees*. Whenever notice is required to be given by law or under any provision of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws.

Section 7.4. *Interested Directors; Quorum*. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because such director’s or officer’s votes are counted for such purpose, if: (a) the material facts as to director’s or officer’s relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (b) the material facts as to director’s or officer’s relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved by vote of the stockholders; or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

Section 7.5. *Form of Records*. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or by means of, or be in the form of, any information storage device, or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records in accordance with law.

Section 7.6. *Amendment of Bylaws*. Subject to the terms of the Certificate of Incorporation, these Bylaws may be amended or repealed, and new Bylaws adopted, by the Board, but the stockholders entitled to vote may adopt additional Bylaws and may amend or repeal any bylaw whether or not adopted by them.

Exhibit 21.1

Subsidiaries of First Hawaiian, Inc.

Name	Jurisdiction of Incorporation/Organization
First Hawaiian Bank	Hawaii
Bishop Street Capital Management Corporation	Hawaii
First Hawaiian Leasing, Inc.	Hawaii

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-212996 and 333-215068 on Form S-8 of our reports relating to the consolidated financial statements of First Hawaiian, Inc. and Subsidiary and the effectiveness of First Hawaiian, Inc. and Subsidiary's internal control over financial reporting dated February 28, 2018, appearing in the Annual Report on Form 10-K of First Hawaiian, Inc. for the year ended December 31, 2017.

/s/ DELOITTE & TOUCHE LLP

Honolulu, Hawaii
February 28, 2018

Exhibit 31.1

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

I, Robert S. Harrison, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: February 28, 2018

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

Exhibit 31.2

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

I, Eric K. Yeaman, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: February 28, 2018

/s/ Eric K. Yeaman
Eric K. Yeaman
President, Chief Operating Officer and Acting Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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

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

- The Annual Report on Form 10-K of First Hawaiian, Inc. (the "Company") for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: February 28, 2018

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

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

Exhibit 32.2

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

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

- The Annual Report on Form 10-K of First Hawaiian, Inc. (the “Company”) for the year ended December 31, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: February 28, 2018

/s/ Eric K. Yeaman
Eric K. Yeaman
President, Chief Operating Officer and Acting Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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